

REPORT ON EXAMINATION
OF
NORTH AMERICAN TITLE INSURANCE
CORPORATION
MIAMI, FLORIDA

AS OF
DECEMBER 31, 2003

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
January 21, 2005

Kevin M. McCarty
Commissioner
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, 2003, of the financial condition and corporate affairs of:

**NORTH AMERICAN TITLE INSURANCE CORPORATION
790 N.W.107TH AVENUE, SUITE 117
MIAMI, FLORIDA 33172**

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, 2001 through December 31, 2003. The last examination of the Company performed by representatives of the Florida Office of Insurance Regulation (Office) was as of December 31, 2000. This examination commenced, with planning at the Office, on November 10, 2004, to November 12, 2004. The fieldwork commenced on November 15, 2004, and was concluded as of January 21, 2005. 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 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/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2003. Transactions subsequent to year-end 2003 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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following: Consideration of Fraud

Status of Adverse Findings from Prior Examination

There were not any significant adverse findings, items of interest and corrective action to be taken by the Company contained in the Office's prior examination report as of December 31, 2000.

HISTORY

General

The Company was incorporated on May 18, 1994, under the laws of the State of Florida, as a stock title insurer and commenced business on May 26, 1994 as TitleAmerica Insurance Corporation. The Company's name was changed to North American Title Insurance Corporation on July 10, 2001.

In accordance with Section 624.401(1), FS, the Company was authorized to transact title insurance coverage, in the States of Florida and Texas, on December 31, 2003.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2003, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000
Number of shares issued and outstanding	5,000
Total common capital stock	\$1,000,000
Par value per share	\$200.00

Section 628.081(3)(d) F.S. limits the par value to \$100 per share; therefore, the Company was not in compliance with this statute.

Control of the Company was maintained by its parent, North American Title Group, Inc., a wholly owned subsidiary of Lennar Financial Services LLC, a Florida corporation, who in turn was 100 percent owned by U.S. Home Corporation, with the parent company Lennar Corporation, a Delaware corporation, whose shares are publicly traded on the New York Stock Exchange.

Profitability of Company

The Company's net operating gain for 2003 was \$3,007,848, net investment gain was \$350,539 and net income, after taxes, was \$2,114,847. The Company's Quarterly Statement ending September 30, 2004, reported a net operating gain of \$2,612,238, net investment income of \$212,922 and net income, after taxes, of \$1,802,939.

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company did not declare or pay any dividends to its stockholders in 2003.

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, 2003, were:

Directors

Name and Location	Principal Occupation
Allan J. Pekor Miami, Florida	Chairman of the Board North American Title Group, Inc.
Linda L. Reed Miami, Florida	President North American Title Group, Inc.
Nancy A. Kaminsky Miami, Florida	Executive VP & CFO Lennar Financial Services, LLC
David B. McCain Miami, Florida	President & CEO Lennar Financial Services, LLC
Floyd Krause Miami, Florida	President North American Title Insurance Corporation

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

Senior Officers

Name	Title
Floyd E. Krause	President
Linda Reed	Executive Vice President
Emilio Fernandez	Senior Vice President & Secretary
Clotilde C. Keller	Senior Vice President
Beverly J. McReynolds	Vice President
Carol Burgin	Vice President

Frank Moreno
W. Alex Kidd
Georgia Duke
William G. Moize
Kelly Frazier
George Stablein
Beverly Akins
Donnis Benson

Vice President & Comptroller
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President & Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2003:

Audit Committee

Linda Reed
Nancy Kaminsky
Clotilde Keller
Walter A. Kidd

Investment Committee

Clotilde C. Keller
Donnis Benson
Frank Moreno
Floyd Krause
Linda L. Reed

Conflict of Interest Procedure

The Company 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 Audit and Investment 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

The Company did not have any reported acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the period of this examination.

Surplus Debentures

The Company had no reported surplus debentures during the period of this examination.

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 December 31, 2003, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

Subsequent event: The Company filed an updated holding company registration statement on April 28, 2004.

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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2003, the method of allocation between the Company and its parent was that the federal

income tax liability should be allocated among the members of the consolidated group in the manner consistent with Internal Revenue Code (IRC) Reg. § 1.1552(a)(2) pursuant to IRC Reg. § 1.1552-1(d). Any of the payables or receivables of federal income tax would ultimately be the responsibility of the parent company as long as the Company is a member of the consolidated group.

Cost Sharing Agreement

On December 1, 2001, 2002, and 2003, the Company entered into an Agreement for Services and Expenses Allocation, with its parent, to utilize support services in the areas of human resources, payroll, accounting, and finance and investments. This agreement was reviewed on an annual basis to determine the cost sharing expense.

Agency Agreement

The Company entered into an agency agreement on June 1, 2001, with North American Title Company (formerly known as Universal Title Insurers, Inc.), for the transaction of title insurance business in the State of Florida. The agent was entitled to retain 70 percent of the risk rate premium as commission.

On January 15, 2002, the Company entered into another agency agreement with Duane Morris, LLP for the transaction of title insurance business in all counties of Florida. The agent was entitled to retain as commission 70% of the risk rate premium.

Subsequent event: The Company entered into an agency agreement on August 23, 2004, with Alan B. Almand, P.A., for the transaction of title insurance business in the counties of Duval,

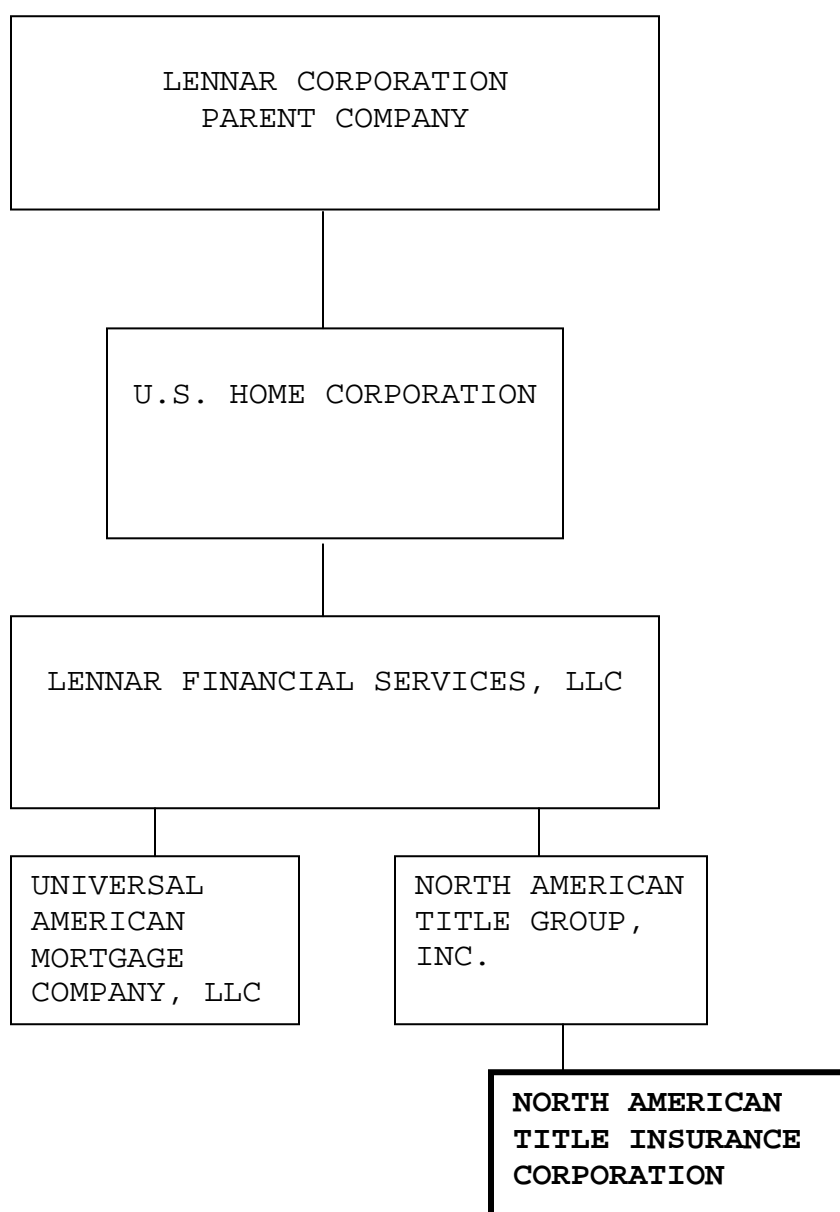
Nassau and St. Johns, Florida. The agent was entitled to retain as commission 70% of the risk rate premium.

Purchasing and Servicing Agreement

The Company entered into a purchase and servicing agreement with Universal American Mortgage Company, an affiliate, on July 22, 1994. First, second and third amendments were adopted on July 31, 1997, May 1, 2002 and September 5, 2002, respectively. The third amendment cancelled out Amendment 1 and the name changed to Universal American Mortgage Company, LLC. Universal American Mortgage Company, LLC offers for purchase certain real estate mortgage loans and services the loans for a fee of 0.375 percent of the unpaid balance of each mortgage loan.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, is shown below. Schedule Y of the Company's 2003 annual statement provided a list of all related companies of the holding company group.

**NORTH AMERICAN TITLE INSURANCE CORPORATION
ORGANIZATIONAL CHART
DECEMBER 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 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 provided a 401K plan on a contributory basis that included a contribution of 50% of the employee's salary contribution, up to 3% of the employee's salary. Vesting is 20% per year with full vesting effective after five years of service. Other insurance plans provided were health, dental, disability and life insurance.

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	American Int'l Group, Inc, 2.85%, 12/01/05	\$500,000	\$502,587
FL	General Electric Cap Corp., 4.25%, 01/15/08	250,000	258,649
FL	Cash	40,000	40,000
FL	Cash	703,461	703,461
FL	Certificate of Deposit	131,845	131,845
FL	Certificate of Deposit	<u>137,182</u>	<u>137,185</u>
TOTAL FLORIDA DEPOSITS		\$1,762,488	\$1,773,727
VA	Federal Nat'l Mortgage Assoc	<u>\$250,000</u>	<u>\$249,958</u>
TOTAL OTHER DEPOSITS		\$250,000	\$249,958
Total Special Deposits		<u>\$2,012,488</u>	<u>\$2,023,685</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company operates as a title insurer, which guarantees and insures titles to, interest in and liens upon real estate through its agents. Rule 69O-186.003, FAC, "Title Insurance Rate", specifies the risk premium to be charged in Florida by insurers for the respective types of title insurance contracts and services.

A title insurance policy comes in two forms, "an owner's policy", which protects the interest of the homebuyer and a "lender's policy", which protects the interest of the mortgage lender in the property. Mortgage lenders require their borrowers to obtain a lender's title insurance policy, which provides insurance against loss or damages sustained if title is not as is shown in the policy or is subject to liens disclosed by the public records, not shown as exceptions to title in the policy. Section 627.7845, FS, requires a reasonable search and examination of the title to be conducted before a title insurer may issue a title insurance policy. Title insurance is coverage for past defects that were in place at the time the property was sold, but which did not surface as a problem until after the property was transferred. Mistakes and oversights also can occur in the search process, which could result in claims and title losses.

Territory and Plan of Operation

The Company was authorized to transact insurance in Florida and Texas, in accordance with Section 624.401(2), FS:

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

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

Assumed

The Company assumed risk pursuant to a reinsurance treaty with Stewart Title Guaranty Company.

Ceded

The Company ceded risks in excess of its retained risk limits under facultative agreements. The reinsurer, Commonwealth Land Title Insurance Company, was authorized in the states of Florida and Texas.

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 2001, 2002 and 2003, 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 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.

The Company and non-affiliates had the following agreements:

Custodial Agreement

As of December 31, 2003, the Company's custodial agreement with First Union National Bank was in compliance with Rule 69O-143.041 and 69O-143.042, FAC. First Union National Bank merged with Wachovia Bank and TitleAmerica Insurance Corporation changed its name to North American Title Insurance Corporation. The custodial agreement was not updated to include the bank's new name and the Company's new name.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, 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."

NORTH AMERICAN TITLE INSURANCE CORPORATION
Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$3,776,757		\$3,776,757
Mortgage loans on real estate:			
First liens	1,280,213		1,280,213
Cash:			
On hand	4,400,489		4,400,489
Short-term investments	6,543,033		6,543,033
Net deferred tax asset	44,604		44,604
Interest and dividend income due & accrued	39,610		39,610
Totals	\$16,084,706	\$0	\$16,084,706

NORTH AMERICAN TITLE INSURANCE CORPORATION
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Known claims reserve	\$15,199		\$15,199
Statutory premium reserve	3,459,819		3,459,819
Other expenses	191,860		191,860
Taxes, licenses and fees	45,648		45,648
Premiums and other considerations received in a	303,121		303,121
Payable to parent, subsidiaries and affiliates	499,086		499,086
Total Liabilities	\$4,514,733		\$4,514,733
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	2,000,000		2,000,000
Unassigned funds (surplus)	8,569,973		8,569,973
Surplus as regards policyholders	\$11,569,973		\$11,569,973
Total liabilities, capital and surplus	\$16,084,706	\$0	\$16,084,706

NORTH AMERICAN TITLE INSURANCE CORPORATION
Statement of Income
DECEMBER 31, 2003

Underwriting Income

Title insurance premiums earned	\$24,536,696
DEDUCTIONS:	
Losses and loss adjustment expenses incurred	(2,100)
Operating expenses incurred	21,530,948
Total underwriting deductions	<u>\$21,528,848</u>
Net underwriting gain or (loss)	\$3,007,848

Investment Income

Net investment income earned	\$350,539
Net investment gain or (loss)	

Other Income

Aggregate write-ins for miscellaneous income	(1,575)
Total other income	<u>(\$1,575)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$3,356,812
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$3,356,812</u>
Federal & foreign income taxes	<u>1,241,965</u>
Net Income	\$2,114,847

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$9,692,021
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Gains and (Losses) in Surplus

Net Income	\$2,114,847
Net unrealized capital gains or losses	(2,800)
Change in non-admitted assets	(254,803)
Change in net deferred income tax	191,659
Aggregate write-ins for gains and losses in surplus	(170,951)
Change in surplus as regards policyholders for the year	\$1,877,952
Surplus as regards policyholders, December 31 current year	<u><u>\$11,569,973</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Known Claims Reserve

\$ 15,199

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, 2003, 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; however, the Company did not report separately the unallocated loss adjustment expense reserve.

NORTH AMERICAN TITLE INSURANCE CORPORATION
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2003

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, 2003, Annual Statement	\$11,569,973
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No Adjustments			
LIABILITIES:			
No Adjustments			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$11,569,973

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2000 examination report issued by the Office.

Current examination comments and corrective action

Unallocated Loss Adjustment Expense Reserve

The Company did not report separately the unallocated loss adjustment expense reserve. **It is recommended the Company separately report such reserve amounts that accurately reflect the future handling expenses per the NAIC statutory accounting procedures, in all future annual and quarterly statement filings.**

Capital Stock

The Company's par value for its common stock is \$200 per share which exceeds the maximum established in Section 628.081(3)(d) F.S. **It is recommended that the Company comply with the aforementioned statute by reducing the par value to no more than \$100; and provide evidence of such to the Office within 90 days of the issuance of this report.**

Subsequent event:

On March 28, 2005, the Company submitted to the Office, a certificate of amendment to articles of incorporation and unanimous written consent of the sole shareholder and board of directors; changing the authorized shares of the Company from 5,000 to 10,000 and changing the par value per share from \$200 to \$100.

Custodial Agreement

The name of the custodian and the name of the Company are incorrect in the custodial agreement.

It is recommended that the Company amend the custodial agreement to correct the names and provide a copy of the amended custodial agreement to the Office within 90 days of the issuance of this report.

SUBSEQUENT EVENTS

There were no significant subsequent events.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **North American Title Insurance Corporation** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$11,569,973, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Mary James, CFE, Financial Examiner/Analyst Supervisor, John Berry, Financial Examiner/Analyst Supervisor, and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Jerry T. Golden
Financial Examiner/Analyst II
Florida Office of Insurance Regulation