

REPORT OF EXAMINATION
OF THE
NORTH AMERICAN TITLE INSURANCE
COMPANY
AS OF
DECEMBER 31, 2009

Participating State and
Zone:

California

Filed February 14, 2011

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San Francisco, California
October 19, 2010

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Christina Urias
Secretary, Zone IV-Western
Director of Insurance
Arizona Department of Insurance
Phoenix, Arizona

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioners:

Pursuant to your instructions, an examination was made of the

NORTH AMERICAN TITLE INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 1855 Gateway Boulevard, Suite 600, Concord, California 94520.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2009, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination.

This examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; accounts and records; and sales and advertising.

COMPANY HISTORY

The Company obtained regulatory approval from the States of California (December 19, 2006) and Florida (December 29, 2006) to merge a Florida affiliated company, North American Title Insurance Corporation, with and into the Company. The merger of the two companies became effective January 1, 2007.

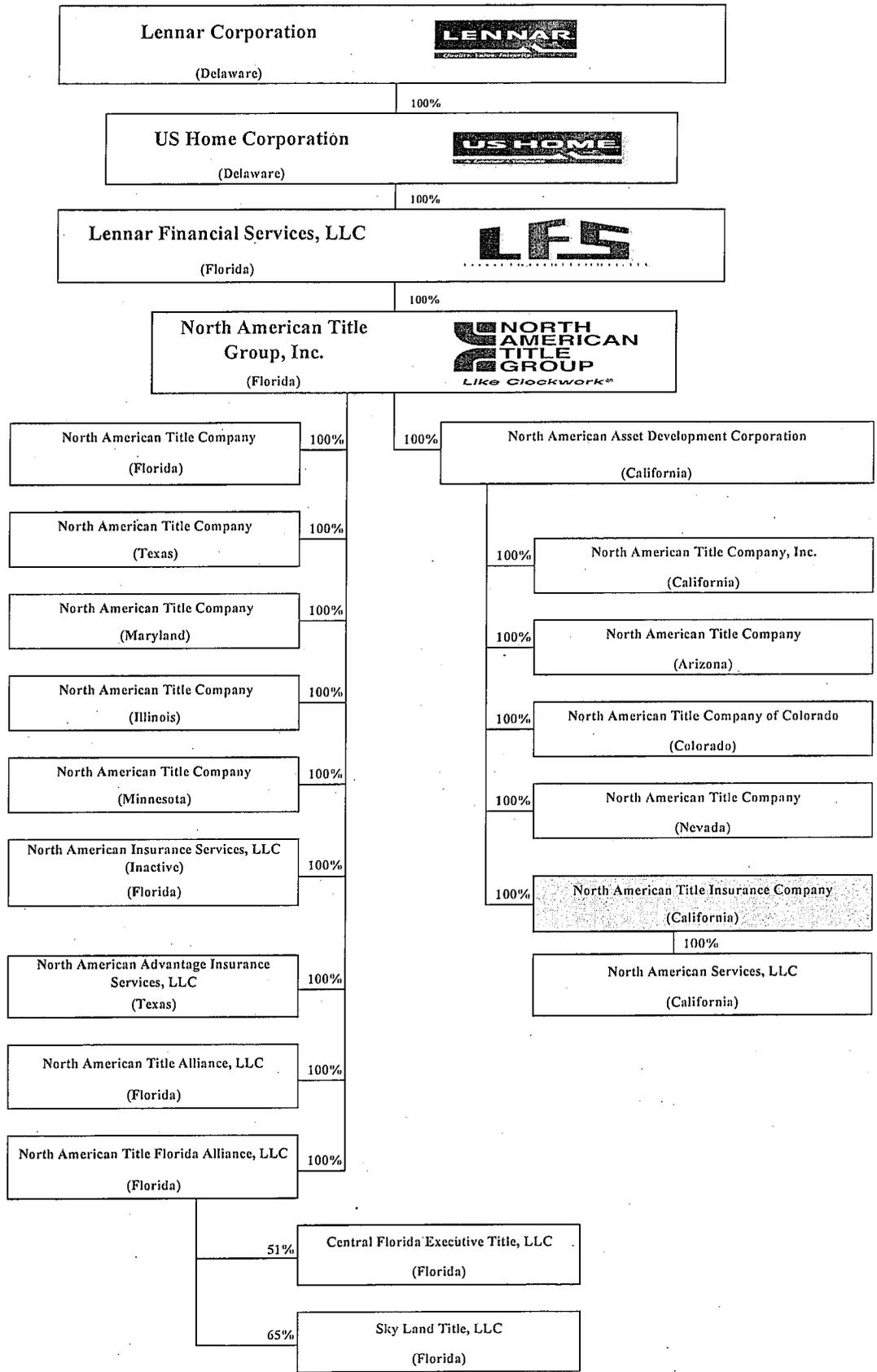
The Company paid ordinary dividends to its parent company, North American Asset Development Corporation, as follows:

<u>Year Paid</u>	<u>Amount Paid</u>
2008	\$ 8.2 million
2009	<u>3.5 million</u>
Total	<u>\$11.7 million</u>

The Company recorded adjustments to surplus which were labeled as transfers from capital in 2008 for \$44,572 and 2009 for \$4,355 to adjust for prior income tax positions taken by the Company. The Company based the adjustments on Financial Accounting Standards Board Interpretation No. 48. The Company had previously recorded reserves for uncertain tax positions for prior years based on the 'more likely than not' rule that the occurrence of a liability has a likelihood of occurrence greater than 50%.

