

REPORT ON EXAMINATION

OF THE

WASHINGTON TITLE INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

DATE OF REPORT

AUGUST 31, 2006

EXAMINER

MOSES EGBON

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

August 31, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22459 dated February 22, 2006 attached hereto, I have made an examination into the condition and affairs of Washington Title Insurance Company as of December 31, 2005, and submit the following report thereon.

Wherever the designations "the Company" or "WTIC" appear herein without qualification, they should be understood to indicate Washington Title Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's home offices located at 31 Stewart Street, Floral Park, New York 11001.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2000. This examination covered the five-year period from January 1, 2001 through December 31, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2005. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants ("CPA"). A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to recommendations contained in the prior report on examination.

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

2. DESCRIPTION OF COMPANY

The Company was incorporated under the provisions of Article 12 of the New York Insurance Law, with an authorized capital of \$500,000 and commenced business on April 1, 1996. The declaration of intention and charter were approved by the Attorney General of New York on October 9, 1992 and placed on file with the Department on October 14, 1992.

The Company's immediate and ultimate controlling persons are Mr. David Gelbard and Mr. Clifford Gelbard by virtue of their ownership of 1,500,000 shares each of the 5,000,000 issued and outstanding shares of the Company.

Capital paid in is \$500,000 consisting of 5,000,000 shares of common stock at \$.10 par value per share. Gross paid in and contributed surplus is \$420,346. Gross paid in and contributed surplus and capital paid in did not change during the examination period.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than twenty-one members. The board met three times during each calendar year. At December 31, 2005, the board of directors consisted of the following seven members as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jack Bleier Bedford, NY	Attorney, Bleier & Bleier, Esqs.
Peter E. Becker Bellmore, NY	Chief Counsel, Washington Title Insurance Company
Carmine P. DiResto Oceanside, NY	Accountant, Self- Employed
Bernard Gelbard Lawrence, NY	Retired Attorney

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Clifford Gelbard Roslyn, NY	President, Intracoastal Abstract Co. Inc.
David Gelbard Upper Brookville, NY	Vice President, Intracoastal Abstract Co. Inc.
Frances Gelbard Lawrence, NY	No business affiliation

As of December 31, 2005 the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
David Gelbard	President
Clifford Gelbard	Vice President
Jack Bleier	Secretary and Treasurer

The minutes of all the meetings of the board of directors and committees thereof held during the examination period were reviewed. All meetings were well attended.

B. Territory and Plan of Operation

As of December 31, 2005, the Company was licensed to write business in New York only.

As the examination date, the Company was licensed to transact the business of title insurance, as defined in paragraph 18 of Section 1113(a) of the New York Insurance Law.

The following schedule shows the direct premiums written by the Company in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State</u>
2001	\$10,473,535
2002	\$13,663,761
2003	\$16,713,096
2004	\$16,473,256
2005	\$20,514,085

The Company is organized pursuant to Article 64 of the New York Insurance Law. Based upon the line of business for which the Company is licensed, its current capital structure, and pursuant to the requirements of Article 64 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$500,000.

The Company is primarily engaged in the business of issuing title insurance policies and secondarily in performing other title-related services such as escrow, collection and trust activities in connection with real estate transactions. These services are provided through the Company's direct branch operations and independent agents who issue policies on the Company's behalf.

C. Reinsurance

The company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

As of December 31, 2005, the Company has one excess of loss ceded reinsurance contract in effect. The agreement provides coverage for up to \$10,000,000 excess of \$250,000 of risk on each policy issued by the Company for land located in New York.

Effective November 1, 2004, the Company changed its re-insurer from authorized to unauthorized, and the Company did not maintain any collateral or letters of credit and trust accounts for its cessions to unauthorized reinsurers. However, the Company did not cede any loss and no credit for reinsurance was taken in its annual statement. The agreement was reviewed and no exceptions were noted.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

The Schedule F data reported by the Company in its filed annual statements was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements did not transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principles ("SSAP") No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the

Company's Chief Executive Officer pursuant to Department Circular Letter No. 8 (2005). Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements.

D. Holding Company System

Washington Title Insurance Company's immediate and ultimate parents are Mr. David Gelbard and Mr. Clifford Gelbard. Each owns 1,500,000 or 30% of the 5,000,000 shares issued and outstanding. The Company issued 5,000,000 shares of common stock \$.10 par value per share on September 7, 1995, for a total consideration of \$750,000.

