

REPORT OF EXAMINATION
OF THE
NATIONAL HOME WARRANTY, INC.
AS OF
JUNE 30, 1999

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	1
COMPANY HISTORY	2
MANAGEMENT AND CONTROL	2
TERRITORY AND PLAN OF OPERATION	3
REINSURANCE:	4
Assumed and Ceded.....	4
ACCOUNTS AND RECORDS	4
FINANCIAL STATEMENTS:.....	4
Statement of Financial Condition as of June 30, 1999	5
Underwriting and Investment Exhibit for the Six-Months Ended June 30, 1999.....	6
Reconciliation of Surplus as Regards Contractholders from June 30, 1994 through June 30, 1999.....	7
Reconciliation of Examination Changes as of June 30, 1999.....	8
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	9
Cash on Hand and on Deposit.....	9
Electronic Data Processing Equipment.....	9
Aggregate Write-ins for Other than Invested Assets	9
SUMMARY OF COMMENTS AND RECOMMENDATIONS:.....	9
Current Report of Examination.....	9
Previous Report of Examination.....	10
ACKNOWLEDGMENT.....	11

Los Angeles, California
September 25, 2000

Honorable Harry W. Low
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

NATIONAL HOME WARRANTY, INC.

(hereinafter also referred to as the Company) located at 31220 Labaya Drive, #110, Westlake Village, California 91362.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of June 30, 1994. This examination covers the period from July 1, 1994 through June 30, 1999. The examination included a review of accounting records, tests and analyses of transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of June 30, 1999, as deemed necessary under the circumstances.

SUMMARY OF SIGNIFICANT FINDINGS

On April 30, 1998, pursuant to California Insurance Code (CIC) Sections 1065.2 (a) and 12755, the California Department of Insurance issued a cease and desist order to the Company due to the Company being statutorily insolvent. Under the cease and desist order, the Company can not transact, solicit, negotiate, administer and write any new or renewal home protection business, except renewal business which may be contractually or statutorily mandated. The resumption of any

such business may only occur upon the prior written consent of the Insurance Commissioner of the State of California.

As a result of this examination, surplus as regards contractholders as of December 31, 1999 has been reduced by \$894,236 to \$59,056. The reduction in surplus was primarily due to nonadmitting the Company's aggregate write-ins for other invested assets.

COMPANY HISTORY

The Company was licensed in California on January 25, 1990 as a California home protection company under the name of Linville Home Protection, Inc. In 1996, the Company's name was changed to its current name.

MANAGEMENT AND CONTROL

The Company is wholly-owned by Mr. Robert W. Roth. Management of the Company is vested in a three-member board of directors. A listing of the members of the board and principal officers serving on June 30, 1999 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert W. Roth Westlake Village, California	President, Secretary, and Treasurer National Home Warranty, Inc.
Michael J. Roth Westlake Village, California	Vice President National Home Warranty, Inc.
Cindy J. Roth Westlake Village, California	Vice President National Home Warranty, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Robert W. Roth	President, Secretary, and Treasurer
Michael J. Roth	Vice President
Cindy J. Roth	Vice President

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact home protection business and sell home protection contracts solely in California. The home protection contracts obligate the Company to repair or replace covered damage due to normal use during the contract period for the following systems: water heater; heating; built-in kitchen appliances; plumbing; and electrical.

The Company has only written a few policies since its inception in 1990 and currently has no policies in force.

As previously noted, the California Department of Insurance issued a cease and desist order to the Company in April 1998, due to it being statutorily insolvent.

REINSURANCE

Assumed and Ceded

The Company has no assumed or ceded reinsurance.

ACCOUNTS AND RECORDS

The prior report of examination recommended that the Company establish a general ledger. During the examination, it could not be determined if a general ledger or any other accounting records existed. The Company did not provide any such records. It is again recommended that the Company establish a general ledger.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of June 30, 1999

Underwriting and Investment Exhibit for the Six-Months Ended June 30, 1999

Reconciliation of Surplus as Regards Contractholders
from June 30, 1994 through June 30, 1999

Reconciliation of Examination Changes as of June 30, 1999

Statement Financial Condition
as of June 30, 1999

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Cash on hand and on deposit	\$ 59,056	\$	\$ 59,056	(1)
Electronic data processing equipment	6,800	6,800	0	(2)
Aggregate write-ins for other than invested assets	<u>887,436</u>	<u>887,436</u>	<u>0</u>	(3)
Total assets	<u>\$ 953,292</u>	<u>\$ 894,236</u>	<u>\$ 59,056</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Total liabilities			\$ 0	
Common capital stock		\$ 40,000		
Gross paid-in and contributed surplus		914,292		
Unassigned funds (surplus)		(894,236)		
Less: treasury stock		<u>(1,000)</u>		
Surplus as regards contractholders			<u>59,056</u>	
Total liabilities, surplus and other funds			<u>\$ 59,056</u>	

Underwriting and Investment Exhibit
for the Six-Months Ended June 30, 1999

Statement of Income

Underwriting Income

Premiums earned	\$	0
Deductions:		
Other underwriting expenses incurred	\$	<u>27,928</u>
Total underwriting deductions		<u>27,928</u>
Net underwriting loss		(27,928)

Investment Income

Net investment income earned	\$	<u>682</u>
Net investment gain		682

Other Income

Aggregate write-in for other income	\$	<u>19,121</u>
Total other income		<u>19,121</u>
Net income before federal income taxes		(8,125)
Federal income taxes incurred		<u>0</u>
Net loss		<u><u>(8,125)</u></u>

Capital and Surplus Account

Surplus as regards contractholders, December 31, 1998	\$	961,417
Net loss	\$	(8,125)
Change in nonadmitted assets	<u>(894,236)</u>	
Change in surplus as regards contractholders for the year		<u>(902,361)</u>
Surplus as regards contractholders, June 30, 1999	\$	<u><u>59,056</u></u>

Reconciliation of Surplus as Regards Contractholders

from June 30, 1994 through June 30, 1999

Surplus as regards contractholders, June 30, 1994, per Examination			\$ 66,495
	<u>Gain in Net Worth</u>	<u>Loss in Net Worth</u>	
Net loss	\$	\$ 167,051	
Change in nonadmitted assets		894,236	
Surplus Paid-in	<u>1,053,848</u>		
Total gains and losses in net worth	<u>\$ 1,053,848</u>	<u>\$ 1,061,287</u>	
Decrease in surplus as regards contractholders			<u>(7,439)</u>
Surplus as regards contractholders, June 30, 1999, per Examination			<u>\$ 59,056</u>

Reconciliation of Examination Changes
as of June 30, 1999

	Per Company	Per Examination	Net Worth Increase (Decrease)	Notes
<u>Assets</u>				
Electronic data processing equipment	\$ 6,800	\$ 0	\$ (6,800)	(2)
Aggregate write-ins for other than invested assets	887,436	0	<u>(887,436)</u>	(3)
Decrease in surplus as regards contractholders			(894,236)	
Surplus as Regards Contractholders, June 30, 1999, per Company			<u>953,292</u>	
Surplus as Regards Contractholders, June 30, 1999, per Examination			<u>\$ 59,056</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash on Hand and on Deposit

The Company maintains its cash account in New York, which is in violation of California Insurance Code (CIC) Section 1104.1. CIC Section 1104.1 states, in part, that moneys and securities owned by the Company must be maintained in the State of California. It is recommended that the Company comply with CIC Section 1104.1.

(2) Electronic Data Processing Equipment

This asset has been nonadmitted as it does not meet the requirements of CIC Section 1194.95.

(3) Aggregate Write-ins for Other than Invested Assets

This asset consists of various miscellaneous assets including automobiles, furniture and equipment, that may have been contributed to the Company by its owner, Mr. Robert W. Roth. The Company did not supply documentation to support the ownership, existence or valuation of these assets. The asset has been nonadmitted for this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Summary of Significant Findings (Page 2): On April 30, 1998, pursuant to California Insurance Code (CIC) Sections 1065.2 (a) and 12755, the California Department of Insurance issued a cease and desist order to the Company due to the Company being statutorily insolvent. Under the cease and desist order, the Company can not transact, solicit, negotiate, administer and write any new or renewal home protection business, except renewal business which may be contractually or statutorily

mandated. The resumption of any such business may only occur upon the prior written consent of the Insurance Commissioner of the State of California.

As a result of this examination, surplus as regards contractholders as of December 31, 1999 has been reduced by \$894,236 to \$59,056. The reduction in surplus was primarily due to nonadmitting the Company's aggregate write-ins for other invested assets.

Accounts and Records (Page 4): It is recommended that the Company establish a general ledger. This recommendation was in the previous Report of Examination.

Previous Report of Examination

Accounts and Records (Page 3): It was recommended that the Company establish a general ledger. The Company continues to be without accounting records.

ACKNOWLEDGMENT

Respectfully submitted,

Edward W. Aros, Jr.
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California