MANAGEMENT AND CONTROL

The Company is 100% owned by North American Asset Development Corporation (NAADC), an insurance holding company that is domiciled in California. The Company and NAADC are part of a holding company system in which Lennar Corporation (Lennar) is the ultimate controlling entity. Lennar is a Delaware corporation, whose principal business involves home building and activities that are related to home building. The following is an abridged organizational chart that depicts the relationship of the companies within the holding company system (all ownership is 100% unless otherwise noted):



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 December 31, 2009 were as follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Emilio Fernandez Miami, Florida	Executive Vice President North American Title Group, Inc.
Clotilde C. Keller Miami, Florida	Senior Vice President and Chief Financial Officer North American Title Group, Inc.
Linda L. Reed Miami, Florida	President and Chief Executive Officer North American Title Group, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Emilio Fernandez	President
Jeffrey P. Brown	Secretary and Executive Vice President
Donnis L. Benson	Treasurer
Margery Q. Lee	Executive Vice President
Linda L. Reed	Executive Vice President
Jeffrey A. Wright	Senior Vice President
Floyd E. Krause	Executive Vice President
Clotilde C. Keller	Senior Vice President

Inter-Company Agreements

Master Services Agreement: On November 15, 2005, the Company executed a Master Services Agreement between and among North American Services, LLC (NAS), North American Title Group, Inc. (NATG), and certain subsidiary corporations or majority owned entities of NATG. The agreement which took effect on January 1, 2006 provides that NAS is to be responsible for the

following services: employment, payroll, general administrative, benefits administration, management reporting, administrative support, information technology support, and personnel services on behalf of the participating companies to this agreement. The agreement also provides that all employees of each participating company shall become employees of NAS as of January 1, 2006. The fees for the services rendered are to be charged on a cost basis that is fair and reasonable in relation to the benefits received. During the exam period, the Company paid fees under this agreement as follows: (2006) \$14,779, (2007) \$20,555, (2008) \$22,230 and (2009) \$18,455. This agreement was approved by the California Department of Insurance (CDI) on November 9, 2005.

Tax-Sharing Agreement: In March 2010, the Company executed a tax sharing agreement, effective as of December 1, 2009, with its ultimate parent, Lennar Corporation (Lennar), which provides for the consolidation of the Company's federal income tax liability with those of Lennar's subsidiaries. The Company submitted the tax sharing agreement to the CDI and the agreement was approved on May 14, 2010.

TERRITORY AND PLAN OF OPERATION

At December 31, 2009, the Company is licensed to transact title insurance business in the District of Columbia and the following states:

Alabama	Maryland	Pennsylvania
Arizona	Minnesota	South Carolina
California	Nevada	Tennessee
Colorado	New Jersey	Texas
Delaware	North Carolina	Virginia
Florida	Ohio	Wisconsin
Illinois	Oklahoma	Wyoming

In 2009, the Company wrote \$62.3 million in written premiums of which \$31.5 million (50.6%) was written in California, \$8.8 million (14.2%) in Texas, \$4.8 million (7.7%) in Colorado, and \$4.6 million (7.5%) in Nevada.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the period of this examination.

Ceded

At December 31, 2009, the Company was party to two ceded reinsurance agreements with First American Title Insurance Company (FATIC), an admitted California title insurer. One agreement covers the Company for business written in Colorado and the other agreement covers business written in the other states in which the Company is licensed. Under both agreements, FATIC assumes losses in excess of the Company's retention of \$7.5 million.

ACCOUNTS AND RECORDS

Information Systems Controls

An information systems (IS) Specialist from the California Department of Insurance reviewed the Company's general controls over its IS systems and noted that the Company's alternate data center for disaster recovery is in the same city as its primary data center. An area-wide disaster can potentially affect both data centers. It is recommended that the Company assess whether the risks of having both its primary and alternative data center within the same city are acceptable to the Company. The Company has indicated that it is currently assessing relocating its alternate data center for disaster recovery to a site in southern California.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Operations and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders from December 31, 2005
through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 2,511,431	\$	\$ 2,511,431	
Mortgage loans on real estate	131,201		131,201	
Cash and short-term investments	69,272,918		69,272,918	
Other invested assets	910,000		910,000	
Title plants	1,863,687	513,687	1,350,000	
Investment income due and accrued	24,730		24,730	
Uncollected premiums and agents' balances in the course of collection	333,687	3,991	329,696	
Net deferred tax asset	2,592,921	2,209,510	383,411	
Electronic data processing equipment and software	6,796	6,796		
Furniture and equipment	13,737	13,737		
Aggregate write-ins for other than invested assets	<u>114,469</u>	<u>114,469</u>		
Total assets	<u>\$77,775,577</u>	<u>\$ 2,862,190</u>	<u>\$74,913,387</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Known claims reserve			\$ 2,552,391	(1)
Statutory premium reserve			25,733,804	(1)
Other expenses			539,015	
Taxes, licenses and fees			198,223	
Current federal income taxes			317,799	
Payable to parent, subsidiaries and affiliates			<u>995,606</u>	
Total liabilities			30,336,838	
Common capital stock		\$ 2,700,000		
Gross paid-in and contributed surplus		5,771,391		
Unassigned funds (surplus)		<u>36,105,158</u>		
Surplus as regards policyholders			<u>44,576,549</u>	
Total liabilities, surplus and other funds			<u>\$74,913,387</u>	

Operations and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Operating Income

Title insurance premiums earned		<u>\$63,828,172</u>
Total operating income		63,828,172
Deduct:		
Losses and loss adjusting expenses incurred	\$ 2,150,015	
Operating expenses incurred	<u>58,544,210</u>	
Total operating deductions		<u>60,694,225</u>
Net operating gain		3,133,947

Investment Income

Net investment income earned	\$ 387,956	
Net investment gain		387,956

Other Income

Aggregate write-ins for miscellaneous income		<u>\$ 206,028</u>
Net income before federal income tax		3,727,931
Federal income taxes incurred		<u>1,151,000</u>
Net income		<u>\$ 2,576,931</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$45,394,760
Net income	\$2,576,931	
Change in net deferred income tax	(154,691)	
Change in nonadmitted assets	263,904	
Surplus adjustments: Transferred from capital	(4,355)	
Dividends to stockholders	<u>(3,500,000)</u>	
Change in surplus as regards policyholders		<u>(818,211)</u>
Surplus as regards policyholders, December 31, 2009		<u>\$44,576,549</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2009

Surplus as regards policyholders, December 31, 2005, per Examination			\$18,433,712
	<u>Gain in</u> <u>Surplus</u>	<u>Loss in</u> <u>Surplus</u>	
Net income	\$20,964,835	\$	
Change in net deferred income tax		577,001	
Change in nonadmitted assets	756,240		
Change in surplus due to merger	16,751,557		
Transferred from capital		48,927	
Dividends to stockholders		11,700,000	
Aggregate write-in for gains and losses in surplus	<u> </u>	<u>3,867</u>	
Total gains and losses	<u>\$38,472,632</u>	<u>\$12,329,795</u>	
Increase in surplus as regards policyholders			<u>26,142,837</u>
Surplus as regards policyholders, December 31, 2009, per Examination			<u>\$44,576,549</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Known Claims Reserve

A Casualty Actuary from the California Department of Insurance reviewed the Company's carried total Schedule "P" reserves and determined that they were reasonable. Furthermore, it was determined that no supplemental reserve was necessary because the Company's known claims reserve (\$2,552,391) plus its statutory premium reserve (\$25,733,804) exceeds the total Schedule "P" reserves (\$24,887,000).

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records - Information System Controls (Page 6): It is recommended that the Company assess whether the risks of having both its primary and alternative data center within the same city are acceptable to the Company.

Previous Report of Examination

Management and Control – Inter-Company Agreements (Page 6): It was recommended that the Company amend its tax-sharing agreement. The Company has amended its tax sharing agreement and is now in compliance.

Corporate Records (Page 6): It was recommended that the Company institute controls to ensure that its permanent corporate records are not lost or misplaced and that backup copies are maintained. The Company provided the corporate records during this examination and is now in compliance.

Accounts and Records (Page 9): It was recommended that the Company nonadmit its electronic data processing equipment asset and adhere to Statements of Statutory Accounting Principles No. 16. The Company is now in compliance.

Accounts and Records (Page 9): It was recommended that the Company develop an unallocated loss adjustment expense (ULAE) allocation methodology that is based on employees' activities that are necessary to process claims or manage the claims settlement function. It was also recommended that the Company include all appropriate operating and overhead expenses in its ULAE calculation. The Company is now in compliance with both recommendations.

Comments on Financial Statement Items - Cash and Short-term Investments (Page 14): It was recommended that the Company conform to the requirements of California Insurance Code (CIC) Section 1100 with respect to its investment holdings. It was recommended that the Company structure and maintain its investments to conform to CIC Sections 1104.1 and 1104.9(b). It was recommended that the Company either take physical possession of its certificates of deposit or maintain them with its qualified custodian, Union Bank of California, in compliance with CIC Section 1104.9. The Company has complied with all the recommendations.

