

REPORT ON EXAMINATION
OF THE
FIRST AMERICAN TITLE INSURANCE COMPANY
OF NEW YORK
AS OF
DECEMBER 31, 2005

DATE OF REPORT

JUNE 1, 2007

EXAMINER

JIMMIE NEWSOME

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	6
	C. Reinsurance	7
	D. Holding company system	8
	E. Abandoned Property Law	10
	F. Segregated funds held for others	10
	G. Significant operating ratios	11
	H. Accounts and records	11
3.	Financial statements	15
	A. Balance sheet	15
	B. Operations and investment exhibit	17
4.	Known claim reserves	18
5.	Statutory premium reserve	18
6.	Market conduct activities	19
7.	Compliance with prior report on examination	20
8.	Summary of comments and recommendations	22



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

June 1, 2007

Honorable Eric R. Dinallo
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 22546 dated September 13, 2006, attached hereto, I have made an examination into the condition and affairs of the First American Title Insurance Company of New York as of December 31, 2005 and submit the following report thereon.

Wherever the designations "the Company" or "FATICONY" appear herein without qualification, it should be understood to indicate the First American Title Insurance Company of New York.

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

The examination was conducted at the Company's home office located at 633 Third Avenue, New York, New York 10017.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2000. This examination covers 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 complete 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 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 the Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of the 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 comments and recommendations 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 on September 14, 1967, as the Northeastern Title Guaranty Corporation under the laws of the State of New York and commenced business on September 11, 1968.

In March 1970, Netgo, Ltd., a holding company, acquired 98.25% of the outstanding stock of Northeastern Title Guaranty Corporation. On October 31, 1972, First American Title Insurance Company, a California corporation, purchased 100% of the outstanding stock of Northeastern Title Guaranty Corporation. The name of the Company was then changed to First American Title Insurance Company of New York.

At December 31, 2005, the capital paid in was \$1,000,000 consisting of 40,000 shares of common stock with a par value of \$25 per share. Gross paid-in and contributed surplus was \$77,619,615.

Gross paid-in and contributed surplus increased by \$29,349,372 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2000	Beginning gross paid-in and contributed surplus	\$48,270,243
2001	Debt forgiveness	\$4,016,458
2002	Debt forgiveness	5,351,252
2003	Debt forgiveness	4,612,483
2004	Debt forgiveness	6,346,364
2005	Debt forgiveness	<u>9,022,815</u>
	Total Surplus Contributions	<u>29,349,372</u>
2005	Ending gross paid-in and contributed surplus	<u>\$77,619,615</u>

A. Management

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

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Patrick Adamo Franklin Square, NY	Treasurer, Chief Financial Officer and Senior Vice President, First American Title Insurance Company of New York
Wayne Baird Wilton, CT	Executive Vice President, First American Title Insurance Company of New York
Michael J. Berey Scarsdale, NY	Senior Vice President, First American Title Insurance Company of New York
Bruce J. Clay Garden City, NY	Executive Vice President, First American Title Insurance Company of New York
Donald R. Garvey Pittsford, NY	Executive Vice President, First American Title Insurance Company of New York
Mark D. Garvey Honeoye Falls, NY	Senior Vice President, First American Title Insurance Company of New York
Mindy B. Haas Watchung, NJ	Senior Vice President, First American Title Insurance Company of New York
Parker S. Kennedy Orange, CA	Chairman, President and Chief Executive Officer, First American Financial Corporation
Gary L. Kermott Dana Point, CA	President, First American Title Insurance Company
Richard Marshall Staten Island, NY	Senior Vice President, First American Title Insurance Company of New York
Jeffrey S. Mitzner Briarcliff, NY	Executive Vice President, First American Title Insurance Company of New York
James M. Orphanides Princeton, NJ	Chairman, President and Chief Executive Officer, First American Title Insurance Company of New York
Helen M. Powell New Rochelle, NY	Executive Vice President, First American Title Insurance Company of New York

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance with the exception of Parker S. Kennedy, who attended less than 50% of the meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate policy decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria.

It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

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

<u>Name</u>	<u>Title</u>
James M. Orphanides	President
Margaret J. O'Brien	Secretary
Patrick Adamo	Treasurer
Martin I. Demsky	Vice President

1. Conflict of Interest

The Company has a procedure to distribute conflict of interest questionnaires to its board of directors, executive officers and to all principal employees on a yearly basis. A review of the Company's records was made for the period covered by this examination. This review was confined to the board of directors listed in the annual statements covered by this examination period. However, the Company was unable to provide the conflict of interest questionnaires for the year ended December 31, 2005.

