

**REPORT ON EXAMINATION**

**OF**

**ALLIANCE TITLE OF AMERICA, INC.**

**TAMPA, FLORIDA**

**AS OF**

**DECEMBER 31, 2003**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida  
January 28, 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 Rule 137.002(1), Florida Administrative Code (FAC), 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:

**ALLIANCE TITLE OF AMERICA, INC.  
3401 W. CYPRESS STREET, 2<sup>ND</sup> FLOOR  
TAMPA, FLORIDA 33607**

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. This examination commenced with planning at the Office on November 17, 2004 through November 19, 2004. The fieldwork commenced on November 22, 2004, and was concluded as of January 28, 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 conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual as adopted by Rules 69O-137.001(4), FAC and 138.001(1), 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. 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 financial statements 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 CPA, after verifying the statutory requirements, for the following accounts:

Federal income tax recoverable  
Deferred income tax

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

### **Investments**

The Company was not holding their investments with an institution in accordance with Section 625.012, FS.

**Resolution:** The Company moved their investments to Gold Bank in compliance with Section 625.012, FS.

### **Agents' Balances**

The Company did not properly age their Agents' Balances in accordance with Rule 690-138.024, FAC.

**Resolution:** The Company did not provide an aging on a policy level basis.

### **Prior Examination Report**

The Company's Board of Directors did not review the prior examination report in accordance with Rule 69O-138.001, FAC.

**Resolution:** The Company reviewed and documented the 2000 examination report.

### **Conflict of Interest Statements**

The Company did not provide individual executed Conflict of Interest Statements for their officers and directors in accordance with Rule 69O-138.001(4)(d), FAC.

**Resolution:** The Company provided executed Conflict of Interest Statements for 2003.

## **HISTORY**

### **General**

The Company incorporated on August 14, 1996, under the laws of the State of Florida, as a stock title insurer, and commenced business on July 23, 1997, with the name Alliance Title of America, Inc.

In accordance with Section's 628.051 and 628.071, FS, the Company was authorized to transact title insurance coverage, in Florida, on December 31, 2003.

The Company's Articles were amended March 26, 2003, to facilitate the merger of ST-FLA Acquisition Company and the Company.

The by-laws were not amended during the period covered by this examination.

### **Capital Stock**

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

<u>Description</u>	<u>Number of shares authorized</u>	<u>Number of shares outstanding</u>	<u>Par Value per share</u>	<u>Value</u>
Preferred	1,030	560	\$5.00	\$ 2,800
Common	8,970	2,875	\$5.00	\$14,375
Treasury Stock:				
Common	210		\$5.00	\$1,050
Preferred	470		\$5.00	\$2,350

### **Profitability of Company**

The Company reported direct premiums written of \$8,252,501 at December 31, 2003. This was a decrease from \$9,326,522 at December 31, 2002. At December 31, 2003, the Company reported net income before taxes of \$641,157. This was a decrease from net income of \$746,830, in 2002.

### **Dividends to Policyholders**

The Company did not declare a dividend in 2003.



## Management

The annual meeting for the election of directors and officers was held in accordance with their by-laws. Directors serving as of December 31, 2003:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Harold Hickman Tampa, Florida	Chairman Exec. VP, STGC
Martin Max Crisp Houston, Texas	Director CFO STGC
Malcolm S. Morris Houston, Texas	Director CEO SISCO
Nita B. Hanks Houston, Texas	Director Senior VP, STGO
Stewart Morris, Jr. Houston, Texas	Director President SISCO

In accordance with the Company's by-laws, the Board of Directors appointed the following officers:

### Senior Officers

<b>Name</b>	<b>Title</b>
Harold E. Hickman	President
Kevin D. Thomas	Secretary
Donald K. Mosby	Treasurer

The Company did not establish an audit committee in accordance with Section 624.424(8)(c), FS.

### **Conflict of Interest Procedure**

The Company had adopted a formal policy statement for Conflict of Interests, in compliance with Rule 69O-138.001(1), FAC. The Company maintained individual executed Conflict of Interest Statements on file.

### **Corporate Records**

The recorded minutes of the Board of Directors meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions.

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

In March of 2003, a Consent Order was issued for ST-FLA Acquisition Company (ST-FLA) to acquire the Company. An acquisition agreement was executed on March 25, 2003. ST-FLA acquired all of the issued and outstanding capital stock of the Company except for those shares owned by Stewart Title Guaranty Company (STGC). Following the acquisition and merger of ST-FLA and the Company, ST-FLA merged into the Company. The purchase price for the Company was \$4,816,600. The preferred and common stock of the Company being held by individuals and companies writing title insurance with the Company was purchased as follows:

Each share of Class A stock was converted into the right to receive \$1,600

Each share of Class B stock was converted into the right to receive \$1,600

Each share of Class C stock was converted into the right to receive \$1,820

The resulting ownership of the Company was 86.32% ownership by Stewart Information Services Corporation (SISCO) and 13.68% by STGC.

The Company failed to issue all of the shares of stock per the Company's Plan and Agreement of Merger, in accordance with Section 607.0626, FS. Per the Company's Shareholders' Agreement, actual certificates were to be issued. The Company stated they were in the process of obtaining blank certificates to execute and issue as required in the agreement.

### **Surplus Debentures**

The Company had no surplus debentures.

### **AFFILIATED COMPANIES**

The Company was part of a holding company system, with itself and an affiliate, Alliance Insurance and Information Services, LLC (AIS) until the sale of AIS in 2002. The Company became part of a holding company system by merger with ST-FLA in March of 2003. The Consent Order (CO) authorized the merger of the Company with ST-FLA. The latest holding company registration statement filed by the Company is dated April 27, 2004.

### **Tax Allocation Agreement**

The Company maintained a consolidated federal income tax agreement with SISCO.

The Company failed to record the tax payments made in SISCO on Schedule Y, Part 2 of their annual statement as required in Rule 69O-137.001(4)(a), FAC.

The Company failed to caption "Parent" on their Annual Statement line item for federal income tax recoverable.

### **Cost Sharing Agreement**

The Company's affiliate, STGC was paying the general administrative and claim adjusting expenses of the Company without documented reimbursement. The expenses incurred were not documented in the books, account or records of the Company. The Company did not maintain a written cost sharing agreement, as required in Rule 69O-143.047(1)(c)(d), FAC.

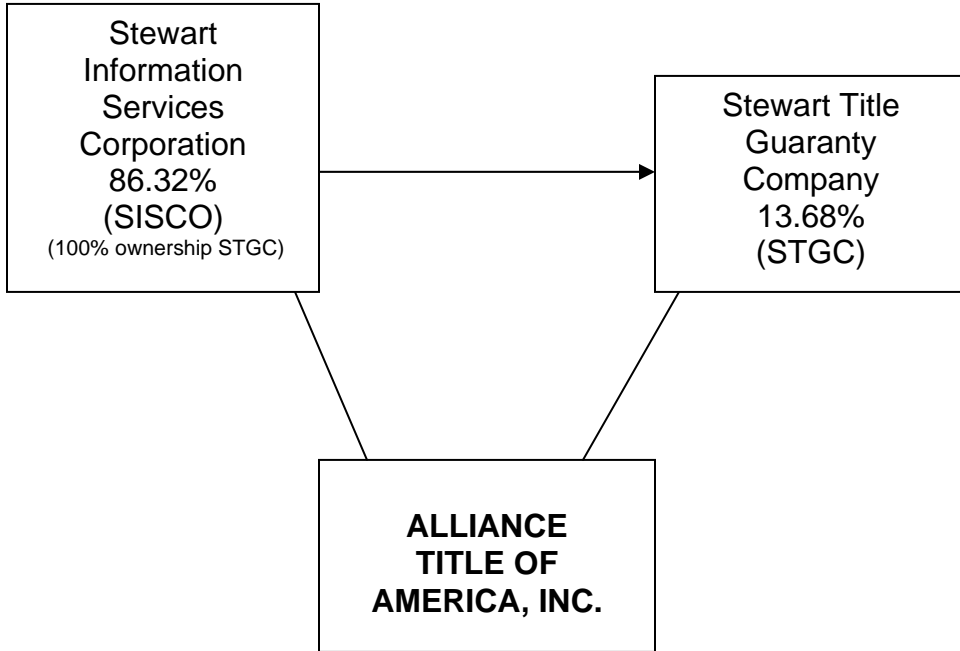
### **Claims Servicing Agreement**

The Company did not maintain a written claims servicing agreement, as required in Rule 69O-143.047, FAC.

An organizational chart as of December 31, 2003, reflecting the Company, is shown below.

**ALLIANCE TITLE OF AMERICA, INC.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2003**



## FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage for individuals with the authority to disburse Company funds, which covered the minimum amount of \$150,000, recommended by the NAIC.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company's employees were laid off as of the first quarter of 2003 and employee benefit plans were discontinued; resulting from the merger with ST-FLA.

## STATUTORY DEPOSITS

The Company maintained a security deposit with the State of Florida, in accordance with the requirement of Section 624.411, FS.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	Cash on Deposit	<u>\$ 200,351</u>	<u>\$ 200,351</u>
TOTAL DEPOSITS		<u>\$ 200,351</u>	<u>\$ 200,351</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operation

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

## **REINSURANCE**

The reinsurance agreements, as of December 31, 2003, were reviewed and complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### **Assumed**

The Company assumed no risk.

### **Ceded**

The Company maintained an excess reinsurance agreement with STGC, an affiliate. For every policy written by the Company that was in excess of \$50,000, STGC assumed the liability to a maximum limit of \$25,000,000, subject to the terms of the agreement.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's financial statements annually for the years 2001, 2002 and 2003, in accordance with Section 624.424(8), FS. The Company's work papers of the independent CPA were used where applicable during this examination. The supporting work papers were prepared as required by Rule 69O-137.002, FAC.

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

The Company maintained its office in Tampa, Florida. The examination was conducted in the Company's Tampa office, which was located within the building of STGC.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Gold Bank, also known as American Bank, Bradenton, Florida. The agreement was not in compliance with Rule 69O-143.042(2)(k) and (o), FAC. Company management stated they were in the process of correcting the agreement at the close of this examination.

### **Independent Auditor Agreement**

The Company maintained a contract with an external CPA to perform the annual audit, in compliance with Section 624.424(8)(c), FS.

### **Risk-Based Capital**

The Company was exempt from risk-based capital requirements.

## **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."



**ALLIANCE TITLE OF AMERICA, INC.**  
**Assets**

**DECEMBER 31, 2003**

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$93,720		\$93,720
Cash	1,240,939		1,240,939
Short term investments	2,697,397		2,697,397
Investment income due and accrued	2,102		2,102
Agents' balances	290,271		290,271
Federal income tax recoverable	33,730		33,730
Net deferred tax asset	3,034		3,034
EDP equipment and software	2,062		2,062
<hr/>			
Totals	\$4,363,255	\$0	\$4,363,255

**ALLIANCE TITLE OF AMERICA, INC.**  
**Liabilities and Policyholders' Surplus**

**DECEMBER 31, 2003**

Liabilities	Per Company	Examination Adjustments	Per Examination
Known claims reserves	\$336,464		\$336,464
Statutory premium reserves	602,837		602,837
Supplemental reserve	597,162		597,162
Other expenses	6,932		6,932
Taxes, licenses and fees	26,136		26,136
Aggregate write-ins for other liabilities	62,829		62,829
	<hr/>		<hr/>
Total Liabilities	\$1,632,360		\$1,632,360
Common capital stock	\$15,425		\$15,425
Preferred capital stock	5,150		5,150
Gross paid in and contributed surplus	3,586,230		3,586,230
Unassigned funds (surplus)	(22,667)		(22,667)
Treasury stock common	(137,543)		(137,543)
Treasury stock preferred	(715,700)		(715,700)
Surplus as regards policyholders	<hr/> \$2,730,895		<hr/> \$2,730,895
	<hr/>		<hr/>
Total liabilities and surplus	<u>\$4,363,255</u>	<u>\$0</u>	<u>\$4,363,255</u>

**ALLIANCE TITLE OF AMERICA, INC.**  
**Statement of Income**

**DECEMBER 31, 2003**

OPERATING INCOME

Title insurance premiums earned	\$7,919,495
Losses and loss adjustment expenses incurred	627,115
Operating expenses incurred	<u>6,688,581</u>
Total operating deductions	<u>\$7,315,696</u>
Net operating gain or (loss)	\$603,799

INVESTMENT INCOME

Net investment income earned	\$41,232
Net realized capital gains and (losses)	<u>(1,099)</u>
Net investment gain or (loss)	<u>\$40,133</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income	(\$2,775)
Net income, before federal income taxes	641,157
Federal and foreign income taxes incurred	<u>182,158</u>
Net income	<u>\$458,999</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31 prior year	\$2,344,761
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GAINS AND (LOSSES) IN SURPLUS

Net income	\$458,999
Change in net deferred income tax	7,127
Change in non-admitted assets	97,171
Change in supplemental reserves	<u>(177,163)</u>
Change in surplus as regards policyholders for the year	<u>\$386,134</u>
Surplus as regards policyholders, December 31 current year	<u>\$2,730,895</u>

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

**Agents' Balances** \$290,271

A portion of the Company's admitted Agents' balances was in excess of ninety (90) days old as of March 31, 2004. Part of the Agent's balances were based on an estimate of amounts to be collected from agents in the future. The balance was not in compliance with Rule 69O-138.024, FAC, which states to determine the admissibility as an asset, agents' balances data must be provided on a policy-to-policy basis. The data was not provided on a policy-to-policy basis. No adjustment will be made to the annual statement due to the immateriality of the amount.

### Liabilities

**Known Claims Reserves** \$336,464

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, 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 rendered an opinion which agreed with the outside actuarial firm.

**Stock**\$2,350

The Company reported an incorrect dollar amount on the annual statement for shares of preferred capital stock.

**ALLIANCE TITLE OF AMERICA, INC.**  
**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, Financial Statement	\$2,730,895
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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 necessary			
LIABILITIES:			
No adjustment necessary			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$2,730,895

## SUMMARY OF FINDINGS

### 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 of the examination as of December 31, 2003.

#### General

The Company's custodial agreement with Gold Bank did not contain the required terms. **It is recommended that the Company comply with Rule 69O-143.042, FAC; and provide documentation of compliance to the Office within 90 days after the report is issued.**

The Company did not establish an audit committee in 2003. **It is recommended that the Company comply with Section 624.424(8), FS; and provide documentation of compliance to the Office within 90 days after the report is issued.**

The Company did not issue all of the outstanding stock certificates per their shareholders' agreement. **It is recommended that the Company issue such and provide documentation of compliance to the Office within 90 days after the report is issued.**

The Company was recording expenses with an affiliate without a written cost sharing agreement and did not have a written claims servicing agreement. **It is recommended that the Company**

**comply with Rule 690-143.047, FAC; and enter into written agreements and provide copies of the agreements to the Office within 90 days after the report is issued.**

The Company reported an incorrect amount for Preferred capital shares on their annual statement. The Company also failed to report tax payments to its affiliate on Schedule Y, Part 2 of the annual statement. Additionally, the Company did not caption their Federal income tax recoverable as "Parent" on their Annual Statement. **It is recommended that the Company correctly report these items in all future annual and quarterly statements.**

### **Financial Items**

A portion of the Company's admitted Agents' balances should have been non-admitted. **It is recommended that the Company correctly report Agents' balances in all future annual and quarterly statements.**



## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Alliance Title of America, Inc.** 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 \$2,730,895, which was in compliance with Section 624.408, FS.

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

Respectfully submitted,

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Miriam Bleakley  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation