

**REPORT ON EXAMINATION**  
**OF**  
**NATIONAL TITLE INSURANCE**  
**COMPANY**  
**MIAMI, FLORIDA**

**AS OF**  
**DECEMBER 31, 2005**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

November 3, 2006

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Honorable Eleanor Kitzman  
Secretary, Southeastern Zone, NAIC  
Director of Insurance  
300 Arbor Lake Drive  
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Columbia, South Carolina 29223

Alfred W. Gross  
Chairman, NAIC  
Commission (E)  
Virginia Bureau of Insurance  
State Corporation Commission  
1300 East Main Street  
Richmond, Virginia 23219

Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2005, of the financial condition and corporate affairs of:

**NATIONAL TITLE INSURANCE COMPANY  
151 SW 27<sup>TH</sup> AVENUE  
MIAMI, FLORIDA 33135**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.



## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2003 through December 31, 2005. This examination commenced, with planning at the Office, on September 5, 2006, to September 15, 2006. The fieldwork commenced on September 18, 2006, and was concluded as of November 3, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was an association zone statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and verified the integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company.

Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

### **Status of Adverse Findings from Prior Examination**

The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2002. The following is a summary of adverse findings contained in the Office's prior examination report along with the resulting action taken by the Company.

#### **EDP Equipment**

The Company used a five-year life to depreciate the EDP Equipment and not three years in accordance with Section 625.012 (11), Florida Statutes.

**Resolution:** The Company depreciated EDP Equipment over three years in accordance with Section 625.012 (11), Florida Statutes.

## **Custodial Agreement**

The Company did not have a custodial agreement with its custodian, Wachovia Bank, in accordance with Rule 69O-143.042, Florida Administrative Code.

**Resolution:** The Company changed its custodian from Wachovia Bank to Colonial Bank and had a custodial agreement with Colonial Bank.

## **HISTORY**

### **General**

The Company was incorporated under the laws of the State of Florida on July 31, 1936, and commenced business on September 30, 1936. The Company began business with an authorized capital amount of \$250,000 comprised of 1,500 shares of common stock and 1,000 shares of 7% preferred stock, both with a par of \$100 per share. There was no paid in capital. On September 22, 1959, the authorized shares capital amount was increased to \$600,000 by Charter amendments. The authorized shares were comprised of 5,000 shares of common stock and 1,000 shares of preferred stock, both with a par value of \$100 per share. In 1959, a stock dividend was declared wherein 1.5 shares were issued for each share owned. In 1960, all of the preferred stock was retired. By a charter amendment in 1975, the authorized capital amount was increased to \$1,000,000, comprised of 10,000 shares of common stock with a par value of \$100 per share. As of December 31, 2002, 7,894 shares were issued and outstanding, which represented capital paid in of \$1,025,000. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

The Company is in the business of insuring title to real estate and related activities, including guaranteeing and insuring the owners of real estate and providing abstracts of titles. The Company

also lends money on real estate and purchases real estate mortgages. The Company sells the mortgages to government agencies and to the general public. Additionally, the Company services mortgages.

The Company was authorized to transact title insurance coverage in Florida, Alabama, Georgia, Louisiana, Mississippi, South Carolina, and Tennessee on December 31, 2005.

The articles of incorporation and the bylaws were amended during the period covered by this examination. In 2004, the Company changed the total authorized capital stock of the corporation to \$2,000,000, with 20,000 shares of common stock with a par value of \$100 per share.

### **Capital Stock**

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	20,000
Number of shares issued and outstanding	7,894
Total common capital stock	\$789,400
Par value per share	\$100.00

Control of the Company was maintained as presented below:

<u>Shareholder Name</u>	<u>Number of Shares</u>	<u>% of Shares</u>
John W. Hoover, Jr.	2,183.75	27.66%
Elizabeth Hoover	1,566.25	19.84%
W.L. Randol, Jr.	1,349.50	17.10%
Peggy Randol Behrens	1,124.00	14.24%
Elizabeth Marcus	1,124.00	14.24%
Margaret Randol Enos	152.50	1.93%
National Title Company	<u>394.00</u>	<u>4.99%</u>
Total	<u>7,894.00</u>	<u>100.00%</u>

### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statement.

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Premiums Earned	2,825,148	2,243,073	2,432,121
Net Underwriting Gain/(Loss)	(397,152)	(330,949)	(119,106)
Net Income	59,715	(158,644)	15,138
Total Assets	4,269,256	4,636,278	4,401,425
Total Liabilities	1,452,585	1,868,627	1,367,851
Surplus As Regards Policyholders	2,816,671	2,767,651	3,033,574

## Dividends to Stockholders

The Company declared and paid no dividends to its stockholders during the period of examination.

## Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2005, were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
William L. Randol, Jr. Miami, Florida	President, National Title Insurance Co.
Elizabeth R. Marcus Miami, Florida	Vice President and Secretary, National Title Insurance Co.
Elizabeth J. Hoover Miami, Florida	Vice President, National Title Insurance Co.
Brenda Randol Miami, Florida	Director, National Title Insurance Co.
Herbert E. Behrens Bonita Springs, Florida	Retired, National Title Insurance Co.

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

### Senior Officers

<b>Name</b>	<b>Title</b>
William L. Randol, Jr.	President
Jose Alonso	Treasurer
Elizabeth R. Marcus	Secretary

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2005:

<b>Executive Committee</b>	<b>Examination and Audit Committee</b>	<b>Investments and Loan Committee</b>
William L. Randol, Jr. <sup>1</sup>	William L. Randol Jr. <sup>1</sup>	William L. Randol Jr. <sup>1</sup>
Elizabeth Marcus	Betsy Hoover	Betsy Hoover
Elizabeth Hoover	Elizabeth Marcus	Elizabeth Marcus

<sup>1</sup> Chairman

### **Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, Florida Statutes. No exceptions were noted during this examination period.

### **Corporate Records**

The recorded minutes of the shareholders, Board of Directors, and certain internal committees adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes. including the authorization of investments as required by Section 625.304, Florida Statutes.

## **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance**

The Company had acquisitions, mergers, disposals, dissolutions, purchases, or sales through reinsurance.

## **Surplus Debentures**

The Company had no surplus debentures.

## **AFFILIATED COMPANIES**

The latest holding company registration statement was filed with the State of Florida on December 31, 2004, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The following agreements were in effect between the Company and its affiliates:

### **Cost Sharing Agreement**

The Company and its subsidiary, National Title Abstract Company, had a cost sharing agreement that stated the Company agreed to pay all common expenses incurred as business-related expenses for both parties, provided only that such common and joint expenses were apportioned between the parties and a portion of such expense was charged to the business accounts of National Title Abstract Company.

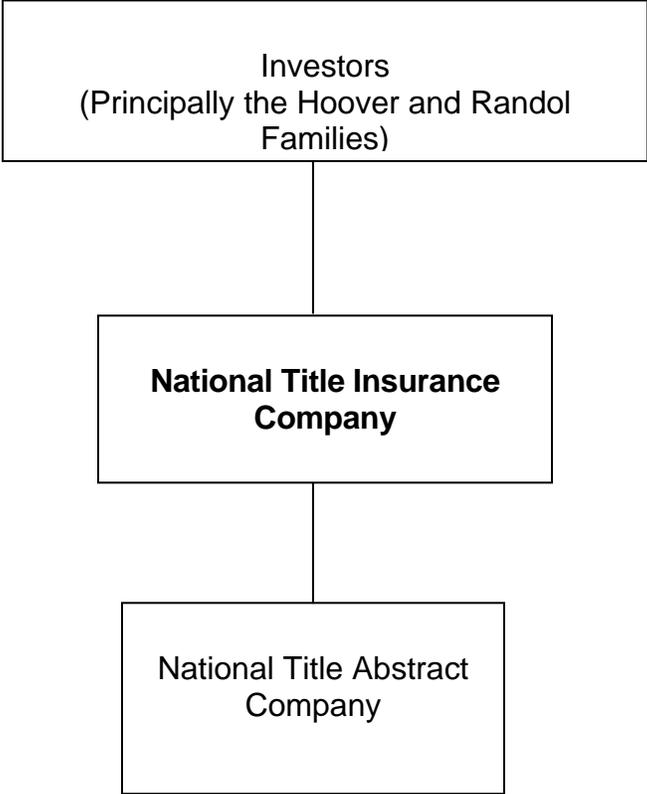
## **Lease Agreement**

The Company had a lease agreement with its owners for the building.

A simplified organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**NATIONAL TITLE INSURANCE COMPANY  
Organizational Chart**

**DECEMBER 31, 2005**



## FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$500,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company also had insurance policies for property and liability, workers' compensation, and automobile coverage.

## PENSION PLANS

The Company had a profit sharing plan in which all employees were eligible to participate. No provisions were made for company obligations in the financial statements because the plan was voluntary.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

<u>STATE</u>	<u>DESCRIPTION</u>	<u>PAR VALUE</u>	<u>MARKET VALUE</u>
FL	Cash	\$ 100,000	\$ 100,000
TOTAL FL DEPOSITS		\$ 100,000	\$ 100,000
AL	CD, 5.63%, 12/28/06	\$ 50,000	\$ 50,000
GA	CD, US Treasury MMF	25,000	25,000
LA	CD, 4.25%, 04/30/07	20,000	20,000
SC	CD, 2.08%, 11/24/09	75,000	75,000
SC	CD, 3.25%, 11/24/09	100,000	100,000
TOTAL OTHER DEPOSITS		<u>\$ 270,000</u>	<u>\$ 270,000</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 370,000</u></u>	<u><u>\$ 370,000</u></u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory**

The Company was authorized to transact insurance in the following states in accordance with Section 624.401 (2), Florida Statutes:

Florida	Alabama	Georgia
Louisiana	Mississippi	South Carolina
Tennessee		

The Company's marketing efforts are concentrated toward banks by assisting banks in establish their own title insurance agencies. The Company assisted banks to establish title insurance agencies through the Affiliated Title Agency Program.

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(i)3a, Florida Statutes.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

**Assumed**

The Company did not assume any risk.

**Ceded**

The Company ceded risk on an excess of loss basis to Old Republic National Title Insurance Company.

**ACCOUNTS AND RECORDS**

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company maintained its principal operational offices in Miami, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003, 2004 and 2005, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with Colonial Bank dated December 8, 2004. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

### **Client Services Agreement**

The Company entered into a client services agreement with ADP TotalSource on July 12, 2002. The agreement was for ADP TotalSource to handle all of the human resources duties for the Company.

### **Independent Auditor Agreement**

The Company had an agreement with Eduardo F. Jaen, CPA, to perform an audit of its GAAP and statutory financial statements for the years 2003, 2004 and 2005.

### **Independent Actuary Agreement**

The Company engaged John Pierce, FCAS, MAAA, MBA, for the independent actuarial analysis of the Loss and Loss expense reserves.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**NATIONAL TITLE INSURANCE COMPANY**  
**Assets**

**December 31, 2005**

	Per Company	Examination Adjustments	Per Examination
Statutory premium reserve	\$325,128		\$325,128
Other expenses	89,053		89,053
Taxes, licenses and fees	3,988		3,988
Borrowed money	<u>1,034,416</u>		<u>1,034,416</u>
Total Liabilities	\$1,452,585		\$1,452,585
Common capital stock	\$789,400		\$789,400
Gross paid in and contributed surplus	235,600		235,600
Unassigned funds (surplus)	<u>1,791,671</u>		<u>1,791,671</u>
Surplus as regards policyholders	<u>\$2,816,671</u>		<u>\$2,816,671</u>
Total liabilities, capital and surplus	<u>\$4,269,256</u>	\$0	<u>\$4,269,256</u>

**NATIONAL TITLE INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**December 31, 2005**

	Per Company	Examination Adjustments	Per Examination
Statutory premium reserve	\$325,128		\$325,128
Other expenses	89,053		89,053
Taxes, licenses and fees	3,988		3,988
Borrowed money	<u>1,034,416</u>		<u>1,034,416</u>
Total Liabilities	\$1,452,585		\$1,452,585
Common capital stock	\$789,400		\$789,400
Gross paid in and contributed surplus	235,600		235,600
Unassigned funds (surplus)	<u>1,791,671</u>		<u>1,791,671</u>
Surplus as regards policyholders	<u>\$2,816,671</u>		<u>\$2,816,671</u>
Total liabilities, capital and surplus	<u><u>\$4,269,256</u></u>	\$0	<u><u>\$4,269,256</u></u>

**NATIONAL TITLE INSURANCE COMPANY**  
**Statement of Income**

**December 31, 2005**

<b>Underwriting Income</b>	
Premiums earned	\$2,859,143
DEDUCTIONS:	
Losses incurred	0
Loss expenses incurred	0
Operating expenses incurred	3,222,300
Total underwriting deductions	<u>\$3,222,300</u>
Net underwriting gain or (loss)	(\$363,157)
<b>Investment Income</b>	
Net investment income earned	\$53,147
Net realized capital gains or (losses)	403,720
Net investment gain or (loss)	<u>\$456,867</u>
<b>Other Income</b>	
Net income after capital gains tax and before all other federal taxes	\$59,715
Federal and foreign income taxes incurred	0
Net Income	<u>\$59,715</u>
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$2,767,651
<b>Gains and (Losses) in Surplus</b>	
Net Income	\$59,715
Net unrealized capital gains or losses	(58,766)
Change in non-admitted assets	48,071
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$49,020</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$2,816,671</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Statutory Premium Reserve

\$325,128

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2005, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

#### Capital and Surplus

The Company met the minimum surplus requirement pursuant to Section 624.408, Florida Statutes.

A Comparative analysis of changes in surplus is shown below.

**NATIONAL TITLE INSURANCE COMPANY  
Comparative Analysis of Changes in Surplus**

**December 31, 2005**

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2005, per Annual Statement	\$2,816,671
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments			
LIABILITIES:			
No adjustments			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$2,816,671

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2002 examination report issued by the Office.

### **Current examination comments and corrective action**

The examination had no material findings as of December 31, 2005.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **National Title Insurance Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$2,816,671, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Mike Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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Maurice Fuller  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation

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Michael Hampton, CPA, CFE, DABFA, CFE, CPM  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation