

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

**AS OF**  
**DECEMBER 31, 2002**

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

## TABLE OF CONTENTS

LETTER OF TRANSMITTAL .....	-
SCOPE OF EXAMINATION .....	1
HISTORY .....	3
General .....	3
Capital Stock .....	4
Profitability of Company .....	4
Dividends to Stockholders .....	4
Management .....	5
Conflict of Interest Procedure .....	6
Corporate Records .....	6
Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance .....	6
Surplus Debentures .....	6
AFFILIATED COMPANIES .....	7
Cost Sharing Agreement .....	7
ORGANIZATIONAL CHART .....	8
FIDELITY BOND AND OTHER INSURANCE .....	9
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS .....	9
STATUTORY DEPOSITS .....	9
INSURANCE PRODUCTS AND RELATED PRACTICES .....	10
Territory and Plan of Operation .....	10
Treatment of Policyholders .....	10
REINSURANCE .....	10
Assumed .....	10
Ceded .....	10
ACCOUNTS AND RECORDS .....	11
Custodial Agreement .....	11
FINANCIAL STATEMENTS PER EXAMINATION .....	12
Assets .....	13
Liabilities, Surplus and Other Funds .....	14
Statement of Income .....	15
COMMENTS ON FINANCIAL STATEMENTS .....	16

Assets .....	16
Liabilities .....	16
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS .....	17
SUMMARY OF FINDINGS .....	18
EDP Equipment .....	18
Investments .....	18
CONCLUSION .....	20

Tallahassee, Florida  
March 12, 2004

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2002, of the financial condition and corporate affairs of:

**NATIONAL TITLE INSURANCE COMPANY**  
**151 S.W. 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, 2000 through December 31, 2002. Representatives of the Florida Office of Insurance Regulation (Office) last examined the Company as of December 31, 1999. This examination commenced with planning at the Office on February 2, 2004. The fieldwork commenced on February 9, 2004 and was concluded as of March 12, 2004. 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 a statutory financial examination conducted in accordance with the Financial 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 (FAC), 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 Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2002. Transactions subsequent to year-end 2002 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 following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 1999, along with resulting action taken by the Company in connection therewith.

### **Corporate Records**

There was no documentation in the minutes reviewed that the Company directors reviewed the previous examination report. **Resolution:** The Board of Directors indicated in their minutes that they will document the review of the examination reports.

### **Cost Sharing Agreement**

The Company had no written agreement. **Resolution:** The Company developed a cost sharing agreement.

## 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 value 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 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 title. 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.

In accordance with Section 624.401(1), FS, the Company is licensed to transact business in the states of Florida, Alabama, Georgia, Mississippi, and Louisiana.

## Capital Stock

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000
Number of shares issued and outstanding	7,894
Total common capital stock	\$789,400
Par value per share	\$100

Control of the Company was maintained by the following:

<u>Shareholder</u>	<u>Shares</u>	<u>% of Shares</u>
John W. Hoover	2,183.75	27.66%
Elizabeth Hoover	1,566.25	19.84%
W.L. Randol, Jr.	1,502	19.03%
Elizabeth Marcus	1,124	14.24%
Peggy Behrens	1,124	14.24%
National Title Company	<u>394</u>	<u>4.99%</u>
Total	<u>7,894</u>	<u>100.00%</u>

## Profitability of Company

The Company's net operating loss for 2000, 2001, 2002 was (\$152,532), (\$425,882), and (\$172,508), respectively. Net income during the same period was \$60,265, \$75,257, and \$87,287, respectively.

## Dividends to Stockholders

The Company did not declare or pay dividends during this period of examination.

## Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2002, were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
William L. Randol, Jr. Miami, Florida	Chairman of Board/President
Elizabeth Marcus Miami, Florida	Secretary/Vice President
Elizabeth Jane Hoover Miami, Florida	Vice President
Brenda Randol Miami, Florida	Personnel Manager
H.E. Behrens, Jr. Bonita Springs, Florida	Retired

In accordance with the Company's bylaws, the board of directors appointed the following senior officers:

### Senior Officers

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

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. The following are the principal internal board committees and their members as of December 31, 2002:

**Investment and Loan Committee**

William L. Randol, Chairman  
Elizabeth Marcus, Secretary  
Elizabeth Hoover, Member

**Examinations and Audit Committee**

William L. Randol, Chairman  
Elizabeth Marcus, Secretary  
Elizabeth Hoover, Member

**Conflict of Interest Procedure**

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

**Corporate Records**

The recorded minutes of the shareholder, board of directors, and committee meetings were reviewed for the period under examination. The recorded minutes of the board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

**Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance**

There were no mergers, disposals, dissolutions, purchase, or sales through reinsurance as of December 31, 2002.

**Surplus Debentures**

The Company did not have any surplus debentures as of December 31, 2002.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on June 18, 2003, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

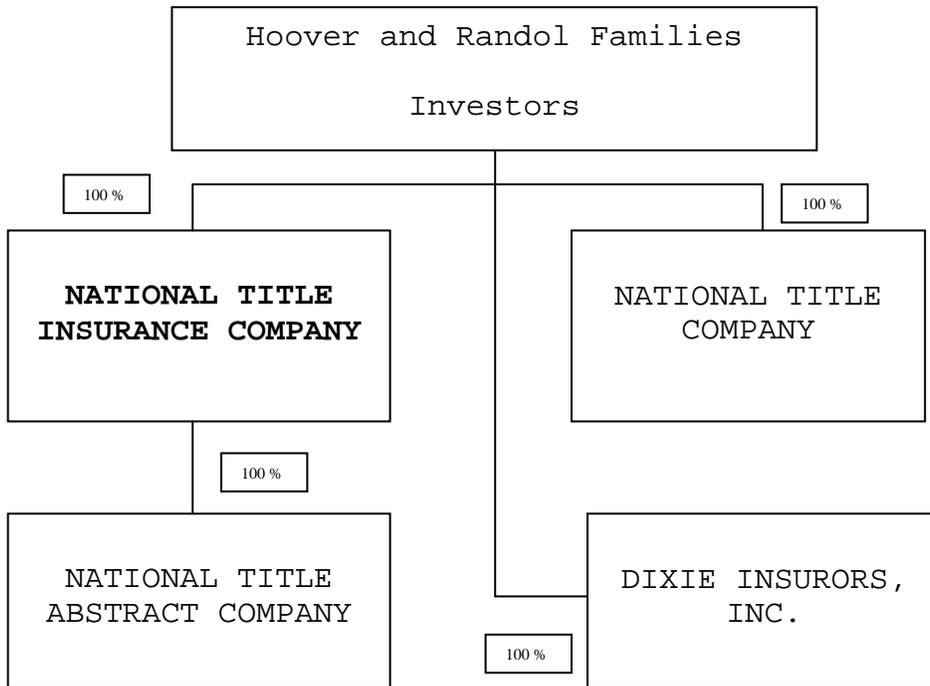
The following agreements were in effect between the Company and its affiliates:

### **Cost Sharing Agreement**

The Company, along with its affiliate National Title Company, entered into a cost sharing agreement. The agreement became effective as of March 2002.

A simplified organization chart as of December 31, 2002, reflecting the holding company system, is shown below. Schedule Y of the Company's 2002 annual statement provided a list of all related companies of the holding company group.

**NATIONAL TITLE INSURANCE COMPANY  
ORGANIZATIONAL CHART  
DECEMBER 31, 2002**



## 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.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension plans or stock ownership plans in effect as of December 31, 2002.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	4065 sh TYCO International	\$ 36,536	\$ 69,433
FL	Cash Deposit, Variable Rate	<u>100,000</u>	<u>100,000</u>
TOTAL FLORIDA DEPOSITS		\$ 136,536	\$ 169,433
GA	Cash Deposit, Variable Rate	\$ 25,000	\$ 25,000
LA	CD, 3.02%, 04/30/03	20,000	20,000
AL	CD, 1.39%, 12/29/03	<u>50,000</u>	<u>50,000</u>
TOTAL OTHER DEPOSITS		\$ 95,000	\$ 95,000
Total Special Deposits		<u>\$ 231,536</u>	<u>\$ 264,433</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

The Company sells title insurance on mortgages. It also provides mortgages to borrowers, which it services and sells to other lenders.

### **Territory and Plan of Operation**

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

Alabama  
Louisiana

Florida  
Mississippi

Georgia

### **Treatment of Policyholders**

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

## **REINSURANCE**

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

### **Assumed**

The Company did not assume risk as a reinsurer.

### **Ceded**

The Company ceded risk on an excess of loss basis to an authorized reinsurer.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

### **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2000, 2001 and 2002, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

The Company's accounting records were maintained on a computerized system. The balance sheet accounts, with the exception of two 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.

The Company and non-affiliates had the following arrangements.

#### **Custodial Agreement**

The Company did not have a custodial agreement with Wachovia Bank, who had custody of its securities. The Company is not in compliance with Rule 69O-143.042, FAC.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2002, 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, 2002**

Classification	Per Company	Examination Adjustments	Per Examination
Stocks:			
Common	2,886,767		2,886,767
Mortgage loans on real estate			
First liens	1,130,550		1,130,550
Real Estate:			
Properties			
occupied by Company	272,250		272,250
Other properties	51,692		51,692
Cash:			
On hand	399,264		399,264
Title plants	267,212		267,212
Title insurance premiums and fee	1,500		1,500
EDP Equipment	24,224		24,224
Aggregate write-in for other than invested assets	135,812		135,812
Totals	\$5,169,271	\$0	\$5,169,271

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

**DECEMBER 31, 2002**

Liabilities	Per Company	Examination Adjustments	Per Examination
Statutory premium reserve	\$159,936		\$159,936
Other expenses	71,279		71,279
Taxes, licenses and fees	2,903		2,903
Borrowed money	2,133,702		2,133,702
Premiums and other considerations received in advance	495		495
Amounts withheld or retained by company for others	5,266		5,266
	\$2,373,581		\$2,373,581
 Common capital stock	 789,400		 789,400
Gross paid in and contributed surplus	235,600		235,600
Unassigned funds (surplus)	1,770,690		1,770,690
	2,795,690		2,795,690
Surplus as regards policyholders	2,795,690		2,795,690
	\$5,169,271	\$0	\$5,169,271
Total liabilities, capital and surplus	\$5,169,271	\$0	\$5,169,271

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

**DECEMBER 31, 2002**

**Underwriting Income**

Title insurance and related income	
Title insurance premiums earned	\$1,070,422
Escrow and settlement services	12,129
Other title fees and service charges	66,118
Aggregate write-ins for other operating income	522,844
	\$1,671,513
 DEDUCTIONS:	
Losses and loss adjustment expenses incurred	\$9,576
Operating expenses incurred	1,834,445
Aggregate write-ins for underwriting deductions	0
Total operating deductions	\$1,844,021
 Net underwriting gain or (loss)	 (\$172,508)

**Investment Income**

Net investment income earned	\$51,728
Net realized capital gains or (losses)	208,067
Net investment gain or (loss)	\$259,795

**Other Income**

Net income before federal income taxes	\$87,287
Net Income	\$87,287

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$3,655,119
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**Gains and (Losses) in Surplus**

Net Income	\$87,287
Net unrealized capital gains or losses	(1,323,030)
Change in non-admitted assets	
Change in provision for reinsurance	101,314
Paid in capital	39,400
Surplus adjustments: Paid in	235,600
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	
Change in surplus as regards policyholders for the year	(\$859,429)
Surplus as regards policyholders, December 31 current year	\$2,795,690

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

**EDP Equipment** \$24,224

The Company depreciated EDP equipment using a 5 year life. Section 625.012(11), FS, states that the depreciation should be over a period of 3 years. No financial adjustment was made to the financial statements by this examination due to the immateriality of this amount.

### Liabilities

**Losses and Loss Adjustment Expenses** \$-0-

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, 2002, make 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.

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

**DECEMBER 31, 2002**

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 per December 31, 2002, Annual Statement	\$2,795,690
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	INCREASE (DECREASE) <u>IN SURPLUS</u>	
ASSETS:				
No adjustment required.			\$0	
LIABILITIES:				
No adjustment required.			\$0	
Net Change in Surplus:			0	
Surplus as Regards Policyholders December 31, 2002, Per Examination			\$2,795,690	

## SUMMARY OF FINDINGS

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the directives made in the 1999 examination report issued by the Office.

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

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2002.

#### **EDP Equipment**

The Company had EDP equipment listed on the annual statement at \$24,224. The Company used a 5 year life to depreciate the equipment. Section 625.012(11), FS, states that the depreciation should be over a period of 3 years. **The Company is directed to comply with Section 625.012(11), FS, and to correctly report the account balances on all future annual and quarterly statement filings.**

#### **Investments**

The Company did not have a custodial agreement with its custodian, Wachovia Bank, for its stock securities. Rule 69O-143.042, FAC states that (1) a domestic insurance company may, by written agreement with a custodian, provide for the custody of its securities with a custodian, which securities may be held by the custodian or its agent or in a clearing corporation or in the Federal Reserve book-entry system, and (2) any such agreement shall be in writing and shall be authorized by a resolution of the board of directors of the insurance company or of an authorized committee thereof.

**The Company is directed to enter into a custody agreement with the holder of its securities and to provide documentation of compliance to the Office within 90 days after this report is issued.**

Subsequent event: The Company was considering changing its custodian from Wachovia Bank to Colonial Bank. The Company stated that it intends to have a custodian agreement that will be in compliance with Rule 69O-143.042, FAC.

## 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, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$2,795,690, which was in compliance with Section 624.408, FS.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Owen Anderson, Financial Examiner/Analyst II, and March Fisher, Senior Actuarial Analyst, participated in the examination.

Respectfully submitted,

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James Collins  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation