

**STATE OF UTAH INSURANCE DEPARTMENT  
REPORT OF FINANCIAL EXAMINATION**

**of**



**WESTERN NATIONAL TITLE INSURANCE COMPANY  
of**

**Salt Lake City, Utah**

**as of**

**December 31, 2006**



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February 15, 2008

Honorable D. Kent Michie, Commissioner  
State of Utah Insurance Department  
State Office Building, Room 3110  
Salt Lake City, Utah 84114-6901

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination of the financial condition and business affairs of:

WESTERN NATIONAL TITLE INSURANCE COMPANY  
of  
Salt Lake City, Utah

a stock title insurance company, hereinafter referred to as the Company, was conducted as of December 31, 2006.

SCOPE OF EXAMINATION

Period Covered by Examination

The Company was last examined as of December 31, 2003, by a representative of the Utah Insurance Department (the Department). The current examination covers the period from January 1, 2004 through December 31, 2006, with a subsequent review as of September 30, 2007 including any material transactions and/or events occurring proceeding to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the Department, and Statements of Statutory Accounting Principles (SSAP) contained within the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period, and a determination of its financial condition as of December 31, 2006. Assets were verified and valued, and liabilities were determined or estimated. The Company retained the services of a certified public accounting firm to audit its financial records for the years under examination.

The Company's governance environment and likelihood of continued successful operations was evaluated. The limited nature of its financial and operating status prescribed the use of substantive audit procedures. Work generated by the Company's external auditors was utilized to satisfy the substantive procedures, when considered appropriate.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

Important points and recommendations noted in the prior examination report were addressed by the Company or have received further comment in this report.

## HISTORY

### General

A certificate of authority authorizing the Company to transact the business of title insurance was issued by the Department effective November 5, 1987. The Company operates under Utah Code Annotated (U.C.A.) Title 31A.

### Capital Stock

Article IV of the articles of incorporation stated one million (1,000,000) shares of common stock having no par value were authorized. One hundred thousand three hundred fifty (100,350) shares of the stock were issued on November 5, 1987. The amount paid for the shares was \$1,003,500, which served as the Company's initial capitalization.

In January 2002, The First American Corporation purchased thirty thousand six hundred and twenty five (30,625) shares of Company stock, which represents all of the outstanding shares.

The Company repurchased a major portion of its common stock from its shareholder as follows:

<u>Period</u>	<u>Number of Shares</u>	<u>Dollar Amount</u>
October 31, 1988	50,000	\$ 500,000
February 9, 1990	5,000	50,000
March 27, 1991	4,725	47,250
April 1, 1992	5,000	50,000
April 1, 1993	5,000	50,000
	<u>69,725</u>	<u>\$ 697,250</u>

The net capital stock outstanding was \$306,250 (\$1,003,500 - \$697,250) as of December 31, 2006.

#### Dividends to Stockholders

No dividends were declared or paid during the examination period.

#### Management

Article III of the Company's BY-LAWS states, "The business and affairs of the corporation shall be managed by its board of directors. The number of directors of the corporation shall vary from not less than three (3) to a maximum of nine (9) directors as the board may itself from time to time determine."

#### Directors serving as of December 31, 2006:

<u>Name and Residence</u>	<u>Principle Occupation</u>
Chester Charles (Chip) Carmer Phoenix, Arizona	Regional Vice President First American Title Insurance Company
Curtis Allen Caspersen Santa Ana, California	Senior Vice President First American Title Insurance Company
Ray Bill Whitney Sandy, Utah	Vice President First American Title Insurance Agency, LLC
Blake Taggart Heiner Salt Lake City, Utah	Vice President and Regional Counsel First American Title Insurance Company
Mark Stewart Webber Salt Lake City, Utah	President First American Title Insurance Agency, LLC

Officers serving as of December 31, 2006:

<u>Office</u>	<u>Officer</u>
President	Chester Charles (Chip) Carmer
Vice President and Secretary	Blake Taggart Heiner
Vice President and Treasurer	Ronald Raymond Beliveau
Vice President	Ray Bill Whitney
Vice President	Mark Stewart Webber

There were no functioning committees of the board of directors.

Conflict of Interest Procedure

The Company maintains a formal conflict of interest policy that provides that no officers or directors will engage in outside business activities that will create a conflict of interest with the work and the mission of the Company. Conflict of Interest Statements disclosing any potential conflicts are filled out annually by officers and directors. No material conflicts were noted during the period under review.

Corporate Records

The records generated for and during the period covered by the examination were reviewed. The records consisted of the minutes of the meetings of the board of directors and the shareholder. The minutes of the meetings were not detailed enough to evidence full participation of the board of directors in the governance of the Company. The prior examination report as of December 31, 2003, was distributed to the board of directors in November 2004, in accordance with U.C.A. § 31A-2-204(8).

The Company did not provide evidence of the shareholder meeting minutes for the years 2005 and 2006 respectively. U.C.A. § 16-10a-1601(1) requires a corporation to keep permanent records of all shareholder and board of directors meeting minutes. The Company's response to the General Interrogatories Part 1 Number 14 in the 2005 and 2006 Annual Statements was "Yes." It stated the reporting entity kept complete permanent records of the proceedings of its board of directors and all subordinate committees thereof. Article II, Section 1 of the Company's BY-LAWS states "the annual meeting of the stockholders shall be held on the 1st day of June in each year." It did not appear the Company was in compliance with the corporate records retention requirements of the statute or its BY-LAWS.

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

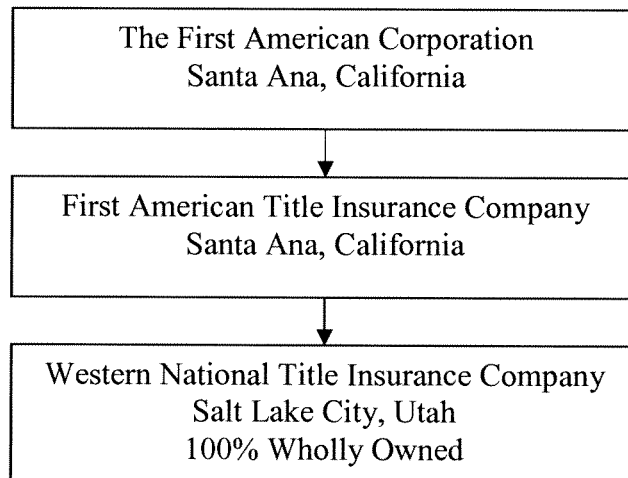
The Company was not a party to any acquisitions, mergers, disposals, dissolutions and purchases, or sales through reinsurance during the examination period.

Surplus Debentures

No surplus notes were outstanding, retired or issued during the examination period.

AFFILIATED COMPANIES

The Company is a member of a holding company system. The First American Corporation is the ultimate controlling entity in the system. Subsequent to the acquisition of 100% of the Company's shares of stock, The First American Corporation contributed those shares to its first tier subsidiary, First American Title Insurance Company, a California corporation.



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Transactions with Affiliates

On September 1, 2002, the Company entered into a management agreement with First American Title Insurance Agency, LLC. Under the agreement, First American Title Insurance Agency, LLC agreed to provide for the fee of \$7,500 per month the following services including, but not limited to:

- Underwriting analysis and decisions, and claims administration;
- Title training for employees for both companies, marketing, and accounting;
- Legal consultation, including coordination with outside counsel;
- General management services, office space and equipment.

On September 10, 2002, the Company entered into a title insurance underwriting agreement with First American Title Insurance Agency, LLC (FATIA). Under the agreement, the Company authorized FATIA to issue commitments and policies of title insurance on its behalf within the state of Utah. However, FATIA is not allowed to issue any commitment or policy for liability in excess of \$2,000,000 without the prior written consent of the Company. FATIA pays the first \$3,500 of any claim made on pre-existing residential or commercial structure. FATIA submits 7.5% of the gross premium billed and retains the remaining 92.5%.

The Company became a party to the Tax Allocation Agreement between The First American Corporation and its subsidiaries, on April 5, 2004. The Tax Allocation Agreement was effective December 15, 1994. The Company filed a Prior Notice of a Transaction (Form D) with the Department in accordance with U.C.A. § 31A-16-106(1)(b)(iv).

The Investment Management Agreement with First American Trust (FAT) was not reported during the examination period in the Company's annual Holding Company Registration (Form B) statement, which did not comply with U.C.A. § 31A-16-105(2)(c)(v). Subsequent to the examination period, the Company disclosed in its 2007 Form B filing that it entered into an Investment Management Agreement with FAT. The Company failed to file a Form D 30 days prior to entering into the agreement as required by U.C.A. § 31A-16-106(1)(b)(iv).

The Company entered into the Reinsurance Agreement with its parent company, First American Title Insurance Company, on July 21, 2003, with an effective date of January 2, 2002. The Reinsurance Agreement was not reported in the Company's Form B filing for the years under examination and the subsequent year of 2007, as required by U.C.A. § 31A-16-105(2)(c)(vi).

#### FIDELITY BOND AND OTHER INSURANCE

The First American Corporation and all of its subsidiaries are insured under a fidelity bond with \$10,000,000 in aggregate coverage. The Company was slow in responding to a request for evidence of fidelity bond coverage in conjunction with the examination. U.C.A. §31A-2-204(3) states that an examiner authorized by the Commissioner shall, when necessary to the purposes of the examination, have access to any books, records, files, securities, documents, or property of the examinee.

It is noted, the functions necessary for the Company's operations were performed by employees of an affiliate, FATIA.



## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company does not have any employees, and did not offer any pension, stock ownership, or insurance plans.

## STATUTORY DEPOSITS

U.C.A. § 31A-4-105 requires the Company to maintain a deposit in an amount equal to its required capital. According to U.C.A. § 31A-5-211(2)(c), the Company's minimum capital requirement was \$200,000. As of December 31, 2006, the market value of the statutory deposit was \$200,749.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting

The policy forms issued by the Company consisted primarily of an owner's policy of title insurance for residential property and a lender's policy of title insurance for second mortgages, refinancing, home equity loans, and first mortgages on existing structures. The Company issued a limited number of owners and lenders' policy of title insurance concerning new structures on residential property and to residential builders/developers. The Company's risk retention limit was \$750,000 or over \$2,000,000 in the aggregate.

### Territory and Plan of Operations

The Company was authorized to conduct title insurance business in the state of Utah and did not operate in any other jurisdictions.

Six agencies sell title insurance on behalf of the Company as of October 31, 2007:

1. First American Title Insurance Agency
2. American Secure Title Insurance Agency
3. Backman Title Services
4. Integrated Title Insurance Services, LLC
5. Summit Title
6. Juab Title and Abstract

### Advertising and Sales Material

The Company's marketing efforts relied heavily upon the agencies with which it contracted to sell its products. Most of its advertising was done by these agencies through direct contact with banks, mortgage companies, other lenders, and real estate personnel.

### Treatment of Policyholders

There were no complaints registered with the Department for the period covered by this examination.

## REINSURANCE

### Assumed

The Company did not assume any insurance risk during the examination period.

### Ceded

The Company entered into a reinsurance agreement with its parent company, First American Title Insurance Company, on July 21, 2003, with an effective date of January 2, 2002. First American Title Insurance Company reinsured risks over \$750,000 or \$2,000,000 in the aggregate. The primary retention is \$750,000. The credit for reinsurance ceded under the agreement was not material or significant to the Company's surplus.

## ACCOUNTS AND RECORDS

Employees who were contracted from First American Title Insurance Agency, LLC performed the functions necessary for the Company's operations. The accounting system consisted of a general ledger, journals, registers, statistical records and other related records. Many of the records were maintained on local area network electronic data processing systems, personal computers, and in hard copy form.

Deficiencies encountered by the examination relating to accounts and records include:

1. The agreement under which a majority of the Company's invested assets were held was not in compliance with Utah Administrative Code (U.A.C.) Rule R590-178. The Company later revised and brought the agreement into compliance. The Board of Directors approved the revised agreement on December 20, 2007.
2. U.C.A. § 31A-4-113.5(d) requires all insurers to pay fees assessed by the NAIC. The examiner verified through corroborative inquiry with the NAIC, the Company had not paid the NAIC filing fees for the years 2005 and 2006, and the subsequent year of 2007. The delinquent amount totaled \$1,690.

## FINANCIAL STATEMENT

The following financial statements were prepared from the Company's accounting records and the valuations and determinations made during the examination:

Balance Sheet as of December 31, 2006

Statement of Income - for the Period Ended December 31, 2006

Reconciliation of Capital and Surplus Account -  
January 1, 2004 through December 31, 2006

The accompanying Notes to Financial Statements are an integral part of the financial statements.

Western National Title Insurance Company  
Balance Sheet  
as of December 31, 2006

QUALIFIED ASSETS

	Amount	Notes
<b>Qualified Assets:</b>		
Bonds	\$ 2,920,173	
Cash and Short-term Investments	1,594,486	
Investment Income Due and Accrued	43,032	
Uncollected Premiums and Agents' Balances in the Course of Collection	1,677	
Current Federal and Foreign Income Tax Recoverable and Interest	119,818	
Net Deferred Tax Asset	8,834	
Total Qualified Assets	\$ 4,688,020	

LIABILITIES, CAPITAL AND SURPLUS

<b>Liabilities:</b>		
Known Claims Reserve	\$ 217,335	
Statutory Premium Reserve	1,246,834	
Other Expenses	41,033	
Taxes, Licenses and Fees (Excluding Federal and Foreign Income Taxes)	790	
Total Liabilities	1,505,992	
<b>Capital and Surplus</b>		
Common Capital Stock	1,070,167	
Unassigned Funds (Surplus)	2,809,111	
Less Treasury Stock	697,250	
Surplus as Regards Policyholders	3,182,028	(1)
Total Liabilities, Capital and Surplus	\$ 4,688,020	

Western National Title Insurance Company  
Statement of Income  
as of December 31, 2006

**Operating Income**

Title Insurance and Related Income	<u>\$ 858,990</u>
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**Deduct:**

Losses and Loss Adjustment Expenses Incurred	238,100
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Operating Expenses Incurred	<u>915,150</u>
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Total Operating Deductions	<u>1,153,250</u>
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Net Operating Gain or (Loss)	<u>(294,260)</u>
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**Investment Income**

Net Investment Income Earned	157,518
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Net Realized Capital Gains (Losses) less Capital Gains Tax	<u>307</u>
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Net Investment Gain (Loss)	<u>157,825</u>
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**Other Income**

Net Income After Capital Gains Tax and Before Other Federal Income Taxes	(136,035)
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Federal and Foreign Income Taxes Incurred	<u>(91,036)</u>
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Net Income	<u><u>\$ (44,999)</u></u>
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Western National Title Insurance Company  
Reconciliation of Capital and Surplus Account  
as of December 31, 2006

	<u>2004</u>	<u>2005</u>	<u>Per Exam 2006</u>
Surplus as Regards Policyholders, Prior Year	\$ 2,978,957	\$ 3,051,179	\$ 3,227,101
Net Income or (Loss)	35,179	195,506	(44,999)
Change in Net Deferred Income Tax	(600)	(8,024)	(30,659)
Change in Nonadmitted Assets	(497)	6,336	30,039
Aggregate Write-Ins for Gains and Losses in Surplus	<u>38,140</u>	<u>(17,897)</u>	<u>546</u>
Change in Surplus as Regards Policyholders	<u>72,222</u>	<u>175,921</u>	<u>(45,073)</u>
Surplus as Regards Policyholders, Current Year	<u>\$ 3,051,179</u>	<u>\$ 3,227,100</u>	<u>3,182,028</u>

## NOTE TO FINANCIAL STATEMENT

There were no adjustments proposed to the Company's financial statements.

(1) Capital and Surplus \$3,182,028

The Company's capital and surplus was determined to be equal to that reported in the Company's annual statement as of December 31, 2006. The Company's minimum capital requirement was \$200,000 as specified in U.C.A. § 31A-5-211(2)(c). As of December 31, 2006, the Company reported surplus as regards to policyholders of \$3,182,028. Pursuant to U.C.A. § 31A-17-609(1)(a), the Company's total adjusted capital exceeded the alternate adjusted capital of \$350,000, by \$2,832,028.

## SUMMARY OF EXAMINATION FINDINGS

Items of significance or special interest contained in this report are summarized below:

1. The Company did not provide evidence of the shareholder meeting minutes for the years 2005 and 2006 respectively. U.C.A. § 16-10a-1601(1) requires a corporation to keep permanent records of all shareholder and board of directors meeting minutes. The Company's response to the General Interrogatories Part 1 Number 14 in the 2005 and 2006 Annual Statements was "Yes." It stated the reporting entity kept complete permanent records of the proceedings of its board of directors and all subordinate committees thereof. Article II, Section 1 of the Company's BY-LAWS states "the annual meeting of the stockholders shall be held on the 1st day of June in each year." It did not appear the Company was in compliance with the corporate records retention requirements of the statute or its BY-LAWS. (HISTORY -Corporate\_Records)
2. The Investment Management Agreement with First American Trust (FAT) was not reported during the examination period in the Company's annual Holding Company Registration (Form B) statement, which did not comply with U.C.A. § 31A-16-105(2)(c)(v). Subsequent to the examination period, the Company disclosed in its 2007 Form B filing that it entered into an Investment Management Agreement with FAT. The Company failed to file a Form D 30 days prior to entering into the agreement as required by U.C.A. § 31A-16-106(1)(b)(iv). (Transactions with Affiliates)
3. The Company entered into the Reinsurance Agreement with its parent company, First American Title Insurance Company, on July 21, 2003, with an effective date of January 2, 2002. The Reinsurance Agreement was not reported in the Company's Form B filing for the years under examination and the subsequent

year of 2007, as required by U.C.A. § 31A-16-105(2)(c)(vi). (Transactions with Affiliates)

4. First American Corporation and all of its subsidiaries are insured under a fidelity bond with \$10,000,000 in aggregate coverage. The Company was slow in responding with to a request for evidence of fidelity bond coverage in conjunction with the examination. The evidence was provided on May 28, 2008. U.C.A. §31A-2-204(3) states that an examiner authorized by the Commissioner shall, when necessary to the purposes of the examination, have access to any books, records, files, securities, documents, or property of the examinee. (FIDELITY BOND AND OTHER INSURANCE)
5. The agreement under which a majority of the Company's invested assets were held was not in compliance with U.A.C. Rule R590-178. The Company later revised and brought the agreement into compliance. The Board of Directors approved the revised agreement on December 20, 2007. (ACCOUNTS AND RECORDS)
6. U.C.A. § 31A-4-113.5(d) requires all insurers to pay fees assessed by the NAIC. The examiner verified through corroborative inquiry with the NAIC, the Company had not paid the NAIC filing fees for the years 2005 and 2006, and the subsequent year of 2007. The delinquent amount totaled \$1,690. (ACCOUNTS AND RECORDS)
7. The Company's capital and surplus was determined to be equal to that reported in the Company's annual statement as of December 31, 2006. The Company's minimum capital requirement was \$200,000 as specified in U.C.A. § 31A-5-211(2)(c). As of December 31, 2006, the Company reported surplus as regards policyholders of \$3,182,028. Pursuant to U.C.A. § 31A-17-609(1)(a), Company's surplus as regards policyholders exceeded the total required adjusted capital of \$350,000, by \$2,832,028. (NOTE TO FINANCIAL STATEMENT)



## ACKNOWLEDGEMENT

The assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company are acknowledged. In addition to the undersigned, John D. Kay, CFE, CIE, and Malis Rasmussen, APIR, participated in the examination. Colette M. Hogan, CFE, CPM, Assistant Chief Examiner, supervised the overall examination.

Respectfully submitted,



Colette M. Hogan, CFE, CPM  
Assistant Chief Examiner,  
Utah Insurance Department