# REPORT OF EXAMINATION
# OF THE

# UNITED GENERAL TITLE INSURANCE COMPANY

AS OF
DECEMBER 31, 2007

Participating State
and Zone:

California

Filed June 30, 2009

TABLE OF CONTENTS

PAGE

SCOPE OF EXAMINATION ..... 1

SUMMARY OF SIGNIFICANT FINDINGS ..... 2

SUBSEQUENT EVENTS ..... 2

COMPANY HISTORY ..... 3

MANAGEMENT AND CONTROL: ..... 4
Management Agreements ..... 5

TERRITORY AND PLAN OF OPERATION ..... 6

LOSS EXPERIENCE ..... 6

REINSURANCE: ..... 7
Assumed ..... 7
Ceded ..... 8

ACCOUNTS AND RECORDS: ..... 8
Custodial Agreement ..... 8

FINANCIAL STATEMENTS ..... 9
Statement of Financial Condition as of December 31, 2007 ..... 10
Operations and Investment Exhibit for the Year Ended December 31, 2007 ..... 11
Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2007 ..... 12
Reconciliation of Examination Changes as of December 31, 2007 ..... 13

COMMENTS ON FINANCIAL STATEMENT ITEMS: ..... 14
Known claims reserve ..... 14
Statutory premium reserve ..... 14
Supplement reserve ..... 14

SUMMARY OF COMMENTS AND RECOMMENDATIONS: ..... 14
Current Report of Examination ..... 14
Previous Report of Examination ..... 15

ACKNOWLEDGEMENT ..... 17

Los Angeles, California
June 1, 2009

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (EX4) Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, Zone IV-Western
Superintendent of Insurance
New Mexico Department of Insurance
Santa Fe, New Mexico

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

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

UNITED GENERAL TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company) at the main administrative office and primary location of its books and records, 8310 South Valley Highway, Suite 130, Englewood, Colorado 80112. The Company's statutory home office is located at 1165 Coast Village Road, Suite L, Montecito, California 93105.

## SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002 by the State of Colorado. This examination covers the period from January 1, 2003 through December 31, 2007. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2007, 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 comments: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of the company; business inforce by states; and sales and advertising.

## SUMMARY OF SIGNIFICANT FINDINGS

During 2007, the Company began a process of restructuring and integration with its parent, First American Title Insurance Company (FATIC), that continued into 2008. Subsequent to 2007, the Company experienced adverse claim loss development on insured events of prior years. These factors and the deteriorating real estate market resulted in FATIC's determination that it was desirable to turn the Company into a substantially inactive insurer. During 2008, the Company received consent to an interaffiliate Instrument of Transfer and Assumption, by which the Company transferred all business in-force, and associated assets and liabilities, including claims related reserves. This examination noted a reduction of the Company's surplus as regards policyholders as of December 31, 2007, which was based on subsequent development during 2008 of the Company's carried loss and loss adjustment expense (LAE) reserves as of December 31, 2007. See FINANCIAL STATEMENTS section.

## SUBSEQUENT EVENTS

The Company experienced significant losses during 2008, due to deteriorating real estate markets, restructuring and adverse claim loss development. The Company's surplus as regards policyholders of $24,911,146 as of December 31, 2007, decreased to $1,871,909 as of June 30, 2008. As a result of the significant losses the Company was in need of capital restoration. Pursuant to California Insurance Code (CIC) Section1011(c), the Company filed an application with the California Department of Insurance (CDI) to enter into an Instrument of Transfer and Assumption agreement with its parent, First American Title Insurance Company (FATIC). On October 23, 2008, the CDI approved the application with an effective date of September 30, 2008. The Company transferred all the business in force and the assets and liabilities associated therewith to FATIC. As of September 30, 2008, the assets held by the Company were principally

statutory deposits with various states. The Company is substantially an inactive insurer with principally required minimum assets necessary to maintain the Company's license in selected states. As of December 31, 2008, the Company's total assets and policyholder's surplus were $15,676,521 and it did not have any liabilities. The Company wants to maintain its licenses and its options, one of which is to begin writing business when the real estate market improves.

## COMPANY HISTORY

The Company was incorporated on September 2, 1983, under the laws of the State of Louisiana. On September 15, 1983, the Company began operations under the name United General Title Insurance Company. On March 31, 1984, the Company was sold by its parent, United Companies Financial Corporation (UCFC). On July 1, 1987, the Company was repurchased by UCFC.

On January 25, 1993, the Company was licensed to transact title insurance business in California. Because another company possessed a name similar to the Company, California imposed a 'dba' and the Company operated in California under the name of United Independent Title Insurance Company.

On February 29, 1996, UCFC sold 100% of the capital stock of the Company to United General Holding, Inc. (UGH), a Colorado corporation. The Company then operated in California under the name of United Independent Title Insurance Company of California.

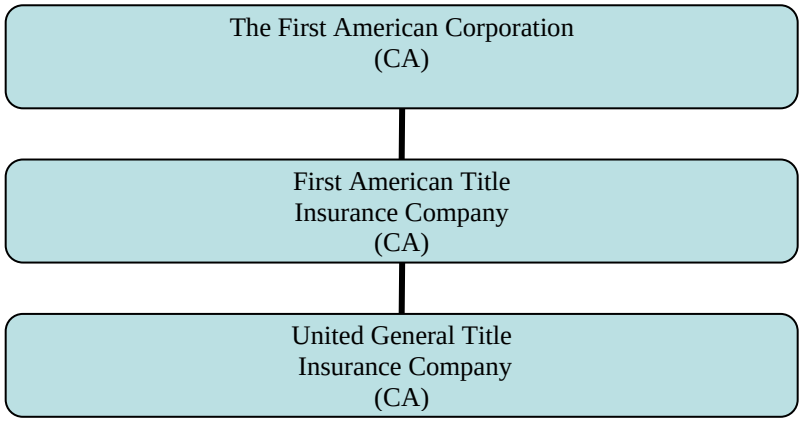
On June 1, 1999, the Company re-domesticated from Louisiana to Colorado. On February 18, 2005, UGH sold 100% of the capital stock of the Company to The First American Corporation (FAC). FAC immediately contributed the capital stock of the Company to First American Title Insurance Company (FATIC).

On December 19, 2007, the California Department of Insurance issued a Certificate of Authority to reflect the Company's re-domestication to California.

During 2006 and 2007, the Company received $21,782,602 and $20 million, respectively, in cash capital contributions from FATIC. Subsequent to the examination date, the Company received a $23 million cash contribution in 2008.

## MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:




Management of the Company is vested in a five-member board of directors. A listing of the members of the board and principal officers serving on December 31, 2007 follows:

### Directors

| Name and Residence | Principal Business Affiliation |
|---|---|
| Curt A. Caspersen<br>Santa Ana, California | Senior Executive Vice President and<br>Chief Operating Officer<br>First American Title Insurance Company |
| Joseph F. Drum<br>Santa Barbara, California | Executive Vice President and<br>Chief Operating Officer<br>United General Title Insurance Company |
| Michael T. Gallaher | Senior Vice President, Treasurer and |

| Name and Residence | Principal Business Affiliation |
| --- | --- |
| Santa Ana, California | Chief Financial Officer<br>United General Title Insurance Company |
| Gary L. Kermott<br>Santa Ana, California | Chairman of the Board, President and<br>Chief Executive Officer<br>United General Title Insurance Company |
| Lenore A. Martinez<br>Englewood, Colorado | Senior Vice President, Secretary and<br>Chief Legal Officer<br>United General Title Insurance Company |

Principal Officers

| Name | Title |
| --- | --- |
| Gary L. Kermott | President and Chief Executive Officer |
| Lenore A. Martinez | Secretary and Chief Legal Officer |
| Michael T. Gallaher | Treasurer and Chief Financial Officer |
| Joseph F. Drum | Executive Vice President |
| Roy A. Olofson | Controller |

Management Agreements

Tax Sharing Agreement: The Company participates in a Tax Sharing Agreement with its ultimate parent, The First American Corporation (FAC). FAC files consolidated federal income tax returns and pays estimated consolidated federal income taxes due. Each member pays FAC its estimated separate federal income tax liability. The allocation of federal income tax liability is based on the percentage that the separate federal tax liability bears to the sum of the tax liability for all members. The members of the group that incurred losses or other tax benefits that have been utilized by the group to reduce consolidated federal tax liability are compensated for the use of the benefits. Any excess of the amount paid over the allocated liability is paid back by FAC within ninety (90) days after the due date, including extensions of the consolidated federal return. The Company is not named in the agreement as one of the participants. It is recommended that the Tax Sharing Agreement be amended, to include the Company as a participant, and filed with the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b).

Administrative and Cost Allocation Agreement: The Company participates in an Administrative and Cost Allocation Agreement with its parent, First American Title Insurance Company (FATIC). FATIC provides administrative services, facilities and benefits which are requested by the Company and are available from FATIC. The services include, but are not limited to, underwriting, premium processing, accounting and claims. Allocated costs or expenses for services provided by FATIC to the Company are paid to FATIC within 90 days from the date of allocation. The Company is not named in the agreement as one of the participants. It is recommended that the Administrative and Cost Allocation Agreement be amended, to include the Company as a participant, and filed with the CDI pursuant to CIC Section 1215.5(b).

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed to transact the business of title insurance and related escrow services in all states, except Iowa. The Company is also licensed in the District of Columbia.

During 2007, the Company wrote $336.6 million of direct premiums of which $21 million were produced through direct operations, $296.5 million through non-affiliated agencies and $19.1 million through affiliated agencies. Of the direct premiums written, $58.3 million (17.3%) was written in New York, $36.1 million (10.7%) was written in California, $32.3 million (9.6%) was written in North Carolina, $27.3 million (8.1%) was written in Texas, $18.3 million (5.4%) was written in New Jersey, and $164.3 million (48.8%) was written in the remaining states.

## LOSS EXPERIENCE

Except for 2003 and 2004, the Company reported operating and net losses in all years under examination, and 2008, as follows:

| Year | Net Operating Gain or (Loss) | Net Income Or (Loss) |
|---|---|---|
| 2003 | $ 5,505,541 | $ 4,378,653 |
| 2004 | 2,307,739 | 1,663,207 |

| Year | Net Operating Gain or (Loss) | Net Income Or (Loss) |
|---|---|---|
| 2005 | (7,647,768) | (3,950,296) |
| 2006 | (14,451,882) | (10,366,026) |
| (*)2007 | (24,513,764) | (16,363,548) |
| 2008 | (47,300,885) | (30,702,279) |

(*) does not include adjustments based on subsequent developments occurring during 2008

The Company maintained its reported surplus position primarily through capital contributions from its parent, as shown below:

| Year | Parent Capital Contributions |
|---|---|
| 2006 | 21,782,602 |
| 2007 | 20,000,000 |
| 2008 | 23,000,000 |
| Total | $64,782,602 |

## REINSURANCE

### Assumed

Effective January 1, 2007, the Company was a party to a reinsurance agreement with its parent, The First American Title Insurance Company (FATIC). Under the terms of this agreement, the Company assumes 100% of FATIC's liability under FATIC's underwriting agreement with Fiserv Lending Solutions, who issued loan policies of title insurance as an agent for FATIC. The agreement was terminated at the end of 2007.

The Company also has a facultative reinsurance arrangement with Founder's Title Insurance of Cheyenne, WY (Founder's). Under the terms of this arrangement, Founder's retains primary liability of the first $400,000, with policy amounts above $400,000 being assumed by the Company.

Ceded

Effective September 24, 2004, the Company entered into a treaty reinsurance agreement with FATIC, to cede policies written through MIS of Colorado, Inc., a subsidiary of Mortgage Information Services Inc., an Ohio Corporation, for amounts in excess of the Company's retention of one dollar of liabilities to a maximum of $750,000 per policy for a premium of $.30 per $1,000 of liabilities insured. The Company utilizes facultative reinsurance on liabilities over $750,000 insured.

Effective May 9, 2005, the Company entered into a treaty reinsurance agreement with FATIC to cede amounts in excess of its retention amount of $4 million primary loss risk to a maximum of $50 million per policy for a premium of $.10 per $1,000 of liabilities reinsured.

## ACCOUNTS AND RECORDS

The examination experienced some difficulties obtaining supporting documentation for some of the information reported by the Company in its filed Annual Statements. This included routine requests for confirmation of information, account reconciliations, and detailed supporting reports. It is recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

Custodial Agreement

The Company utilized Compass Bank of Denver Colorado (Compass) as its custodian for its securities prior to redomestication to California. The Company is not in compliance with California Insurance Code (CIC) Section 1104.9 as the custodian, Compass, does not meet the requirements of CIC Section 1104.9(d). It is recommended that the Company comply with CIC Section 1104.9 by utilizing a qualified custodian for its securities.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include adjustments made based on subsequent developments occurring during 2008, and such statements include the following:

Statement of Financial Condition as of December 31, 2007

Underwriting and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2007

Reconciliation of Examination Changes as of December 31, 2007

Consistent with *Statement of Statutory Accounting Principles No. 3, Change in Accounting Estimate*, adjustment and/or restatement of prior Annual Statements, Financial Statements, or other financial information, is not proposed, required or implied. As previously mentioned in the SUBSEQUENT EVENTS section, the Company transferred all the business in force and the assets and liabilities associated therewith to First American Title Insurance Company.

Statement of Financial Condition
as of December 31, 2007 *

| Assets | Ledger and Nonledger Assets | Assets Not Admitted | Net Admitted Assets | Notes |
|---|---|---|---|---|
| Bonds | $ 28,117,202 | $ | $ 28,117,202 | |
| Stocks: | | | | |
| Common stocks | 1,564,261 | | 1,564,261 | |
| Cash and short-term investments | 58,680,182 | | 58,680,182 | |
| Other invested assets | 480,796 | 480,796 | | |
| Title plants | 6,263,286 | 5,258,286 | 1,005,000 | |
| Investment income due and accrued | 405,142 | | 405,142 | |
| Premiums and considerations: | | | | |
| Uncollected premiums and agents' balances in course of collections | 6,311,199 | 1,198,351 | 5,112,848 | |
| Other amounts receivable under reinsurance contracts | 4,094,346 | | 4,094,346 | |
| Current federal taxes recoverable | 12,862,297 | | 12,862,297 | |
| Net deferred tax asset | 5,081,450 | 5,081,450 | | |
| Electronic data processing equipment and software | 462,226 | 15,408 | 446,818 | |
| Furniture and equipment | 1,231,578 | 1,231,578 | | |
| Prepaid items | 645,709 | 645,709 | | |
| Other receivables | 69,248 | 69,248 | | |
| Good will and other intangibles | 3,527,513 | 520,595 | 3,006,918 | |
| Total assets | $ 129,796,435 | $ 14,501,421 | $ 115,295,014 | |
| **Liabilities, Surplus and Other Funds** | | | | |
| Known claims reserve | | | $ 13,277,853 | (1) |
| Statutory premium reserve | | | 62,615,939 | (1) |
| Supplemental reserve | | | 106,757,061 | (1) |
| Commissions, brokerage and other charges | | | 244,223 | |
| Other expenses | | | 8,486,338 | |
| Taxes, licenses and fees | | | 1,135,937 | |
| Premium and other consideration received in advance | | | 2,310,701 | |
| Amounts withheld for account of others | | | 714,171 | |
| Payable to parent subsidiaries and affiliates | | | 1,524,835 | |
| Reinsurance premiums payable | | | 73,871 | |
| Total liabilities | | | 197,140,929 | |
| Common capital stock | | 2,010,000 | | |
| Gross paid-in and contributed surplus | | 64,753,805 | | |
| Unassigned funds (surplus) | | (148,609,720) | | |
| Surplus as regards policyholders | | | (81,845,915) | |
| Total liabilities, surplus and other funds | | | $ 115,295,014 | |

* Including examination report adjustments made based on subsequent developments occurring during 2008

Operations and Investment Exhibit
for the Year Ended December 31, 2007 *

Statement of Income

| | | |
|---|---|---|
| **Title Insurance and Related Income** | | |
| Title insurance premiums earned | | $ 324,795,874 |
| Escrow and settlement services | | 4,250,504 |
| Other title fees and service charges | | 2,004,270 |
| Aggregate write-ins for other operating income | | (2,768,288) |
| Total operating income | | 328,282,360 |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | $ 27,244,717 | |
| Operating expenses incurred | 325,551,407 | |
| Total operating deductions | | 352,796,124 |
| Net operating loss | | (24,513,764) |
| **Investment Income** | | |
| Net investment income earned | $ 3,724,034 | |
| Net realized capital loss | (818,526) | |
| Net investment gain | | 2,905,508 |
| **Other Income** | | |
| Net loss before federal income tax | | (21,608,256) |
| Federal income taxes incurred | | (5,244,708) |
| Net loss | | $ (16,363,548) |

Capital and Surplus Account

| | | |
|---|---|---|
| Surplus as regards policyholders, December 31, 2006 | | $ 23,927,855 |
| Net loss | $ (16,363,548) | |
| Net unrealized capital losses | (840,698) | |
| Change in net deferred income taxes | 5,008,928 | |
| Change in nonadmitted assets | (6,630,945) | |
| Change in supplemental reserve | (106,757,061) | |
| Capital paid-in | 20,000,000 | |
| Aggregate write-ins for losses in surplus | (190,446) | |
| Change in surplus as regards policyholders | | (105,773,770) |
| Surplus as regards policyholders, December 31, 2007 | | $ (81,845,915) |

* Including examination report adjustments made based on subsequent developments occurring during 2008

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2007*

| | Gain in Surplus | Loss in Surplus | |
|---|---|---|---|
| Surplus as regards policyholders, December 31, 2002, per Examination | | | $ 17,418,319 |
| Net loss | $ | $24,638,009 | |
| Net unrealized capital losses | | 930,308 | |
| Change in deferred income taxes | 5,646,734 | | |
| Change in nonadmitted assets | | 14,253,103 | |
| Change in provision for reinsurance | 4,740,593 | | |
| Change in supplemental reserve | | 106,757,061 | |
| Surplus adjustments paid-in | 41,782,602 | | |
| Dividends to stockholders | | 4,140,000 | |
| Aggregate write-ins for losses in surplus | | 715,682 | |
| | $ 52,169,929 | $151,434,163 | |
| Net decrease in surplus as regards policyholders | | | (99,264,234) |
| Surplus as regards policyholders, December 31, 2007, per Examination | | | $(81,845,915) |

* Including examination report adjustments made based on subsequent developments occurring during 2008

Reconciliation of Examination Changes
as of December 31, 2007*

| Liabilities | Per Company | Per Examination | Surplus Increase (Decrease) | Notes |
|---|---|---|---|---|
| Supplemental Reserve | $ 0 | $106,757,061 | $ (106,757,061) | (1) |
| Net decrease to surplus as regards policyholders | | | (106,757,061) | |
| Surplus as Regards Policyholders, December 31, 2007 per Company | | | 24,911,146 | |
| Surplus as Regards Policyholders, December 31, 2007 per Examination | | | $ (81,845,915) | |

* Including examination report adjustments made based on subsequent developments occurring during 2008

## STATEMENT OF COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Known claims reserve
Statutory premium reserve
Supplemental reserve

As previously discussed in the "SUBSEQUENT EVENTS" section of this report, 100% of the Company's business (including the above captioned items) was assumed by the Company's parent, The First American Title Insurance Company (FATIC), on September 30, 2008.

A Casualty Actuary from the California Department of Insurance (CDI) reviewed the Company's carried loss and loss adjustment expense (LAE) reserves as of December 31, 2007 and subsequent development through December 31, 2008. The CDI Actuary based his evaluation of the Company's loss and LAE reserves on recent estimates prepared by FATIC's Appointed Actuary, Milliman, Inc. (Milliman) as of December 31, 2008.

Based on the analysis by Milliman, utilizing data as of December 31, 2008, and the review of their work by the CDI Actuary, adverse loss development related to 2007 and prior policy years was estimated to be $125,937,000, representing an increase in Supplemental and/or other Reserves of $106,757,061.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Summary of Significant Findings (Page 2): The Company experienced adverse loss development during 2008; and filed and received consent to an interaffiliate Instrument of Transfer and Assumption, by which the Company transferred all business in-force, and associated assets and liabilities, including claims related reserves.

Management and Control – Management Agreements: Tax Sharing Agreement (Page 5): It is recommended that the Tax Sharing Agreement be amended, to include the Company as a participant, and filed with the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b).

Management and Control – Management Agreements: Administrative and Cost Allocation Agreement (Page 6): It is recommended that the Administrative and Cost Allocation Agreement be amended, to include the Company as a participant, and filed with the CDI pursuant to CIC Section 1215.5(b).

Accounts and Records (Page 8): It is recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

Accounts and Records – Custodial Agreement (Page 8): It is recommended that the Company comply with CIC Section 1104.9 by utilizing a qualified custodian for its securities.

Previous Report of Examination

Advances to the Parent (Page: 14): During 2002, the Company advanced $2.5 million to its parent United General Financial Services, Inc. It was recommended that the board of directors approve the advances and report it on form B and D as required by the Colorado Insurance Code. The Company took corrective action in this area. The advances were settled.

Fidelity Bond (Page 15): At December 31, 2002, the Company did not have fidelity bond coverage in place. The Company at December 31, 2007 had sufficient fidelity bond insurance coverage under First American Title Insurance Company and its subsidiaries' insurance policy.

Reinsurance (Page 21): The Residential Title Reinsurance policy with Capital Title Reinsurance Company for business written from March 1996 through December 2000 had a profit commission feature that there was no transfer of risk. This agreement was cancelled.

Accounts and Records (Page 23): The custodial agreement with Compass Bank does not specify that the custodian will send the Company reports on the custodian's internal controls. The agreement has not been amended.

Cash and short term investments (Page 34): The Company's investment in money market funds during five months in 2002 and in January 2003 exceeded the 10% limitation set forth under the Colorado Insurance Code. The money market fund account was subsequently closed.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Sam Sohrab, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California