

REPORT OF EXAMINATION
OF THE
REAL ADVANTAGE
TITLE INSURANCE COMPANY
AS OF
DECEMBER 31, 2016

Filed on February 16, 2018

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Los Angeles, California
January 12, 2018

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

REAL ADVANTAGE TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1551 North Tustin Avenue, Santa Ana, California 92705.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was performed by the state of Ohio as of December 31, 2012, as the Company was an Ohio domiciled company. This examination covered the period from January 1, 2013 through December 31, 2016.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was incorporated in the state of Ohio in 1985. The Company has been dormant from 2002 until the fourth quarter of 2012 when Orange Coast Title Company (OCTC), a California domiciled underwritten company, acquired the Company's immediate parent, Olympic Holding Company, LLC.

In 2014, the Company obtained a license in California. On February 19, 2014, the Company re-domesticated from Ohio to California.

Capitalization

Prior to the re-domestication, the Company was authorized to issue 1,500,000 shares of common stock comprised of 750,000 shares of Class A common stock, and 750,000 shares of Class B common stock. Five-hundred thousand shares of Class A common stock was issued and outstanding at \$10 per share.

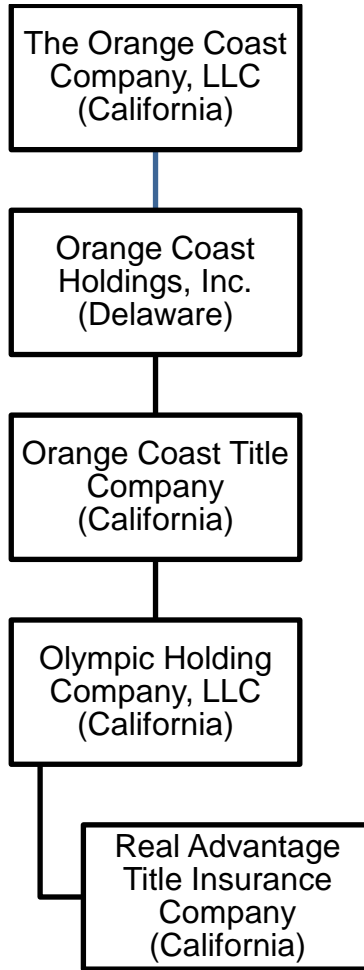
In February 2013, the Company received a cash contribution from its parent, OCTC, in the amount of \$2,000,000.

On June 11, 2013, the par value of the Company's common capital stock was increased from \$10 to \$20, raising the Company's common capital stock by \$500,000 to \$1,000,000.

In 2014, when the Company re-domesticated to California, the Company was authorized to issue 300,000 shares of common stock with a par value of \$50 per share. There were 22,000 shares outstanding as of December 31, 2016. As a result, capital common stock was increased from \$1,000,000 to \$1,100,000.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Olympic Holding Company, LLC. The Orange Coast Company, LLC (OCC), is the Company's ultimate parent. Richard D. Macaluso, John L. Marconi, and Michael J. Marconi are the controlling owners of the OCC. The following is an abridged organizational chart depicts the Company's relationship within the holding Company system as of December 31, 2016. All ownership is 100%.



Management of the Company is vested in a four-member board of directors elected annually. Following are members of the board and principal officers of the Company serving on December 31, 2016:

Directors

Name and Location

Principal Business Affiliation

William D. Burding, Jr.
Santa Ana, California

Executive Vice President and General Counsel
Orange Coast Title Company

Richard D. Macaluso
Santa Ana, CA

President, Chairman of the Board
Orange Coast Title Company

Name and Location

Michael J. Marconi
Santa Ana, California

John H. Wiley
Santa Ana, California

Principal Business Affiliation

Executive Vice President and Secretary
Orange Coast Title Company

Executive Vice President
Orange Coast Title Company

Principal Officers

Name

Richard D. Macaluso
Michael J. Marconi
William D. Burding, Jr.

John H. Wiley

Title

President
Executive Vice President and Secretary
Executive Vice President and General
Counsel
Executive Vice President

Management Agreements

Amended and Restated Administrative Services Agreement: Effective January 8, 2013, the Company entered into an Administrative Services Agreement with Orange Coast Title Company (OCTC), its parent. Pursuant to the agreement, OCTC provides to the Company certain property, equipment, facilities, and services. Compensation for services and facilities provided is on a cost basis, and limited to reimbursement of actual expenses. The Agreement was reviewed and approved in connection with the Company's application for licensure and re-domestication. The payments made by the Company during 2013, 2014, 2015, and 2016 were \$175,299, \$307,442, \$1,614,321, and \$2,603,960, respectively. Of these amounts \$375,404 were reclassified as Surplus paid-in. The Amended and Restated Agreement became effective on February 19, 2014, the date of the re-domestication.

Amended Issuing Agency Agreement: The Company entered into an Issuing Agency Agreement with Real Advantage, LLC (RA LLC) DBA Orange Coast Lender Services, an affiliated Pennsylvania domiciled title company, effective July 13, 2012. The Agreement was reviewed and approved in connection with the Company's application

for licensure and re-domestication. RA LLC issues title insurance policies on behalf of the Company covering real estate property in the following states: Arizona, Georgia, Indiana, Louisiana, Montana, Nebraska, Nevada, North Carolina, North Dakota, Ohio, Oklahoma, South Dakota, and West Virginia. RA LLC remits to the Company its share of the title insurance premium specified in the various rate manuals or schedules as the Company's underwriting fee for its assumption of risk. The amounts paid by the Company during 2013, 2014, 2015, and 2016, were \$5,074, \$108,045, \$130,765, \$182,162, respectively. The California Department of Insurance (CDI) approved the amended agreement on December 31, 2015.

Amended Issuing Agency Agreement: The Company entered into an Issuing Agency Agreement with Orange Coast Title Company dba Orange Coast Title Company of Texas (OCTCT), dated September 26, 2013. The Agreement was reviewed and approved in connection with the Company's application for licensure and re-domestication. OCTCT issues title insurance policies on behalf of the Company covering real estate property located in certain counties in Texas. OCTCT remits to the Company its share of the title insurance premium specified in Texas Promulgated Rate Manual or schedule as Company's underwriting fee for its assumption of risk. The amounts paid by the Company during 2014, 2015, and 2016 were \$128,283, \$80,731, and \$97,016, respectively. The CDI approved the amended agreement on September 8, 2015.

Issuing Agency Agreement: The Company entered into an Issuing Agency Agreement with Orange Coast Title Company of Northern California (OCTCNC) effective as of December 15, 2015. The Agreement was reviewed and approved in connection with the Company's application for licensure and re-domestication. OCTCNC issues title policies on behalf of the Company covering real estate property located in the following counties in California: Alameda, Contra Costa, El Dorado, Marin, Monterey, Nevada, Placer, Sacramento, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Solano, Stanislaus, and Yolo. OCTCNC remits 15% of the title insurance premiums to the Company. The payment made by the Company during 2016 was \$355,218. The

CDI approved the agreement on December 17, 2015.

Amended and Restated Issuing Agency Agreement for Appointment of Policy-issuing Agent: The Company entered into an Amended and Restated Agreement for Appointment of Policy-Issuing Agents Agreement with Equity Title, LLC dba Equity Title of Nevada, a Nevada limited liability company; JLM Title, LLC dba First Centennial Title Company of Nevada, a limited liability company; and Real Advantage Title Insurance Agency, LLC, an affiliated Utah domiciled title agency. The Agreement was reviewed and approved in connection with the Company's application for licensure and re-domestication. Equity Title, LLC, JLM Title, LLC, and Real Advantage Title Insurance Agency, LLC issues title insurance policies on behalf of the Company covering real estate property in Nevada and Utah. The Agencies remit to the Company its share of the title insurance premium as specified in the various rate manuals or schedules as the Company's underwriting fee for its assumption of risk. The payment made by the Company during 2016 was \$222,288. The CDI approved the agreement on December 14, 2016.

Amended Issuing Agency Agreement: The Company entered into an Issuing Agency Agreement with Orange Coast Title Company of Southern California (OCTCSC), effective as of August 23, 2014. The Agreement was reviewed and approved in connection with the Company's application for licensure and re-domestication. OCTCSC issues title policies on behalf of the Company covering real estate property located in the following counties in California: Imperial, Kern, Los Angeles, Orange, Riverside, San Bernardino, San Louis Obispo, Santa Barbara, and Ventura. OCTCSC remits 15% of the title insurance premiums to the Company. The payments made by the Company during 2014, 2015, and 2016 were \$9,696, \$135,120, and \$1,540,898, respectively. The CDI approved the amended agreement on December 31, 2015.

Issuing Agency Agreement: The Company entered into an Issuing Agency Agreement with OCTC, effective February 26, 2014. OCTC issues title policies on behalf of the Company covering real estate property located in all California counties. OCTC remits

13% of the title insurance premiums to the Company. The payments made by the Company during 2014, 2015, and 2016 were \$1,170, \$2,981, and \$29,952, respectively. The Department approved the amended agreement by letter dated September 8, 2015.

Intercompany Federal Income Tax Allocation Agreement: The Company and its affiliates are part of a consolidated federal income tax agreement with its parent, OCTC, effective as of April 4, 2014. Allocation of taxes is based upon separate return calculations. Intercompany tax allocations are settled within 30 days after the filing of the consolidated income tax return. The payments made by the Company during 2014, 2015, and 2016 were \$2,000, \$295,000, and \$486,000, respectively. The CDI approved this agreement on April 3, 2014.

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed in the following 19 states and writes only title insurance:

Alabama	Indiana	Nebraska	Ohio	Utah
Arizona	Kansas	Nevada	Oklahoma	West Virginia
California	Louisiana	North Carolina	South Dakota	Wisconsin
Georgia	Montana	North Dakota	Texas	

For the year ending December 31, 2016, direct written was \$14,735,515. Of that amount, the majority of the Company's direct premium written were in California (83%), Arizona (5%), and Texas (4%).

The Company's operations are conducted jointly with its parent, Orange Coast Title Company (OCTC) and affiliates at its home office in Santa Ana, California. The majority of the policies written are originated by the affiliated underwritten title companies under OCTC.

REINSURANCE

Assumed

The Company has no assumed reinsurance.

Ceded

The Company has an excess of loss reinsurance agreement with Stewart Title Guaranty Company, an authorized unaffiliated reinsurer, as of December 31, 2016. The Company's retention is \$1,000,000 with a loss limit of \$20,000,000.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2016

Underwriting and Investment Exhibit for the Year Ended December 31, 2016

Reconciliation of Surplus as Regards Policyholders from December 31, 2012
through December 31, 2016

Statement of Financial Condition
as of December 31, 2016

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,621,803	\$	\$ 1,621,803	
Cash and short-term investments	5,794,096		5,794,096	
Other invested assets	48,995		48,995	
Premiums and agents' balances in course of collection	516,564		516,564	
Net deferred tax asset	282,458		282,458	
Aggregate write-ins for other than invested assets	<u>124,292</u>	<u>16,139</u>	<u>108,153</u>	
 Total assets	 <u>\$ 8,388,208</u>	 <u>\$ 16,139</u>	 <u>\$ 8,372,069</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Known claims reserves			\$ 131,424	(1)
Statutory premium reserves			1,094,081	(1)
Supplemental reserves			444,546	(1)
Current federal and foreign income taxes			486,179	
Payable to parent, subsidiaries and affiliates			375,371	
Aggregate write-ins for liabilities			<u>278,062</u>	
 Total liabilities			 2,809,663	
Common capital stock	\$ 1,100,000			
Gross paid-in and contributed surplus	3,279,211			
Unassigned funds (surplus)	<u>1,183,195</u>			
Surplus as regards policyholders			<u>5,562,406</u>	
 Total liabilities and surplus and other funds			 <u>\$ 8,372,069</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2016

Statement of Income

Underwriting Income

Operating income:

Title insurance premiums earned	\$	14,028,216
Other title fees and service charges		<u>1,093,720</u>

Total operating income		\$ 15,121,936
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Expenses:

Losses and loss expenses incurred	\$	149,339
Other operating expenses incurred		<u>13,612,959</u>

Total operating expenses		<u>13,762,298</u>
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Net underwriting gain		1,359,638
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Investment Income

Investment income earned		31,534
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Other Income

Total operating expenses		<u>457,795</u>
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Net income		<u>\$ 933,377</u>
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Capital and Surplus Account

Surplus as regards policyholders, December 31, 2015	\$	4,878,030
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Net income	\$	933,377
Change in nonadmitted assets		(5,188)
Change in supplemental reserves		<u>(243,813)</u>

Change in surplus as regards policyholders for the year		<u>684,376</u>
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Surplus as regards policyholders, December 31, 2016	\$	<u>5,562,406</u>
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Reconciliation of Surplus as Regards Policyholders
from December 31, 2012 through December 31, 2016

Surplus as regards policyholders, December 31, 2012				\$ 1,600,190
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 1,251,574	\$		
Change in non-admitted assets			20,949	
Change in supplemental reserves			243,813	
Capital Changes				
Paid in	600,000			
Surplus Adjustments				
Paid in	<u>2,375,404</u>			
Total gains and losses	<u>\$ 4,226,978</u>	<u>\$</u>	<u>264,762</u>	
Net increase in surplus as regards policyholders				<u>3,962,216</u>
Surplus as regards policyholders, December 31, 2016				<u>\$ 5,562,406</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Known Claim Reserves, Statutory Premium Reserve, and Supplemental Reserves

A California Department of Insurance (CDI) Casualty Actuary evaluated the Known Claim Reserves, Statutory Premium Reserve, and Supplemental Reserves (loss reserves) as of December 31, 2016. Based on the Casualty Actuary analysis, the Company's loss reserves as of December 31, 2016 were found to be reasonably stated and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

On April 1, 2017, the Company entered into a reinsurance agreement with American Title Reinsurance Alliance. Coverage is up to \$20,000,000 excess of \$1,000,000 per policy or simultaneously issued set of policies.

In 2017, the Company became licensed in the states of Colorado, Minnesota and Mississippi.

Effective December 1, 2017, Clegg Porter was appointed Chief Financial Officer of the Company.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/ _____

Thomas Podsiadlo, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/ _____

Grace Asuncion, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California