The shares issued and outstanding are distributed as follows:

<u>Shareholder</u>	<u>Number of Shares</u>	<u>Percentage of Ownership</u>	<u>Consideration Paid</u>
Jack Bleier	1,000,000	20%	\$150,000
Ruth Bober	1,000,000	20%	150,000
Clifford Gelbard	1,500,000	30%	225,000
David Gelbard	<u>1,500,000</u>	<u>30%</u>	<u>225,000</u>
Total	<u>5,000,000</u>	<u>100%</u>	<u>\$750,000</u>

Mr. Clifford Gelbard and Mr. David Gelbard are owners of, and President and Vice-President, respectively, of Intracoastal Abstract Co. Inc., a title insurance agent. In the year 2005, Intracoastal Abstract Co. produced 15% of the total direct premiums written by the agents of Washington Title Insurance Company.

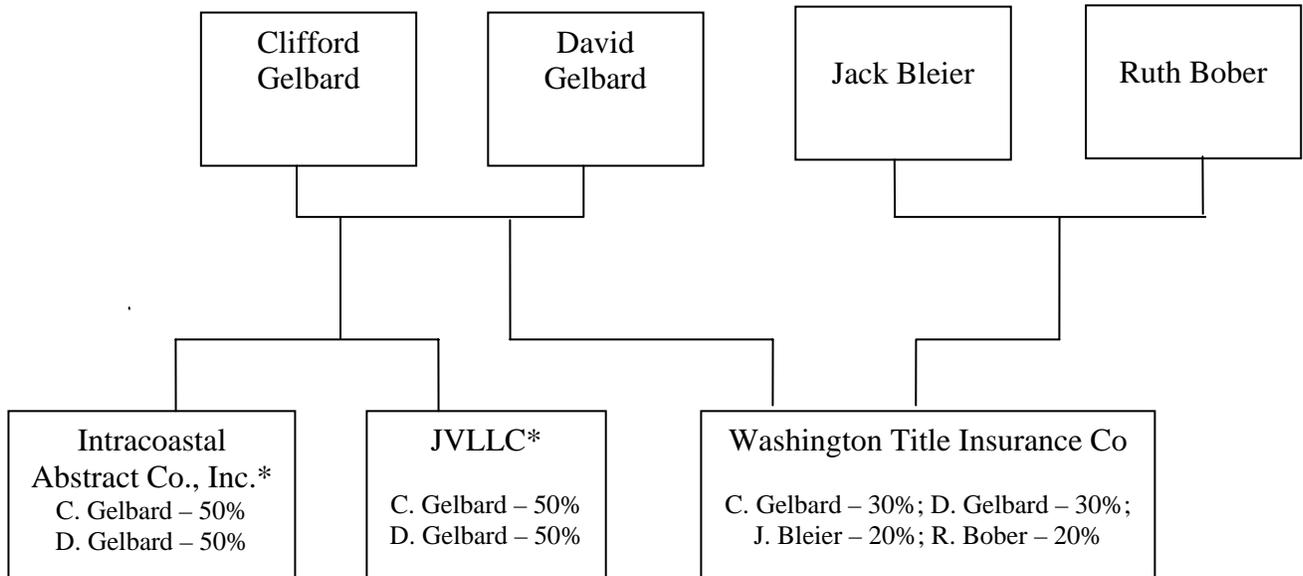
A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

(i) Schedule Y

It was noted that the Company did not complete Schedule Y, parts 1 and 2 of the filed annual statement that discloses information concerning the activities of a holding company group and transactions with affiliates.

It is recommended that the company follow the instructions of the annual statement and complete Schedule Y, parts 1 and 2, in the future.

The following is a chart of the holding company system at December 31, 2005.



* Intracoastal Abstract Co., Inc. and JVLLC own controlling interests of the following abstract companies, which write title insurance business on behalf of Washington Title Insurance Company:

Suburban Abstract LLC (50% owned by JVLLC)
 Islander Abstract Corp. (50% owned by JVLLC)
 Best Abstract LLC (45% owned by Intracoastal Abstract Co., Inc.)
 Allstar Abstract LLC (50% owned by Intracoastal Abstract Co., Inc.)
 Champion Abstract LLC (50% owned by Intracoastal Abstract Co., Inc.)
 Precision Abstract LLC (49% owned by JVLLC)
 Homes of New York Abstract Corp. (50% owned by JVLLC)

(ii) Inter-Company Agreements

At December 31, 2005, the Company was party to the following inter-company agreements with other members of its holding company system:

(a) Sublease Agreement

On May 1, 1996, Washington Title Insurance Company entered into a sub-lease rental agreement with its affiliate, Intracoastal Abstract Co. Inc. Under the terms of this agreement, Intracoastal Abstract Co. Inc. sublet a portion of its premises to the Company, for a term of ten years. This agreement was not submitted to the Department at least 30 days prior to execution, pursuant to Section 1505 of the New York Insurance Law.

(b) Underwriting Agreements

The Company has an agency agreement with Intracoastal Abstract Co., Inc., which is owned by David and Clifford Gelbard. The Company also has agency agreements with seven other abstract companies that are indirectly controlled by David and Clifford Gelbard through their ownership in Intracoastal Abstract Co., Inc. and JVLLC. None of these agreements have been submitted to this Department. Pursuant to Section 1505(d)(3) of the New York Insurance Law a domestic controlled insurer and any person in its holding company system may not enter into an agreement involving the rendering of services on a regular or systematic basis, unless the insurer has notified the superintendent in writing of its intention to enter into such agreement at least thirty days prior thereto and he has not disapproved it within such period.

It is recommended that the Company notify the Superintendent, in writing, at least thirty days prior to entering into any agreements with affiliates, in accordance with Section 1505(d)(3) of the New York Insurance Law.

E. Abandoned Property Law

Section 1317 of the New York Abandoned Property Law provides that any amount held or owing by a domestic or foreign title insurer or by an agent or representative of such insurer as a security deposit, relating to the transfer or financing of real property located in this state, made as an inducement to issue a title insurance policy shall be deemed abandoned property if unclaimed as of December thirty-first in any

year for three years from the date of deposit, unless there has been written communication from the depositor or other person entitled thereto to the insurer to its agent or representative within said three-year period. Any such property deemed abandoned as of the preceding December thirty-first shall be paid and delivered to the comptroller within the first ten days of March in each year, together with a report of said property, including a listing of depositors and lien-holders, in such form as the comptroller may prescribe.

The Company's abandoned property reports for the period of this examination were all filed on a timely basis pursuant to the provisions of Section 1317 of the New York Abandoned Property Law.

F. Significant Operating Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$954,614	1.28%
Other underwriting expenses incurred	73,620,312	98.39
Net underwriting gain (loss)	<u>262,376</u>	<u>0.35</u>
Premiums earned	<u>\$74,827,700</u>	<u>100.00%</u>

G. Accounts and Records

(i). Schedule-D Investments

It was also noted that the Company's bond portfolio was comprised of government bonds which mature in one year or less that were classified as long term investments.

It is recommended that the Company classify all of its bonds maturing within one year from the balance sheet date, as short term investment.

(ii). Fidelity Bond Insurance

The examination of the Company's insurance coverage revealed that the Company did not maintain fidelity bond insurance as suggested by the Financial Condition Examiner's Handbook of the National Association of Insurance commissioners.

It is recommended that the Company maintain adequate fidelity bond coverage.

(iii). Disaster Recovery Plan

The Company does not have a formal written disaster recovery/ business continuity plan approved by its board of directors. The Company does have some disaster recovery procedures including off-site storage, outside server and outside access to personal computer. However, the Company does not have a formal written plan that would outline procedures to follow in order to restore processing systems in the event of a disastrous occurrence. Such plan is necessary in order for the Company to respond effectively to an incident that may disrupt normal business activities and system processing.

It is recommended that the Company adopt a formal written disaster recovery/ business continuity plan to be approved by the Company's board.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2005 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 745,899	\$ 0	\$ 745,899
Cash, cash equivalents and short-term investments	2,494,714	0	2,494,714
Investment income due and accrued	14,370	0	14,370
Uncollected premiums and agents' balances in the course of collection	241,956	0	241,956
Electronic data processing equipment and software	16,332	0	16,332
Furniture and equipment	2,806	2,806	0
Aggregate write-ins for other than invested assets	43,564	43,564	0
Segregated accounts fund	<u>696,244</u>	<u>0</u>	<u>696,244</u>
Total assets	<u>\$4,255,885</u>	<u>\$46,370</u>	<u>\$4,209,515</u>

Liabilities, surplus and other funds

Known claims reserve		\$ 32,952
Statutory premium reserve		1,473,147
Supplemental reserve		571,297
Other expenses (excluding taxes, licenses and fees)		98,209
Taxes, licenses and fees (excluding federal and foreign income taxes)		187,925
Current federal and foreign income taxes		101,483
Amounts withheld or retained by company for account of others		696,244
Ceded Premiums Payable		<u>113,026</u>
Total liabilities		\$3,274,283
Common capital stock	\$ 500,000	
Gross paid in and contributed surplus	420,346	
Unassigned funds (surplus)	<u>14,886</u>	
Surplus as regards policyholders		<u>935,232</u>
Totals		<u>\$4,209,515</u>

NOTE: The Internal Revenue Service (“IRS”) has completed its audits of the Company’s federal income tax returns through tax year 2003. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2004 through 2005. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

The examiner noted that the Company completed Form 1120 rather than Form 1120PC, which is the required form for title insurance companies. Upon review, it was determined that the use of the incorrect form did not make a material difference in the Company’s tax liability.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$91,638 during the five-year examination period January 1, 2001 through December 31, 2005, detailed as follows:

Statement of Income

Underwriting Income

Premiums and fees earned		\$74,837,302
Deductions:		
Loss and loss adjustment expenses incurred	\$ 954,614	
Operating expenses incurred	<u>73,620,312</u>	
Total underwriting deductions		<u>74,574,926</u>
Net underwriting gain or (loss)		\$ 262,376

Investment Income

Net investment income earned	\$ 224,539	
Net realized capital gains (losses)	<u>0</u>	
Net investment gain or (loss)		<u>224,539</u>
Net income before federal income taxes		\$ 486,915
Federal and foreign income taxes incurred		<u>151,537</u>
Net income (loss)		\$ <u><u>335,378</u></u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2000			\$1,026,870
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$335,378		
Change in nonadmitted assets		\$ 17,763	
Change in supplemental reserves	_____	<u>409,253</u>	
Total gains and losses	<u>\$335,378</u>	<u>\$427,016</u>	
Net increase (decrease) in surplus			<u>(91,638)</u>
Surplus as regards policyholders per report on examination as of December 31, 2005			<u>\$ 935,232</u>

4. KNOWN CLAIM RESERVES

The examination liability for the captioned item of \$32,952 is the same as reported by the Company as of December 31, 2005. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal records and in its filed annual statements.

5. STATUTORY PREMIUM RESERVE

The examination reserve of \$1,473,147 is the same as the amount reported by the Company in its December 31, 2005 annual statement. The reserve was calculated pursuant to the provisions of Section 6405(a) of the New York Insurance Law and paragraph 9 of SSAP 57.

6. SUPPLEMENTAL RESERVE

The examination reserve of \$571,297 is the same as the amount reported by the Company in the annual statement and was maintained and reported in accordance with the requirements of Section 6405(b) of the New York Insurance Law and paragraph 10 of SSAP 57.

7. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting and Rating

A. Sales and advertising

Travel and Entertainment

A review of the Company's travel and entertainment ("T&E") expenses revealed that the Company did not have written guidelines for the incurring and reimbursement of T&E Expenses. The examiner notes that these written guidelines would preclude some of the T&E expenses becoming categorized as additional compensation or rebates.

It is recommended that the Company draft written guidelines for the incurring and reimbursement of travel and entertainment ("T&E") expenses.

Additional Finders Fees Commissions

The examiner noted that the Company pays additional commissions termed "Sales Commissions" of 2.25% (15% of the net premium of 15%) as a "finders" fee for signing up agents. These commissions could be construed as a "referral fee" or rebate, which is a violation of Section 6409 of New York State Insurance Law. The examiners note that these additional commissions were paid to three individuals (two consultants and one salaried employee). The examiner notes that only one of the consultants has a written contract for these services.

It is recommended that the Company execute a written contract detailing the services performed for these override commissions to all consultants.

It is also recommended that the Company not pay both salary and commission to an employee unless the employee is given separate contracts delineating the various functions performed for salary and commission.

B. Underwriting and Rating

The examiner reviewed fifty title insurance policies issued to determine if the premiums and closing costs charged by the agents were in compliance with the filed rates. This procedure revealed that one of the Company's agents did not properly calculate the premium rates on mortgage refinancing.

It is recommended that the Company institute procedures that ensure the premiums charged by the agents are accurate.

It is also recommended that both the Company and York Title (the Agent) review all refinance title policies issued during the last five years where a refinance was involved and refund any amounts due to the misapplication of the refinance discount back to the insured.

The examiner also reviewed some mortgage closing statements in the Company's agents file. The procedure revealed some inconsistencies in some of the mortgage closing charges, which include recording of deeds, delivery of mail and search for bankruptcies. The charge for recording the deed ranges from \$130 to \$400. The charge for delivery mail ranges from \$20 to \$125. The charges for bankruptcy and the patriot searches appear in the range of \$50 to \$330. As for the bankruptcy and the patriot searches, the Company's representative said that such charges depend on the number of searches in the file.

It is recommended that the Company review and monitor mortgage closing charges by its agents.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained four recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Management</u></p> <p>The conflict of interest statements submitted to the board by David Gelbard and Clifford Gelbard did not disclose their significant ownership interests in several abstract title agencies that conduct business with the Company.</p> <p>It is recommended that David Gelbard and Clifford Gelbard prepare conflict of interest statements disclosing their ownership interests in the abstract title agencies.</p> <p>The Company has complied with this recommendation.</p>	<p>4</p>
<p>B. <u>Holding Company System</u></p> <p>(i) <u>Organization Chart</u></p> <p>It is recommended that the Company follow the instructions of the annual statement and complete Schedule Y, parts 1 and 2, in the future.</p> <p>The Company has not complied with this recommendation and a similar recommendation is reiterated in this report.</p>	<p>6</p>
<p>(ii) <u>Inter-Company Agreements</u></p> <p>It is recommended that the Company notify the Superintendent, in writing, at least thirty days prior to entering into any agreements with an affiliate, in accordance with Section 1505(d)(3) of the New York Insurance Law.</p> <p>Subsequent to the examination date, these agreements were submitted to the New York State Insurance Department.</p>	<p>9</p>
<p>C. <u>Accounts and Records</u></p> <p>As of December 31, 2000, the Company had not adhered to the Department's position that require that securities held under custodial or safekeeping arrangements be in a bank or trust company licensed by the United States or any state thereof, if such bank or trust company is regularly examined by a United States federal or state authority.</p>	

<u>ITEM</u>	<u>PAGE NO.</u>
It is recommended that the Company deposit its investments with a bank or trust company that is regularly examined by a United States federal or state authority.	10

The Company has complied with this recommendation. Subsequent to the examination date, the Company transferred the investments to a licensed bank that is FDIC insured.

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A	
<u>Holding Company System</u>	
(i) <u>Schedule Y</u>	
It is recommended that the company follow the instructions of the annual statement and complete Schedule Y, parts 1 and 2, in the future.	7
(ii) <u>Inter-Company Agreements</u>	
It is recommended that the Company notify the Superintendent, in writing, at least thirty days prior to entering into any agreements with an affiliate, in accordance with Section 1505(d)(3) of the New York Insurance Law.	9
B	
<u>Accounts and Records</u>	
(i) <u>Schedule-D Investments</u>	
It is recommended that the Company classify all of its bonds maturing within one year from the balance sheet date, as short term investment.	11
(ii) <u>Fidelity Bond Coverage</u>	
It is recommended that the Company maintain adequate fidelity bond coverage.	11
(iii) <u>Disaster Recovery Plan</u>	
It is recommended that the Company adopt a formal written disaster recovery/ business continuity plan to be approved by the Company's board.	11

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Market Conduct Activities</u>	
<u>Sales and Advertising</u>	
(i) <u>Travel and Entertainment</u>	
It is recommended that the Company draft written guidelines for the incurring and reimbursement of travel and entertainment ("T&E") expenses.	16
(ii) <u>Additional Finders Fees Commissions</u>	
It is recommended that the Company execute a written contract detailing the services performed for these override commission to all consultants.	16
It is recommended that the Company not pay both salary and commission for an employee unless the employee is given separate contracts delineating the various functions performed for salary and commission.	17
<u>Underwriting and rating</u>	
(iii) It is recommended that the Company institute procedures that ensure the premiums charged by the agents are accurate.	17
(iv) It is recommended that both the Company and York Title (the Agent) review all refinance title policies issued during the last five years where a refinance was involved and refund any amounts due to the misapplication of the refinance discount back to the insured.	17
(v) It is recommended that the Company review and monitor mortgage closing charges by its agents.	17

Appointment No 22459

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Moses Egbon

as proper person to examine into the affairs of the

WASHINGTON TITLE INSURANCE COMPANY

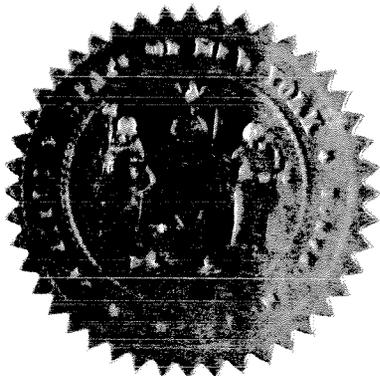
and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 22nd day of February, 2006



A handwritten signature in cursive script, appearing to read "Howard Mills", written over a horizontal line.

HOWARD MILLS
Superintendent of Insurance