



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**TITLE INSURANCE COMPANY OF OREGON
DBA FIRST AMERICAN TITLE INSURANCE COMPANY OF OREGON
PORTLAND, OREGON**

NAIC COMPANY CODE 50504

AS OF

DECEMBER 31, 2007

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SALUTATION

January 5, 2009

Alfred W. Gross, Commissioner
Chairman, NAIC Financial Condition (E) Committee
State Corporate Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440
Salem, Oregon 97301-3883

Dear Commissioner and Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**TITLE INSURANCE COMPANY OF OREGON
DBA FIRST AMERICAN TITLE INSURANCE COMPANY OF OREGON
222 SW Columbia Street, Suite 400
Portland, Oregon 97201**

NAIC Company Code 50504

hereinafter referred to as the "Company." The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination of the Company was conducted as of December 31, 2007, covering the three year period then ended, and included a review of material transactions or events which occurred subsequent to the date of examination.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the NAIC for the purpose of determining the Company's financial condition and ability to fulfill its obligations, nature of operations, and compliance with the Insurance Code. Accounting methods, internal control procedures, records, and other supporting evidence were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume, and complexity of the accounting system and operations utilized by the Company. A review was also made of the corrective actions taken by the Company with respect to comments and recommendations in the previous financial report of examination as of December 31, 2004.

COMPANY HISTORY

The Company was incorporated in the State of Oregon as Abstract and Title Insurance Company on October 16, 1937, and was granted a certificate of authority and commenced business on November 1, 1937. In 1957, the Company name was changed to Title Insurance Company. Effective December 30, 1968, the Company was acquired by TICORE, Inc., an Oregon holding company. The Company's present name was adopted in 1970.

Effective January 1, 2004, the Company's parent, TICORE, Inc., was dissolved. The existing assets and liabilities of TICORE, Inc., were then transferred to the Company and to First American Title Insurance Company. As a result, all outstanding shares of the Company are owned by First American Title Insurance Company ("FATiCo").

CAPITALIZATION

Initial capitalization consisted of 10,000 shares of \$10 par value common stock authorized with 10,000 shares issued and outstanding. In 1974, the direct parent, TICORE, Inc., contributed all the outstanding shares of stock of Willamette Valley Title to the Company. This contribution was reported as \$651,260 of contributed surplus in the Company's annual statement. During 2000, the Company purchased 100% of the outstanding shares of Josephine Crater Title Companies, Inc., and subsequently in 2001, agreed to transfer \$2,798,183 of the Company's debt to TICORE, Inc. In the Company's 2001 annual statement, the Company recorded this transaction as debt relief and a capital contribution. In October 2001 the Company's parent purchased 100% of the stock of Commercial Title Co., for \$1,322,779 and subsequently contributed the assets to the Company. The result of these transactions increased the gross paid in and contributed surplus to \$4,772,222.

Dividends to Stockholders

From 2005 to 2007, the Company declared and paid dividends to its stockholder as follows:

<u>Declared date</u>	<u>Paid date</u>	<u>Amount</u>	<u>Description</u>
4/21/2005	6/20/2005	10,000,000	Extraordinary
5/5/2006	6/21/2006	12,000,000	Ordinary
5/9/2007	6/22/2007	10,144,000	Ordinary

All distributions were in cash and were approved by the Oregon Insurance Division pursuant to ORS 732.554 and 732.576.

MANAGEMENT AND CONTROL

Board of Directors

The Articles of Incorporation, in Article III, require the Company's management and control to be vested in a Board of Directors. Article III, section 1, of the Bylaws specified the number of directors shall consist of at least ten (10) members but not more than twenty (20)

members, the majority of whom shall be residents of the State of Oregon. The Board of Directors met the age, number of directors, residency requirement, and all other provisions of ORS 732.305.

Directors serving the Company at December 31, 2007, were as follows:

<u>Name and Address</u>	<u>Position and Association</u>	<u>Director Since</u>
Steven E. Brown Portland, Oregon	President Title Insurance Company of Oregon	1993
Kris L. Davenport Portland, Oregon	Sr. VP, CFO and Treasurer Title Insurance Company of Oregon	2002
John D. Dobson Portland, Oregon	Sr. VP, Secretary and Counsel Title Insurance Company of Oregon	2003
Thomas S. Hartman Seattle, Washington	Regional Vice President First American Title Insurance Company	2000
Curt G. Johnson San Juan Capistrano, California	President First American Title Insurance Company	2007
Donald P. Kennedy Santa Ana, California	Chairman of the Board First American Corporation	1969
William B. Morrish Oakland, California	Retired	2000
Charles J. O'Rourke Jr.* West Linn, Oregon	Retired/Former President Title Insurance Company of Oregon	1995
Mitchell L. Steeves Portland, Oregon	Vice President Title Insurance Company of Oregon	2005
Lawrence M. White Bend, Oregon	Retired/Former Vice President First American Title Insurance Company	1990

*Chairman of the Board

Subsequent to the examination date, Steven Brown, Donald Kennedy, William Morrish, Charles O'Rourke and Lawrence White resigned from the Board. At the annual meeting held June 17, 2008, Dennis J. Gilmore and John P. Dahl were elected directors by the shareholder

for the remainder of the 2007-2008 term. On the same date, the directors resolved to amend the Bylaws to read: “The Affairs of the Corporation shall be conducted by a Board of Directors consisting of at least five (5) members and not more than ten (10) members. The makeup of the Board shall comport with the statutory requirements set out in ORS Chapter 732.”

Officers

The following officers were elected and serving at December 31, 2007:

<u>Name</u>	<u>Position</u>
Steven E. Brown	President
John D. Dobson	Vice President, Secretary and Counsel
Kris L. Davenport	Vice President, CFO and Treasurer
Mitchell L. Steeves	Senior Vice President
Theresa L. Graham	Vice President

Subsequent to the examination date, Steven Brown tendered his resignation and the Board of Directors elected Mitchell Steeves as President of the Company.

AFFILIATED COMPANIES

The ultimate controlling entity is the First American Corporation, a publicly traded company (NYSE: FAF), which, through its subsidiaries, is engaged in the business of providing business information and related products and services. First American Corporation has five reporting segments that fall within two primary business groups: financial services and information technology. The financial services group includes title insurance, related services segment and specialty insurance segment.

First American Title Insurance Company (FATICo), is a California domiciled title insurance company, owned 100% by First American Corporation. FATICo is the direct parent of the Company.

First American Trust, FSB, is a California domiciled corporation, owned 100% by First American Corporation. First American Trust is chartered as a federal savings bank with the Office of Thrift Supervision and is a registered investment advisor with the Securities and Exchange Commission.

INTERCOMPANY AGREEMENTS

The Company has an informal agreement with FATICo that provides for the exchange of funds between these two entities in the event that funds are needed by either company. There are no explicit fees associated with this agreement. Pursuant to SSAP No. 96, all transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date. **I recommend the Company enter into a formal management services agreement with FATICo, and supply a copy to the Oregon Insurance Division with a Form D filing, as required by ORS 732.564, OAR 836-027-0160, and SSAP No. 96.**

Tax Allocation Agreement

The Company is subject to a Federal Income Tax Allocation Agreement, entered into on December 15, 1997, and approved by the Board of Directors. The Company's federal income tax return is consolidated with First American Financial Corporation and its subsidiaries. Each member of the tax group shall pay its estimated federal tax liability on at least a quarterly basis, with the amount based on adjusted annualized pre-tax book income. Payments are due no later than the 10th day of April, June September and December.

Custodial Agreement

The Company maintains a Custodial Agreement with an affiliate, First American Trust, FSB. Under the agreement, First American Trust acts as custodian for the Company's cash,

securities, and any other property or interest in property which the Company, as owner, has delivered to First American Trust concurrently with the execution of the agreement. Such assets are held in the Company's custody account and are segregated from the proprietary assets of First American Trust.

CONFLICT OF INTEREST

The Company has an established a Code of Ethics and Conduct requiring disclosure of any material interest or affiliation on the part of any of its directors and officers which may conflict with official duties. A review of the disclosure statements completed annually by management and directors did not reveal any exceptions.

BOARD OF DIRECTOR MINUTES

Corporate minutes were reviewed for the period under examination. It was noted that the Board minutes were recorded in sufficient detail to determine the actions taken by the Board. A review of all minutes for the period under examination revealed no acts inconsistent with the Company's Articles of Incorporation or Bylaws. A quorum met at all meetings held during the period under examination.

A review of the 2005 through 2007 Board minutes indicated that the minutes support the transactions of the Company and the actions taken by its officers. The Board approved officer salaries in accordance with the provisions of ORS 732.320(3).

Articles of Incorporation

The Articles of Incorporation conformed with Oregon statutes. No amendments were made to the articles during the period covered by this examination.

Bylaws

The Bylaws conformed with Oregon statutes. No amendments were made during the period covered by this examination. As noted earlier in this Report, the Board amended the Bylaws on June 17, 2008, to change the number of authorized directors to at least five (5) and not more than ten (10) members.

REINSURANCE

Ceded Reinsurance

Title insurance losses in excess of \$5,000,000 are covered by a reinsurance agreement with its parent, FATICo, which is licensed in Oregon. Risk retention of \$5,000,000 is in compliance with ORS 731.504, since it is less than 50% of surplus as regards policyholders. Under self-imposed limits, the Company effectively cedes all risk in excess of \$500,000. Such a reinsurance agreement does not relieve the Company of the primary obligation to policyholders. Also, under self imposed limits, the Company effectively cedes all risk to FATICo for those policies issued in Wisconsin. The Company is contingently liable for losses with respect to ceded reinsurance in the event the reinsurer is unable to satisfy its contractual obligations.

Insolvency Clause

The reinsurance agreement contained a proper insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency, as required by the provisions of ORS 731.508.

Assumed Reinsurance

The Company assumes a small block of business from FATICo for risks on policies issued in Oregon by its National Commercial Services Division and by Pacific Northwest Title of

Oregon, a newly acquired subsidiary. The Company assumes 100% of the risks, and the ceding company retains 0%.

FIDELITY BONDS AND OTHER INSURANCE

Insurance coverage is through master policies covering FATICo (parent) and all its subsidiaries. A fidelity bond from National Union Fire Insurance Company of Pittsburgh, PA., is in effect covering losses up to \$10 million per claim and \$20 million in the aggregate for the policy period. Other insurance policies in effect covered the following risks:

Errors & omission	Auto liability
Directors & officers liability	Workers' compensation

These policies have adequate loss limits, retentions, and are underwritten by insurers that are authorized to transact insurance in Oregon. However, the Company was not protected for risks associated with property liability, specifically for its two properties owned and listed on Schedule A of the filed annual statement. **I recommend the Company obtain adequate protection for risks associated with property liability.**

RETIREMENT PLANS, AND OTHER POSTRETIREMENT BENEFITS

Consolidated/Holding Company Plans

First American Corporation sponsors a 401(k) savings plan covering substantially all of the employees. The Company, at its discretion, may make a matching contribution in the form of cash, common stock of FAF, or a combination of each. The Board of Directors determines the matching portion each year, based on pre-tax profitability of First American for that year. The participant may elect to invest in one or more of eight segmented funds, with risks ranging from money market funds to international stocks, or they may contribute towards Company stock, or into a lifecycle fund. Participants are fully vested in the plan.

During the period under review, the Company matched their employee's contributions at 200% of the first 3% of salary.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to insure titles to real property and to issue policies of title insurance in Oregon, Michigan and Wisconsin. The Company operations are supported by 16 wholly owned title plants and the Tri-County Title Plant, a partnership with eleven other title insurers. A small amount of business was written in Wisconsin, and no business was written in Michigan, during the period under examination.

Expansion within Oregon has been through signing new agency agreements and through acquisition of title plants which were formerly independent agencies. Using various underwriting agreements, the Company insures titles to real property and issues policies of title insurance through these agents. In 2007, the Company had 25 agents with branch offices throughout Oregon.

Title insurance policies issued by agents must be on approved forms furnished by the Company without cost to the agent. Under a typical underwriting agreement, the agent retains 90% to 92% of the premiums as compensation on all title policies issued and, in the event of a claim on a policy issued by an agent, the agent may be responsible for reimbursing the Company for the first \$4,000 of loss if the loss is attributed to error, fault or negligence of the agent. If the loss is imputed to a matter which the agent could not reasonably determine, such as a forgery, the Company bears the entire loss.

GROWTH OF THE COMPANY

The following exhibit reflects the growth of the Company since the previous examination. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, financial examination reports prepared by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
2004*	\$66,509,094	\$32,225,608	\$34,283,486	\$ 9,964,418
2005	73,676,057	42,026,317	31,649,740	12,006,496
2006	66,611,038	33,600,365	33,010,673	10,144,153
2007*	64,001,382	31,960,107	32,041,274	5,978,208

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the loss experience of the Company since the previous examination. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, financial examination reports prepared by the Oregon Insurance Division.

<u>Year</u>	(1) <u>Title Insurance Premiums Earned</u>	(2) <u>Loss and Loss Adjustment Expenses Incurred</u>	(2/1) <u>Pure Loss Ratio</u>
2004*	\$59,647,477	\$1,108,151	1.86%
2005	65,042,714	3,078,073	4.73%
2006	65,418,298	2,267,456	3.46%
2007*	59,893,994	2,919,785	4.87%

*Per examination

ESCROW ACCOUNTS

Escrow funds totaling \$77,474,998 as of December 31, 2007, were shown as segregated funds held for others as non-interest earning cash deposits since the funds are not reported as assets or liabilities on the balance sheet. These escrow accounts were not included in this examination since this function is the responsibility of the Oregon Real Estate Commissioner under the provisions of ORS 696.541(2).

ACCOUNTS AND RECORDS

In general, the Company's accounting and corporate records were maintained in a manner in which the financial condition was verifiable as required by the provisions of ORS 733.170. Disbursements were evidenced by bills, invoices or statements, and all disbursements in excess of \$100 were supported by signed vouchers or related documents pursuant to the provisions of ORS 732.320. The Company presently has procedures to account for unclaimed funds as required by ORS 98.352. As of December 31, 2007, the Company had no management contract or exclusive agency contract in effect, which is prohibited by the provisions of ORS 732.215 and ORS 732.220.

In general, the Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting and adjusts to a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting for its purposes. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no material exceptions were noted.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has taken corrective action with respect to the ten (10) recommendations made in the 2004 Report of Examination. The follow-up report was prepared on July 23, 2007.

SUBSEQUENT EVENTS

During the course of this examination it was determined that one transaction occurred subsequent to December 31, 2007, and significantly affected the operations and financial statements of the Company. As a result, the event is disclosed as follows:

Pursuant to ORS 732.554, the provisions of the Oregon Insurance Code, and the Oregon Administrative Rules (OAR 836-027-0170), as amended, a meeting was held on July 17, 2008, where the Board of Directors of the Company declared an ordinary dividend of \$5,978,208 to be payable July 30, 2008, subject to appropriate regulatory approvals. The Oregon Insurance Division approved the dividend on July 30, 2008.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of Title Insurance Company of Oregon, dba First American Title Insurance Company of Oregon as of December 31, 2007:

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Reconciliation of Surplus for the Period Since the Last Examination

TITLE INSURANCE COMPANY OF OREGON
DBA FIRST AMERICAN TITLE INSURANCE COMPANY OF OREGON
ASSETS
AS OF DECEMBER 31, 2007

Assets	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Bonds	\$ 18,668,231		\$ 18,668,231	1
Stocks:				
Common stocks	4,192,114		4,192,114	1
Mortgage Loans on real estate				
First liens	4,239,068		4,239,068	2
Real Estate				
Properties occupied by the company	76,777		76,777	
Properties held for sale	68,000		68,000	
Cash, cash equivalents and short-term investments	18,751,393		18,751,393	1
Other long-term invested assets	1,000,000		1,000,000	3
Aggregate write-ins for invested assets	-		-	
Subtotal, cash and invested assets	<u>46,995,583</u>		<u>46,995,583</u>	
Title Plants	9,783,095		9,783,095	
Investment income due and accrued	76,755		76,755	
Agents' balances or uncollected premiums:				
Uncollected premiums and agents' balances in course of collection	683,500		683,500	
Federal and foreign income tax recoverable	1,107,057		1,107,057	
Net deferred tax asset	1,460,872		1,460,872	
Receivable from parent, subsidiaries and affiliates	1,386,324		1,386,324	
Aggregate write-ins for other than invested assets	2,508,196		2,508,196	4
Total Assets	<u>\$ 64,001,382</u>	<u>\$ -</u>	<u>\$ 64,001,382</u>	

TITLE INSURANCE COMPANY OF OREGON
DBA FIRST AMERICAN TITLE INSURANCE COMPANY OF OREGON
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2007

	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
Liabilities, Surplus and other Funds				
Known claims reserve	\$ 2,405,104		\$ 2,405,104	
Statutory premium reserve	19,799,451		19,799,451	
Other expenses	4,356,674		4,356,674	
Taxes, licenses and fees	4,312,701		4,312,701	
Borrowed money	1,083,585		1,083,585	5
Amounts withheld or retained for account of others	2,592		2,592	
Aggregate write-ins for liabilities	-		-	
Total Liabilities	<u>\$ 31,960,107</u>		<u>\$ 31,960,107</u>	
Aggregate write-ins for special surplus funds	610,382		610,382	
Common capital stock	100,000		100,000	
Aggregate write-ins for other than special surplus funds	-		-	
Gross paid in and contributed surplus	4,772,222		4,772,222	
Unassigned funds (surplus)	26,558,670		26,558,670	
Surplus as regards policyholders	<u>\$ 32,041,274</u>		<u>\$ 32,041,274</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 64,001,381</u>	<u>\$ -</u>	<u>\$ 64,001,381</u>	

TITLE INSURANCE COMPANY OF OREGON
DBA FIRST AMERICAN TITLE INSURANCE COMPANY OF OREGON
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2007

	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
Operating Income				
Title insurance and related income				
Title insurance premiums earned	\$ 59,893,994		\$ 59,893,994	
Escrow and settlement services	22,946,061		22,946,061	
Other title fees and service charges	5,672,050		5,672,050	
Total operating income	88,512,105		88,512,105	
Deductions				
Losses and lae incurred	2,919,785		2,919,785	
Operating expenses incurred	78,334,791		78,334,791	
Aggregate write-ins for underwriting deductions	(507)		(507)	
Total underwriting deductions	81,254,069		81,254,069	
Net underwriting gain or (loss)	7,258,036	-	7,258,036	
Investment Income				
Net investment income earned	1,590,147		1,590,147	
Net realized capital gains or (losses)	168,650		168,650	
Net investment gain or (loss)	1,758,797	-	1,758,797	
Other Income (Expense)				
Aggregate write-ins for miscellaneous income	-		-	
Federal and foreign income taxes incurred	(3,038,625)		(3,038,625)	
Total other	(3,038,625)	-	(3,038,625)	
Net income	\$ 5,978,208	\$ -	\$ 5,978,208	

TITLE INSURANCE COMPANY OF OREGON
DBA FIRST AMERICAN TITLE INSURANCE COMPANY OF OREGON
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST
EXAMINATION

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Surplus as regards policyholders, December 31, previous	\$ 33,010,673	\$ 31,649,740	\$ 34,283,486
Net income	5,978,208	10,144,153	12,006,496
Net transfers (to) from Protected Cell accounts	-	-	-
Change in net unrealized capital gains or (losses)	277,788	449,255	12,634
Change in net unrealized foreign exchange capital gain (loss)	-	-	-
Change in net deferred income tax	(1,318,372)	625,840	1,039,387
Change in nonadmitted assets	3,674,414	1,962,623	(4,143,961)
Change in provision for reinsurance	-	-	-
Change in surplus notes	-	-	-
Surplus (contributed to) withdrawn from protected cells			
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Net remittances from or (to) Home Office	-	-	-
Dividends to stockholders (cash)	(10,144,000)	(12,000,000)	(10,000,000)
Change in treasury stock	-	-	-
Aggregate write-ins for gains and losses in surplus	562,563	179,062	(1,548,302)
Change in surplus as regards policyholders for the year	<u>(969,399)</u>	<u>1,360,933</u>	<u>(2,633,746)</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 32,041,274</u>	<u>\$ 33,010,673</u>	<u>\$ 31,649,740</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

Most of the Company's long-term bond investments were in municipal obligations, federal agency bonds, and corporate issues. The Company did have a significant exposure to mortgaged-backed and asset-backed (MB/ABS) securities. All MB/ABS issues were investment rated at year-end 2007, but the book carrying value of \$7.9 million comprised over 42% of the total long-term bond portfolio, or almost 17% of all invested assets. An additional \$3.0 million was invested in National Collegiate Student Loan Trust, which was unrated by any Nationally Recognized Statistical Rating Organization. This security was sold on January 8, 2008, so no recommendation will be made regarding the requirement to register securities with the Securities Valuation Office. Common Stocks were comprised of a number of individual corporations and twelve mutual funds. Cash and short-term deposits consisted of cash on deposit and one short-term money market fund. A comparison of the investments over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stocks</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total</u> <u>Assets</u>
2003	\$ 4,063,416	\$3,175,631	\$34,822,246	7.2%	5.7%	62.1%
2004	4,570,053	3,408,115	33,793,082	6.9%	5.1%	50.8%
2005	4,811,681	3,949,020	41,300,937	6.5%	5.4%	56.1%
2006	4,895,778	4,472,647	35,707,280	7.3%	6.7%	53.6%
2007	18,668,231	4,192,114	18,751,393	29.2%	6.6%	29.3%

A review of the meeting minutes indicated the Board of Directors approved the investment transactions, pursuant to ORS 733.740. As of December 31, 2007, invested assets of \$5,157,888, representing 11.0% of the total invested assets, were invested in amply secured obligations of the United States or FDIC insured cash deposits as required by ORS 733.580.

As noted under Intercompany Agreement section above, the Company has a custodial agreement with First American Trust, FSB. This agreement does not contain many of the protections described in OAR 836-027-0200(4)(d) through (l). **I recommend the custodial agreement with First American Trust, FSB, be amended to include all the protections required under OAR 836-027-0200(4)(d) through (l).**

Note 2 - Mortgage Loans

The Company provided construction financing in the amount of \$2,651,543 to River Bend Limited Partnership to construct a building in Bend, OR, in 2004. Per the Construction Lending Agreement, upon completion of the project the Company executed a promissory note, a First Trust Deed securing the promissory note, and related title insurance. The promissory note has an annual interest rate of 7 percent with the balance amortized over 25 years based on monthly principal and interest payments. The entire balance is due on or before August 29, 2014. The Construction Lending Agreement also required the Company

to lend River Bend LP and additional amount to bring the mortgage loan to a value of 80 percent of the completed building's appraised value. The completed building was independently appraised at \$5.6 million at September 10, 2003. As a result, the mortgage loan amounted to \$4,480,000.

Two other mortgage loans were nonadmitted by the Company. A property in Portland, Oregon, was delinquent at December 31, 2007, in the amount of \$21,237. A second mortgage loan in Stayton, Oregon, was acquired in 2005 when the Company purchased an escrow business and provided a \$500,000 loan to the husband of the senior escrow officer as a condition of her continuing to work for FATICo. The remaining balance was \$471,925 at December 31, 2007, which exceeded the appraised value of the building. The Company has nonadmitted the entire amount.

Note 3 – Other Long Term Assets

On May 31, 2001, the Company loaned its ultimate parent, First American Corporation, \$1 million, with interest only payments to be made annually at 6.75%. The promissory note is secured by \$1,250,000 of cash and cash equivalents held by First American Corporation. The principal balance on the promissory note is not due until May 31, 2011.

Note 4 – Goodwill

The Company reported aggregate write-ins for other than invested assets in the amount of \$8,114,495, representing goodwill amounts paid for certain intangible assets related to the acquisition of several title plants in 2000 and 2004. Accumulated amortization and adjustments to goodwill through year-end 2007 totaled \$2,824,618. The balance exceeded the limitations of SSAP No. 68, paragraph 7, by \$2,781,682, which the Company properly nonadmitted. **I recommend the Company, given the severe economic downturn in the real estate industry, test the remaining goodwill for impairment, pursuant to ORS 731.574 and SSAP No. 68, paragraphs 8 and 9.**

Note 5 – Borrowed Money

Prior to the period under examination, the Company issued twelve separate promissory notes to individuals in exchange for the purchase of several title plants in Oregon. The notes were issued during the period between 1997 and 2004, and all but three of the notes were paid off during 2007. Two of the remaining notes were authorized by TICORE, Inc., the former parent holding company, and the third was authorized directly by the Company's Board. As noted previously in this report, TICORE was dissolved in 2004. The Company's Board of Directors formally resolved to assign the two TICORE notes to the Company on May 9, 2007.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Page

- 8 I recommend the Company enter into a formal management services agreement with FATICo, and supply a copy to the Oregon Insurance Division with a Form D filing, as required by ORS 732.564, OAR 836-027-0160, and SSAP No. 96.
- 11 I recommend the Company obtain adequate protection for risks associated with property liability.
- 20 I recommend the custodial agreement with First American Trust, FSB, be amended to include all the protections required under OAR 836-027-0200(4)(d) through (l).
- 21 I recommend the Company, given the severe economic downturn in the real estate industry, test the remaining goodwill for impairment, pursuant to ORS 731.574 and SSAP No. 68, paragraphs 8 and 9.

CONCLUSION

During the three year period covered by this examination, the surplus as regards policyholders of the Company decreased from \$34,283,486 as presented in the December 31, 2004, report of examination, to \$32,041,274 as shown in this report of examination. The comparative assets and liabilities are shown below:

	<u>2007</u>	December 31, <u>2004</u>	<u>Change</u>
Assets	\$64,001,381	\$66,509,094	\$(2,507,713)
Liabilities	<u>31,960,107</u>	<u>32,225,608</u>	<u>265,501</u>
Surplus	<u>\$32,041,274</u>	<u>\$34,283,486</u>	<u>\$(2,242,212)</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, David F. Dahl, ACAS, MAAA, actuary, and Raymond Anderson, AFE, Mark Giffin, CFE, and Ellen Quale, CPA, insurance examiners, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

Greg A. Lathrop, CFE
Supervising Financial Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Greg A. Lathrop, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Title Insurance Company of Oregon dba First American Title Insurance Company of Oregon, Portland, Oregon.

2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of Title Insurance Company of Oregon dba First American Title Insurance Company of Oregon was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Greg A. Lathrop, CFE
Supervising Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this _____ day of _____, 2009.

Notary Public for the State of Oregon

My Commission Expires: _____