

REPORT OF EXAMINATION
OF THE
RESIDENTIAL WARRANTY HOME PROTECTION
OF CALIFORNIA, INC
AS OF
DECEMBER 31, 2021

Insurance Commissioner

A handwritten signature in blue ink, appearing to read "P. DeFina", is positioned to the right of the "Insurance Commissioner" text.

FILED ON September 9, 2022

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Los Angeles, California
August 25, 2022

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

RESIDENTIAL WARRANTY HOME PROTECTION OF CALIFORNIA, INC.

(hereinafter also referred to as the Company). The Company's main administrative office and its primary location of its books and records is located at 698 Pro Med Lane, Carmel, Indiana 46032.

SCOPE OF EXAMINATION

We have performed our single state examination of the Company. This is the first examination of the Company since its Qualifying Examination on April 17, 2015. This examination covered the period from April 18, 2015 through December 31, 2021.

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 California on September 27, 2013. The Company was licensed to write home protection contracts in the state of California on May 19, 2015 and offers a variety of home protection contracts available for California residential consumers. It markets business via direct mail, in-office visits by contracted delivery agents, and presentations that inform home inspectors of its policy coverage.

The Company is wholly-owned by Mr. Phillip Nathan Thornberry, who is also the President of the Company and Residential Warranty Services, Inc. ("RWS").

Capitalization

On January 28, 2015, the Company was authorized to issue 500 shares of its \$80 par value common stock, at a price of \$400 per share, for a consideration of \$200,000 to Mr. Thornberry for the purpose of capitalizing the Company to qualify it to apply for and to receive a license authorizing it to transact business as a home protection company in the state of California. In 2015, an additional \$4,000 cash capital infusion to gross paid-in and contributed surplus was made by Mr. Thornberry. The capitalization resulted in capital stock of \$40,000; gross paid-in and contributed surplus of \$164,000.

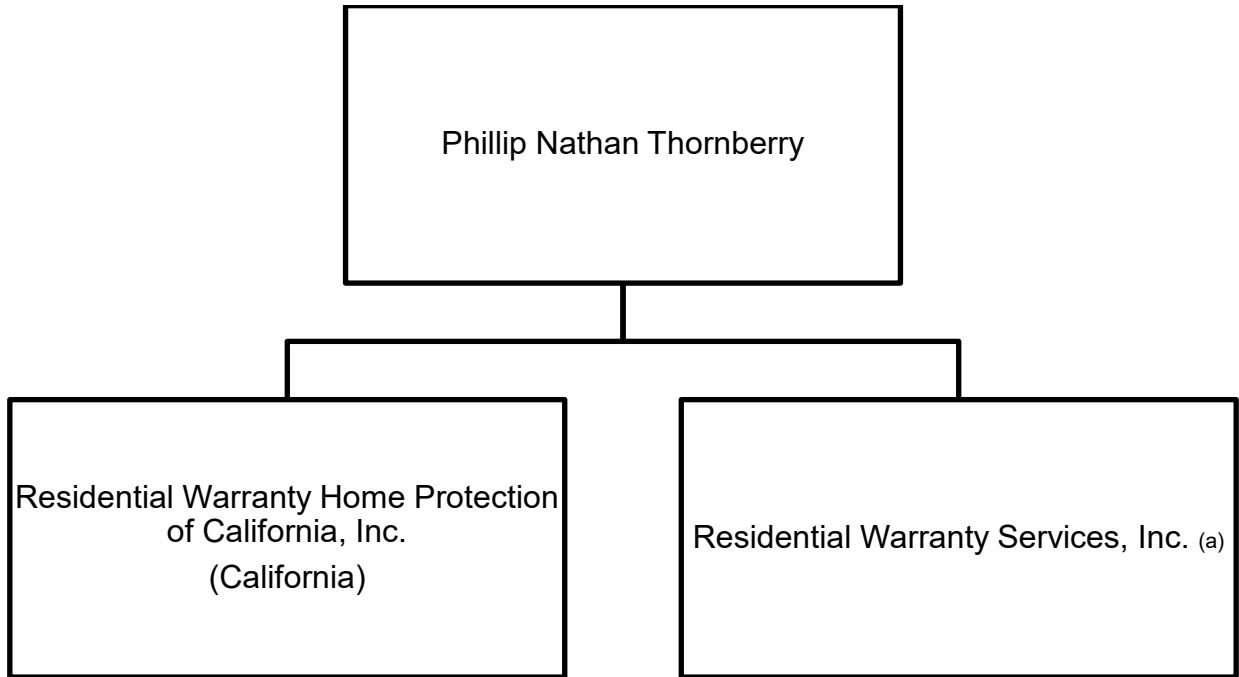
As part of the licensing requirement, the Company has agreed to maintain an initial capitalization of \$200,000 set by the California Department of Insurance (CDI) and maintain at least \$200,000 in Surplus as Regards Contract Holders at all times until CDI increases the amount of minimum surplus.

In May 2017, Mr. Thornberry paid in an additional \$45,000 capital contribution in cash and increased the Company's gross paid-in and contributed surplus to \$209,000.

Pursuant to California Insurance Code Section (CICS) 12750(a), the Company is required to maintain a minimum net worth of \$40,000. In addition, pursuant to CICS 12750(b), at least \$20,000 of net worth shall consist of paid-in capital. The Company's net worth of \$664,552 exceeds the minimal requirements pursuant to CICS 12750(a) and 12750(b).

MANAGEMENT AND CONTROL

The ultimate controlling person of the Company is Mr. Phillip Nathan Thornberry. The following organizational chart as of December 31, 2021. All ownership is 100%.



The following changes in the organizational chart occurred subsequent to the examination date:

- (a) Residential Warranty Services, Inc. was sold to Porch Group, Inc. and Porch.com, Inc. on April 1, 2022.

The Company is managed by one member of the board of directors and principal officer as of December 31, 2021.

Director

Name and Location

Principal Business Affiliation

Phillip Nathan Thornberry
Carmel, Indiana

President and Chief Executive Officer
Residential Warranty Services, Inc.

Principal Officer

Name

Title

Phillip Nathan Thornberry

President, Secretary, and Treasurer

TERRITORY AND PLAN OF OPERATION

The Company provides home protection warranties contract for residential consumers in the state of California. The Company specializes in service contracts on repairing or replacing the consumers' air conditioning and/or heating system, plumbing, electric, and other household systems and appliances.

ACCOUNTS AND RECORDS

This examination experienced some delays in obtaining supporting documentation for various information reported in the Company's Annual Statement. This includes routine examination requests for line items such as Home Protection Contract Fee Receivable, Receivables from Parent, Subsidiary, or Affiliate, Claims Adjustment & Unpaid or in Process of Adjustment, Unearned Home Protection Contract Fees, Home Protection Contract Fees Written and Earned, and Claims. In addition, the Annual Statement was not properly prepared with items not reconciling between schedules and insufficient detail being provided to support the reported balances. Due to the delays and incomplete records, the Company is not in compliance with California Insurance Code (CIC) Section

734. As a result of this finding, various financial adjustments and reclassifications of the trial balance accounts were made to the 2021 Annual Statement. It is recommended that:

1. The Company maintain adequate documentation to support all information reported in its financial statements. The documentation shall be prepared in sufficient detail to allow for a full and complete audit trail from the Company's financial statements to individual records.

2. All of the Company's books and records must be made available for examination pursuant to CIC Section 734. The Company shall consider engaging experts to rewrite, post, and balance the financial statements and related reporting to ensure compliance with relevant codes and regulations.

Unclaimed Property

California Code of Civil Procedure (CCP) Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532 (Unclaimed Property Law) requires that all tangible personal property located in the state of California that is held or owing in the ordinary course of business and has remained unclaimed by the owner for more than three years after it became payable or distributable, is escheated to the California State Controller's Office (SCO).

During the review of the unclaimed property filings, it could not be determined if the Company had unclaimed property to remit due to the Company's procedure of reissuing payments. It is recommended that the Company establish an internal policy on escheating the unclaimed property to the SCO and implementing procedures to ensure future compliance with CCP Sections 1530 and 1532.

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, 2021. The accompanying comments on financial statements reflect the examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Contract Holders from April 18, 2015
through December 31, 2021

Analysis of Changes to Surplus as of December 31, 2021

Statement of Financial Condition
as of December 31, 2021

Assets	Current Year	Prior Year	Notes
Common stocks	\$ 499,579	\$ 377,358	(1)
Cash, cash equivalents, and short-term investments	346,537	450,293	
Home protection contract fees receivable	26,911	13,463	
Federal income tax recoverable	<u>11,324</u>		
Total assets	<u>\$ 884,351</u>	<u>\$ 841,114</u>	
Liabilities Surplus and Other Funds			
Claims adjusted & unpaid or in process of adjustments	\$ 8,995	\$ 19,571	
Taxes, licenses and fees (Excluding federal income tax)	8,035	10,066	
Current federal income tax		20,380	
Unearned home protection contract fees	222,219	263,151	
All other liabilities: Customer deposits	<u>550</u>		
Total Liabilities	239,799	313,168	
Common stocks	\$ 40,000	\$ 40,000	
Gross paid-in and contributed surplus	209,000	209,000	
Unassigned funds (Surplus)	<u>395,552</u>	<u>278,946</u>	(2)
Surplus as regards Contract Holders	<u>644,552</u>	<u>527,946</u>	
Total liabilities surplus and other funds	<u>\$ 884,351</u>	<u>\$ 841,114</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

			Notes
Underwriting Income			
Home protection contract fees earned	\$	\$	382,811
Deductions:			
Claims incurred	125,850		
Other underwriting expenses incurred	<u>93,966</u>		
Total deductions		<u>219,816</u>	
Net underwriting income		162,995	
Net investment gain		10,532	
Federal income taxes incurred		<u>40,197</u>	
Net income		<u>\$ 133,330</u>	

Capital and Surplus Account

Surplus as regards Contract Holders, December 31, 2020	\$	\$	527,946
Net Income		133,330	
Other gains and losses in surplus:			
Common Stocks		114,740	(1)
Receivable from parent, subsidiaries, and affiliates		<u>(131,464)</u>	(2)
Change in Surplus as regards Contract Holders for the year		<u>116,606</u>	
Surplus as regards Contract Holders December 31, 2021		<u>\$ 644,552</u>	

Reconciliation of Surplus as Regards Contract Holders
from April 18, 2015 through December 31, 2021

Surplus as regards Contract Holders, April 18, 2015				\$ 200,502
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 411,774	\$		
Other gains and losses in surplus:				
Common Stocks	114,740			
Receivable from parent, subsidiaries, and affiliates		131,464		
Gross paid-in and contributed surplus	<u>49,000</u>			
 Total gains and losses	 <u>\$ 575,514</u>	 <u>\$ 131,464</u>		
 Net increase in surplus as regards Contract Holders				 <u>440,050</u>
 Surplus as regards Contract Holders, December 31, 2021, per Examination				 <u>\$ 644,552</u>

Analysis of Changes to Surplus as of December 31, 2021

As a result of the examination, the following adjustments were made to the Company's reported balance sheet items based on available information. Common Stocks and Surplus increased due to the reported balances not being recorded at fair market values. The Company was also unable to provide supporting documentation for the Receivable from Parent, Subsidiaries, and Affiliates.

The sum of the effect on surplus is shown below:

Surplus as regards Contract Holders, December 31, 2021, per Annual Statement			\$ 661,276
	<u>Increase</u>	<u>Decrease</u>	
Common stock	114,740		
Receivable from parent, subsidiaries and affiliates		131,464	
Net decrease			<u>(16,724)</u>
Surplus as regards Contract Holders, December 31, 2021 after adjustments			<u>\$ 644,552</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks

The reported balance for Common Stocks was recorded at cost which did not include unrecognized gains through Surplus as instructed by the Annual Statement Instructions. As a result, an adjusting entry was made to the reported balance on Common stocks to increase it by \$114,740, and Unassigned Funds (Surplus) was increased by the same amount to reflect the adjustment.

(2) Receivable from Parent, Subsidiaries, and Affiliates

The Company was unable to provide adequate supporting documentation or settlement of the reported balance of Receivable from Parent, Subsidiaries, and Affiliates. As a result, an adjusting entry was made to the reported balance of Receivable from Parent, Subsidiaries, and Affiliates to decrease it by \$131,464 and the Unassigned Funds (Surplus) is decreased by the same amount to reflect the adjustment.

SUBSEQUENT EVENTS

On February 28, 2022, the ultimate controlling person, Mr. Phillip Nathan Thornberry and Residential Warranty Services, Inc., entered into a Stock and Membership Interest Purchase Agreement with Porch Group, Inc., and Porch.com, Inc., both Delaware corporations (collectively called "Porch Group"). Under the terms of the agreement, the Porch Group agreed to acquire all of the ownership or equity interest of certain assets and nine entities, including the Company. The total consideration for the acquisition of all the companies was \$33 million, which consists of cash and Porch Group's common stock. On April 1, 2022, the acquisition of all companies except the Company was completed.

On May 16, 2022, The Porch Group filed a Form A application with the California Department of Insurance regarding the Company's acquisition. The Form A application is currently under review.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 5): It is recommended that (1) The Company maintain adequate documentation to support all information reported in its financial statements. The documentation shall be prepared in sufficient detail to allow for a full and complete audit trail from the Company's financial statements to individual records; and (2) All of the Company's books and records must be made available for examination pursuant to California Insurance Code (CIC) Section 734. The Company shall consider engaging experts to rewrite, post, and balance the financial statements and related reporting to ensure compliance with relevant codes and regulations.

Accounts and Records - Unclaimed Property (Page 6): It is recommended that the Company establish an internal policy on escheating the unclaimed property to the California State Controller's Office and implementing procedures to ensure future compliance with California Code of Civil Procedure Sections 1530 and 1532.

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,

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

Ralph Oseguera, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California