The Company has a procedure for disclosing to its board of directors any material interest or affiliation on the part of its directors, officers or employees, which is in or is likely to conflict with the official duties of such person. Although no potential conflicts were disclosed by any of the officers, directors or key employees, it was noted that the Company did not have any established procedures regarding what steps the board would take in the event that a potential conflict was disclosed by anyone.

The Company has a fiduciary responsibility to its policyholders to ensure that its directors, officers and employees do not use their official positions to promote some interest, which is distinct from that of the company.

It is recommended that the board of directors maintain complete minutes of its proceedings on such matters.

It is recommended that the Company exercise due care in obtaining and maintaining signed conflict of interest questionnaires from its board of directors, officers and key employees.

It is recommended that the Company establish procedures which would detail the actions that the board would take when a conflict has been disclosed.

B. Territory and Plan of Operation

As of December 31, 2005, 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. Based upon the lines of business for which the Company is licensed, and the Company's 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 \$250,000. As of the examination date, the Company was licensed in Kansas, Michigan, New Hampshire, New York and Ohio. Although the Company is licensed to write business in other states, its premium writings are limited to the State of New York.

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

DIRECT PREMIUMS WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums Written</u>	<u>Premiums Written in New York as a percentage of Total Premiums Written</u>
2001	\$104,988,944	\$104,988,944	100.00%
2002	\$150,068,696	\$150,068,696	100.00%
2003	\$193,095,421	\$193,095,421	100.00%
2004	\$226,306,113	\$226,306,113	100.00%
2005	\$238,620,140	\$238,620,140	100.00%

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 behalf of the Company.

The Company utilizes direct, independent agents, and affiliated agents as distribution channels for its product offerings, with a share of direct premiums written of 33%, 62% and 5% respectively as of December 31, 2005.

During the period under examination, the Company maintained four branch offices located in New York at White Plains, Uniondale, Riverhead, and Manhattan, which provided all title services and operations. The Company's New York agency division is comprised of more than 400 agents, strategically located throughout the state.

C. Reinsurance

Assumed reinsurance accounted for less than 1% of the Company's gross premium written at December 31, 2005. During the period covered by this examination, the Company's assumed reinsurance business has remained stable since the last examination and consists mainly of title insurance coverage assumed on an excess of loss basis, pursuant to the terms of treaty agreements with both authorized and unauthorized cedants.

Effective January 1, 2002, the Company entered into a treaty reinsurance agreement with an affiliate, First American Title Insurance Company of Kansas, Inc., whereby the Company assumes 100% of the contracted liability in excess of \$500,000 on each policy issued by First American Title Insurance Company of Kansas, Inc. through First American Title Kansas Agency, Inc.

Effective January 1, 2002, the Company entered into a treaty reinsurance agreement with an affiliate, First American Title Insurance Company of Kansas, Inc., whereby the Company assumes 100% of the contracted liability in excess of \$500,000 on each policy issued by First American Title Insurance Company of Kansas, Inc. through independent agents.

Effective January 1, 2002, the Company entered into a treaty reinsurance agreement with its immediate parent, First American Title Insurance Company, a California corporation, which provides for the automatic retrocession of the reinsurance risks assumed by the Company pursuant to the reinsurance agreement with First American Title Insurance Company of Kansas, Inc.

The Company utilizes reinsurance accounting as defined in the NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

The Company employs the standard form American Land Title Association Facultative Reinsurance Agreement in ceding risks in excess of its primary retention of \$35,000,000 on a facultative basis.

The Company's maximum permissible retention on any one single risk as determined by this examination pursuant to Section 6403(c) of the New York Insurance Law is \$108,721,433. However, the Company voluntarily limits its retention on any one single risk to \$35,000,000. In addition, the Company reinsured certain risks with companies which were unauthorized in the State of New York. The Company did not require any deposits, funds withheld, or letters of credit from these unauthorized companies. The Company's maximum retention and amount of unauthorized reinsurance on any one single risk was within the limits prescribed by Section 6403(c) of the New York Insurance Law.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

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.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in 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. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 25 and 26 of SSAP No. 62.

D. Holding Company System

As of December 31, 2005, First American Financial Corporation is the ultimate parent in the holding company system. Members of the holding company system are detailed in Exhibit 1, appended to this report.

First American Title Insurance Company of New York became a controlled insurer of First American Financial Corporation on October 31, 1972. The Company is a wholly owned subsidiary of First American Title Insurance Company, a California corporation, which is ultimately controlled by First American Financial Corporation.

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

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

1. Tax Allocation Agreement

Effective December 15, 1994, the Company entered into a tax allocation agreement with its ultimate parent, First American Financial Corporation. The agreement was amended on January 1, 2003.

The tax allocation agreement complies with the guidelines set forth in Department's Circular Letter No. 33 (1979).

2. Cost Allocation Agreement

On January 1, 1997, the Company entered into a cost allocation agreement with its ultimate parent, First American Financial Corporation and immediate parent, First American Title Insurance Company, which was non-disapproved by the Department on June 25, 1998. Under the terms of the agreement, the parent companies will pay certain expenses on behalf of the Company and provide underwriting, claims and investment services. The costs or expenses for such services shall be allocated to the Company pursuant to a method which equitably reflects the actual cost to such party involved and consistent with the requirements of Department Regulation No. 30.

3. Sharing Agreement

On November 30, 2005, the Company entered into a sharing agreement with its wholly-owned subsidiary and affiliate, Public Abstract Corporation ("PAC"), which was non-disapproved by the Department on November 17, 2005 pursuant to Section 1505(d) of the New York Insurance Law.

Under the terms of the agreement, the Company agrees to provide PAC with human resources, accounting and other administrative services. The costs and expenses for such services shall be allocated to PAC pursuant to a method which equitably reflects the actual cost to such party involved and consistent with the requirements of Department Regulation No. 30.

E. Abandoned Property Law

Section 1317 of the New York State 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 refinancing of real property located in this state, made as an inducement to issue a title insurance policy shall be deemed to be 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. Such abandoned property 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. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

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

F. Segregated Funds Held for Others

At December 31, 2005, the Company reported \$405,272,303 as custodial funds set aside in special accounts and excluded from the Company's assets and liabilities. The Company maintains such funds in cash and other cash equivalents.

A detailed review was made of the underlying escrow deposit agreements to ascertain if the company was fulfilling its contractual obligations. Escrow funds are taken by the Company at title closing whenever there are unpaid or accrued amounts such as real estate taxes, franchise taxes, judgments or liens against the insured property. The Company has demonstrated that escrow funds are under constant review for settlement and disposal of objections cited in the title report. It appears that the Company is appropriately refunding balances after the title objections, for which the escrow was originally taken, were satisfied in a timely and efficient manner.

G. Significant Operating Ratios

The operating 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 incurred and loss adjustment expenses incurred	\$ 31,207,231	3.15%
Operating expenses incurred	954,903,336	96.35
Net operating gain	<u>4,962,066</u>	<u>0.50</u>
Premiums and fees earned	<u>\$991,072,633</u>	<u>100.00%</u>

H. Accounts and Records

The examiners noted the following deficiencies in the Company's system of account and records and annual statement reporting:

1. Title Insurance Premiums and Fees

During the period under examination, the examiners noted that the Company did not book premiums due from agents until the premiums were actually remitted by the agents. Pursuant to Section 6404(b) of the New York Insurance Law, premiums and fees due are required to be reported as follows:

“The superintendent shall allow as admitted assets premiums and fees for title examination and insurance and for abstracts and searches, not more than ninety days past due. Such premiums and fees shall be deemed to be due when the services for which such premium and fees are chargeable shall have been performed, except that with respect to abstracts and searches, not later than the closing of the transaction for which the services were rendered, and with respect to examination on a closed title basis premiums and fees shall be deemed due when title is closed.”

Although the agency agreements require remittances of premiums on a monthly basis, a review of the agents' statements revealed that some premiums and fees were not remitted until several months after the transaction has closed. As a result, the Company was unable to provide the examiners with a listing of uncollected premiums due from agents pursuant to Section 6404(b) of the

New York Insurance Law. In addition, the Company did not maintain an aged listing of uncollected premiums pursuant to Section 6404(b) of the New York Insurance Law.

It is recommended that the Company record premiums and fees when due and maintain an aged listing of uncollected premiums pursuant to the provisions of Section 6404(b) of the New York Insurance Law.

2. Agency Agreements

Agency agreements and audit reports of agents transacting title insurance business on behalf of the Company in New York State were reviewed to determine whether the Company ensured adherence to the provisions of the agency agreements. The following exceptions were noted:

- (i) The audit reports revealed that some agents failed to maintain escrow accounts in accordance with the terms of the agency agreements.
- (ii) In some instances, escrow deposits held by the agents on behalf of the Company were commingled.
- (iii) Some agents regularly disregard a clause in the agreement requiring remittances of premiums on a monthly basis.

It is recommended that the Company adhere strictly to the provisions of the agreements with its agents, with regards to the maintenance of escrow accounts which are separate from the agents' other operating accounts and other title insurers escrow accounts.

It is recommended that the Company seek to obtain timely remittances of escrow deposits and premiums from its agents.

3. Policy Number Control Log

The Company maintains a policy number control log, to keep a record of the policy numbers issued to their agents. Generally, policy numbers are issued in sequential order and distributed to the agents based upon past activity in pre-numbered policy jackets. An inspection of the policy number control log for the examination period revealed that in numerous instances there was no indication that policy numbers assigned to agents had been used. It was also noted that in many instances when additional policy numbers were assigned to agents, there were no policy number reconciliations performed to ensure that all previously issued policy numbers had been exhausted.

This situation was brought to the Company's attention. However, no documentation was provided to indicate that the Company performed a reconciliation of the agents' issued and unused policy numbers. The Company indicated that they could determine if the agent used all the issued policy numbers during the agents' audit, and if any numbers were missing they could be detected at the time of audit. The examiner noted that during the review of the Company's agents' audit reports, there were no instances where the Company's internal auditors performed a reconciliation of the agents' issued and unused policy numbers.

It is recommended that the Company implement better internal controls in assigning policy numbers to their agents and their branch offices.

It is recommended that the Company perform a reconciliation of the agents' issued and unused policy numbers prior to issuing new policy numbers, this will help to minimize the internal control deficiencies in accounting for missing policy numbers.

4. Contract with Certified Public Accountant ("CPA")

The review of the contractual agreements between the Company and its independent auditor during the examination period, revealed that they did not contain certain provisions required by Section 89.2 of Department Regulation 118 as follows:

- a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by Section 307 (b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;
- b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and
- c) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2 (b)(7) and (c) of this Title.

It is recommended that the Company comply with the provisions of Section 307 (b) of the New York Insurance Law and Department Regulation 118 with respect to its written engagement contracts with its CPA.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2005 as determined by this examination. This statement is the same as the balance sheet filed by the Company.

<u>Assets</u>	<u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$52,653,620		\$52,653,620
Common stocks	18,357,629	\$5,326,462	13,031,167
Mortgage loans on real estate first liens	344,863		344,863
Real estate	7,255,531	7,255,531	0
Cash and short-term investments	74,658,551		74,658,551
Other invested assets	1,596,270	1,596,270	0
Investment income due and accrued	616,006		616,006
Uncollected premiums and agents' balances in course of collection	3,593,092		3,593,092
Net deferred tax asset	8,523,192	6,916,005	1,607,187
Electronic data processing equipment and software	567,792		567,792
Furniture and equipment, including health care delivery assets	2,448,906	2,448,906	0
Receivables from parent, subsidiaries and affiliates	8,553,562	6,206,628	2,346,934
Notes on premium	853,809		853,809
Deposits and prepaids	<u>952,267</u>	<u>467,336</u>	<u>484,931</u>
Total assets	<u>\$180,975,090</u>	<u>\$30,217,138</u>	<u>\$150,757,952</u>

Liabilities

Losses	\$10,182,987
Statutory premium reserve	37,170,475
Other expenses	25,075,466
Taxes, licenses and fees	557,686
Current federal and foreign income taxes	2,101,364
Notes payable	<u>4,119,016</u>
Total liabilities	\$79,206,994

Surplus and Other Funds

Common capital stock	\$ 1,000,000
Gross paid-in and contributed surplus	77,619,615
Unassigned funds (surplus)	<u>(7,068,657)</u>
Surplus as regards policyholders	<u>71,550,958</u>
Total liabilities, surplus and other funds	<u>\$150,757,952</u>

NOTE: The Internal Revenue Service has completed its audits of the consolidated federal income tax returns filed on behalf of the Company through tax year 2004. 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 federal income tax returns covering tax year 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.

B. Operations and Investment Exhibit

Surplus as regards policyholders increased \$32,607,349 during the five-year examination period January 1, 2001, through December 31, 2005 detailed as follows:

Statement of Income

Operating Income

Premiums and fees earned		\$991,072,633
Deductions:		
Losses and loss adjustment expenses incurred	\$31,207,231	
Operating expenses incurred	<u>954,903,335</u>	
Total operating deductions		<u>986,110,566</u>
Net operating gain or (loss)		\$4,962,067

Investment Income

Net investment income earned	\$16,354,214	
Net realized capital gains or (losses)	<u>8,055,320</u>	
Net investment gain or (loss)		<u>24,409,534</u>
Net income after capital gains tax and before all federal income taxes		\$29,371,601
Federal and foreign income taxes incurred		<u>9,478,313</u>
Net income		<u><u>\$19,893,288</u></u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2000			\$38,943,609
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income or (loss)	\$19,893,288		
Net unrealized capital gains or (losses)		\$7,611,492	
Change in deferred income tax	8,523,192		
Change in non-admitted assets		\$8,790,203	
Paid in capital	29,349,467		
Non-admitted real estate		7,766,409	
Prior period adjustment	_____	<u>990,494</u>	
Total gains and losses	<u>\$57,765,947</u>	<u>\$25,158,598</u>	
Net increase (decrease) in surplus			<u>32,607,349</u>
Surplus as regards policyholders per report on examination as of December 31, 2004			<u>\$71,550,958</u>

4. KNOWN CLAIMS RESERVE

The examination liability of \$10,182,987 is the same as the amount 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 Company's internal records and in its filed annual statement.

5. STATUTORY PREMIUM RESERVE

The examination reserve of \$37,170,475 is the same as the amount reported by the Company as of December 31, 2005. The reserve was calculated based on a formula pursuant to Section 6405(a) of the New York Insurance Law, which includes a provision for the application of a dollar amount for each policy written and a percentage amount of the face amount of each policy.

The Company was in compliance with Section 6405(c) of the New York Insurance Law with regard to the amount of admitted assets being maintained separately as a segregated reserve fund.

6. 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
- C. Rating
- D. Claims and complaint handling

No problems were encountered.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained 10 recommendations as follows (item letters and page numbers refer to that of the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. It is recommended that the Company comply with their cost allocation agreement and Section 1505(a) (3) of the New York Insurance Law.	8
The Company has complied with this recommendation.	
It should also be pointed out that the Company's failure to settle its balances with its parent in fact constitutes an interest free loan to its parent. It is recommended that the Company collect any and all interest due it from its parent as a result of this loan.	8
The Company has complied with this recommendation.	
B. Loans made by the Company to its parent relative to the acquisition of real estate appear to be a violation of Section 1505(c) of the New York Insurance Law.	8
The Company has complied with this recommendation.	
C. The Company did not receive the approval required by Section 1404(a) (5) (B) (v) when acquiring its home office real estate.	9
The Company has complied with this recommendation.	
D. It is recommended that FATICONY submit a completed lease agreement for the Superintendent's approval in order to comply with Section 1505(d) of the New York Insurance Law.	9
The Company has complied with this recommendation.	
E. It is recommended that the Company comply with Circular Letter 33 (1975) and Circular Letter 15 (1979). It is also recommended that the Company's parent settle its federal income tax balances due to its affiliates in a timely manner.	10
The Company has complied with this recommendation.	
F. It is again recommended that the Company implement the following concerning its title insurance premiums and fees, and other fees receivable, pursuant to the provisions of Section 6404(b) of the New York Insurance Law:	12

ITEMPAGE NO.

- (i) Record premiums and fees when due.
- (ii) Maintain an aged listing of uncollected premiums.

The Company has not complied with this recommendation. A similar comment is made in this report.

- G. It is again recommended that the Company implement the following concerning its agency agreements: 13

- (i) Adhere strictly to the standard provision of the agreements with its agents, with regards to the maintenance of escrow accounts which are separate from the agents other operating accounts and other title insurers' escrow.
- (ii) Seek to obtain timely remittances of escrow deposits and premiums from its agents.

The Company has not complied with this recommendation. A similar comment is made in this report.

- H. It is again recommended that the Company implement the following concerning its issuance of policy numbers: 14

- (i) Incorporate better internal control in assigning policy numbers to their agents and their branch offices.
- (ii) Perform a reconciliation of the agents' issued and unused policy numbers prior to issuing new policy numbers this will help minimize the internal control deficiencies in accounting for missing policy numbers.

The Company has not complied with this recommendation. A similar comment is made in this report.

- I. The Company should immediately submit all documentation regarding its real estate acquisition to the Department for review. 19

The Company has complied with this recommendation.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
ii. It is recommended that the board of directors maintain complete minutes of its proceedings on such matters.	6
iii. It is recommended that the Company exercise due care in obtaining and maintaining signed conflict of interest questionnaires from its board of directors, officers and key employees.	6
iv. It is recommended that the Company establish procedures which would detail the actions that the board would take when a conflict has been disclosed.	6
B. <u>Account and Records</u>	
i. It is recommended that the Company record premiums and fees when due and maintain an aged listing of uncollected premiums pursuant to the provisions of Section 6404(b) of the New York Insurance Law.	12
ii. It is recommended that the Company adhere strictly to the provisions of the agreements with its agents, with regards to the maintenance of escrow accounts which are separate from the agents' other operating accounts and other title insurers escrow accounts.	12
iii. It is recommended that the Company seek to obtain timely remittances of escrow deposits and premiums from its agents.	12
iv. It is recommended that the Company implement better internal controls in assigning policy numbers to their agents and their branch offices.	13
v. It is recommended that the Company perform a reconciliation of the agents' issued and unused policy numbers; this will help to minimize the internal control deficiencies in accounting for missing policy numbers.	13
vi. It is recommended that the Company comply with the provisions of Section 307 (b) of the New York Insurance Law and Department Regulation 118 with respect to its written engagement contracts with its CPA.	14

EXHIBIT 1SCHEDULE Y, PART 1 – ORGANIZATIONAL CHART

The following table sets forth subsidiaries of First American Financial Corporation with the jurisdiction of domicile of each and the percentage of voting securities owned as of December 31, 2005. Unless otherwise indicated, all of the persons included in the table are corporations, the voting securities of which are directly owned by First American Financial Corporation.

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
First American Title Insurance Company	CA	
Parent: The First American Financial Corporation	CA	
Subsidiaries and Affiliates of First American Title Insurance Company:		
Accurate Appraisal Group Inc.		
Accurate Title Group LLC		
Albany County Title	WY	
All New York Title Agency Corporation	NY	
Allegiance Title	TX	
Allied Trustee Services Inc.	CA	
American First Abstract LLC		
American Land Title Inc	TX	
Androscoggin	ME	
Associates Title LLC		
ATI Title Co	AZ	
Atlantic Title Company Inc.	ME	
Attorneys' Abstract	NY	
Attorneys Title Agency LLC		
Backman Title Company of Utah Inc.		
Beaumont Title	TX	
Bienville Properties Inc.	LA	
Brokers Title	VA	
Burton Abstract & Title Company		
C.T.P Inc.	FL	
Cahaba Title Inc.	AL	
Caldwell County Abstract Co. Inc.	TX	
California Title	CA	
Campbell County Abstract Company	WY	
Capitol Title		
Carriage Escrow	CA	
Champions Title LLC		
Classic Settlements LLC		
Columbian National Title Insurance Company	KS	
Columbian Title of Topeka Inc.	KS	
Connecticut Title Services	CT	
Consolidated Title & Abstract	MN	
Converse Land Title Company	WY	
Cornerstone Title Company	CA	

CT Closing Services LLC	
Del Norte Title Company LLC	TX
Dona Ana Title Company Inc.	
Eagle Title and Abstract Corporation	FL
East Coast Real Estate Services	
Eastern Abstract Inc.	PA
Elite Abstract	
Emerging Market Technology Applications Inc	
Equity Land Title LLC	
Equity Title	
Esquire Title Research of Pensacola LLC	
Executive Title LLC	
Executive Corner Title and Settlement Services LLC	
F.A. Title Co of Waco d/b/a First Title Co. of Waco	TX
F.A. Title Holding Co (formerly FA Title of Ketchum)	
Fidelity Title and Guaranty	FL
Fidelity Title NJ	NJ
First American Abstract Company (LA)	LA
First American Abstract Company (MS)	MS
First American Affiliates	FL
First American Equity Loan Services	OH
First American Exchange Company LLC	
First American Homebuyers Protection Corporation	CA
First American Homebuyers Protection of Delaware	DE
First American Title & Abstract (OK)	OK
First American Title & Trust Company	OK
First American Title Co. (formerly FATCO of Los Angeles)	CA
First American Title Company (Ketchum)	ID
First American Title Company of Florida	FL
First American Title Company of Hawaii	HA
First American Title Company of Idaho	ID
First American Title Company of Illinois	IL
First American Title Company of Laramie County	WY
First American Title Company of Marin	CA
First American Title Company of Nevada	NV
First American Title Company of Stockton	CA
First American Title Guaranty Agency of Carbon County	WY
First American Title Guaranty Agency of Crook County	WY
First American Title Guaranty Agency of Hot Springs County	WY
First American Title Guaranty Agency of Sublette County	WY
First American Title Guaranty Holding Company	CA
First American Title Insurance Agency Inc. (Navajo)	AZ
First American Title Insurance Agency of Mohave Inc.	AZ
First American Title Insurance Agency of Utah Inc.	UT
First American Title Insurance Co. of Kansas	KS
First American Title Insurance Company of Australia (Pty) Ltd.	AU
First American Title Insurance Company of New York	NY
First American Title Insurance Company of North Carolina	NC
First American Title Insurance Company of Texas	TX
First American Title Kansas Agency Inc.	KS
First American Title Missouri Agency Inc	MO
First American Title of Alaska LLC	
First American Transportation Title Insurance Company	LA
First Australian	AU
First Florida Title LLC	
First Hong Kong Title	HK

First States Inc.	PA
First Title PLC dba 'F.A. Title Ins. Co. UK Ltd. (Adj Stk)	UK
Fremont County Title Company	WY
General Land Abstract Company	NJ
Goshen County Abstract & Title	WY
Greater Louisiana Title Ins. Co.	LA
Guaranty Abstract Title (MA)	MA
Guaranty Title Co. Inc. ME	ME
Guardian Title and Trust Inc	KS
Harder Abstracts LLC	
Hi-Tech Title Solutions Inc.	VA
Ileads.com LLC	
Integrated Title Services	
Investors Title Company	CA
Iowa State Escrow & Holdings LLC	
Island Title Corporation	HI
Johnson County Title Company Inc.	WY
Land Title Insurance Company of St. Louis	MO
Massachusetts Abstract Company Inc.	MA
Memphis Title Company	TN
Metropolitan Title	OH
Mid Valley Title and Escrow Company	CA
Midland Title Security Inc.	OH
Mooser & Freibert Land Title LLC	
National Land Title of Tarrant Inc.	TX
New York Abstract Company	NY
Northern Lakes Title Agency LLC	
Northwest Title LLC	
Ohio Bar Title Insurance Company	OH
Ohio Title Corporation	OH
Olympus Title LLC	
Optima Informations Services LLC	
Orange Coast Company LLC	
Orum Stair LLC	
Pacific Northwest Title Holding Company Inc.	WA
Penn Attorneys Title Insurance Company	PA
Performance Title Agency LLC	
Pilgrim Title	RI
Pioneer Agency	PA
Platinum Agency LLC	
Port Lawrence Title and Trust Company	OH
Priority Title	CA
Progressive Land Title LLC	
Quality LLC	
R&H Title LLC	
RELS Title Services	
Republic Title Agency LLC	
Republic Title of Texas	TX
Reunion Holdings LLC	TX
Security First Title Affiliates Inc.	FL
Security Land Title and Escrow	NE
Settlers Title Agency Inc.	NJ
Shoshone Title	WY
Signature Title	NH
Silvestri Title LLC	
Skagit County Title Company	WA

Success Agency LLC	
Sweeney Closing Services LLC	
TA Holdings Inc.	PA
Teton Land Title Company	WY
The Security Abstract & Title Company	KS
The Title Security Group	PR
TICORE Inc.	OR
Title Experts Agency LLC	
Title Partners of America	FL
Title Search Services LLC	
Title Services of New Mexico	NM
Title Star Mortgage Services LLC	
Town Center Title LLC	
Trans State Title	
TransAlaska Group LLC	
Trans-Alaska Summit First American Title Insurance Agency LLC	
Trans-County Title Agency LLC	
Twin City Title Company Inc.	TX
United General Title Insurance Company	CO
Unity Title LLC	
Universal Title Company	MN
Universal Title LLC	MD
US Title Insurance Agency LLC	
Village Communities Title LLC	
Virginia Title Examiners	
Warranty Title	OK
Washakie Abstract Company	WY
West Michigan Title Agency LLC	
Western National Title Insurance Company	UT
Westerview Title Agency LLC	
Wyoming Land Title Company	WY
Subsidiaries of First American Title Guaranty Holding Co:	
First American Title Guaranty Company	CA
First Escrow Accounting Services	CA
First Guaranty Exchange Company	CA
Superior Trustee's Services Co. Inc.	CA
First Guaranty Bancorp	CA
Subsidiaries of Land Title Insurance Company of St. Louis:	
Trust Company of St. Louis County	MO
Property Data Inc.	MO
Subsidiaries of First American Title Co. of Laramie County:	
Wyoming First Exchange	WY
Subsidiary of Massachusetts Abstract Company Inc.:	
Massachusetts Title Insurance Company	MA
Subsidiary of Mid Valley Title and Escrow Company:	
Mount Shasta Title & Escrow Company	CA
Subsidiaries and affiliates of Midland Title Security Inc.:	
First American Midwest Exchange Services Inc.	OH
R.E. Services Inc.	OH
Commerce Title Agency	OH

MTSI Ltd.

Subsidiary of First American Homebuyers Protection Corporation:

First American Homebuyers Protection of Delaware DE
Alliance Home Warranty UT

Subsidiaries and affiliates of First American Title Co (Ketchum):

First American Title Company of Montana MT
First American Title Company of Asotin County WA
First American Title Company of Ravalli County ID
First American Title Company (Mineral County) ID
First American Title Company (Great Falls) ID
First American Administrative Services ID
First Exchange of Idaho ID

Subsidiary of First American Title & Trust Co.:

Southwest Title Land Company OK

Subsidiaries and affiliates of First American Title Insurance Company of NY:

Preferred Land Title Services Inc. NY
Mortgage Guarantee & Title Company RI
L & H Abstract Corp. NY
Public Abstract Corp. NY
AKT Inc.
Judicial Title Insurance NY
Modern Abstract Corp

Subsidiaries of Republic Title of Texas Inc.:

American Escrow Co. TX
Texas Escrow Co. TX
Title Software Corp. TX
Financial American Title Co n/k/a RTT Financial Inc. TX

Subsidiaries of Ohio Bar Title Insurance Company:

ACS Title and Closing Services of KY Inc

Affiliate of Port Lawrence Title & Trust Company:

A.R.E.A. Title Agency OH

Subsidiaries of First American Title Ins Co (UK) Ltd.:

BrightRedd Limited
First Title Insurance plc
First Title Services Limited
Morgan Kennedy Limited
enact Holdings Limited
The Live Organization Limited

Subsidiary of F.A. Title Ins. Co. of Australia Pty LTD:

First Title New Zealand Limited NZ

Subsidiary of Pacific Northwest Title Holding Company:

Pacific Northwest Title Insurance Company Inc. WA
Title Optics Inc.
Pacific NW Title Company of Washington Inc.
Pacific NW Title Company of Snohomish County Inc.
Pacific Northwest Title of Oregon Inc.

Pacific NW Title of Alaska Inc.
Fairbanks Title Agency Inc.
Pacific NW Title Company of Kitsap County Inc.
Title Insurance Agency Inc.
Pacific NW Title Company of Spokane Inc.
Southcentral Title Agency
Pacific Northwest Title Building Inc.
American Property Exchange Inc.
Pacific Northwest Title of Lane County LLC

Subsidiaries of Security Land Title & Escrow Company:

SPL INC
Security Exchange Corp
Tower Title & Escrow Co.
Security Land Title Spenser IA
Security Land Title Onawa IA

Subsidiaries of TA Holdings Inc.:

T.A. Title Insurance Company	PA
Title Abstract Company of Pennsylvania	PA
T.A. Financial Services Inc.	PA
Closing Network Ltd	PA
Parking Intermediary Corp	PA
Title Alliance Ltd	PA
T.A. Title Agency Inc.	PA
T.A. Title Agency of Ohio Inc.	

Respectfully submitted,

_____/S/_____
Jimmie Newsome
Associate Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

JIMMIE NEWSOME, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
Jimmie Newsome

Subscribed and sworn to before me

this _____ day of _____ 2008.

Appointment No 22546

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:

Jimmie Newsome

as proper person to examine into the affairs of the

FIRST AMERICAN TITLE INSURANCE COMPANY OF NEW YORK

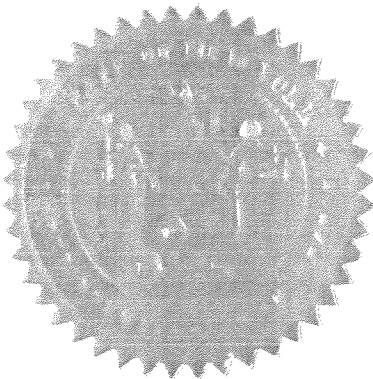
and to make a report to me in writing of the condition of the said

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 13th day of September, 2006



A handwritten signature in cursive script, appearing to read "Howard Mills".

HOWARD MILLS
Superintendent of Insurance