



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**STEWART TITLE INSURANCE COMPANY OF OREGON  
PORTLAND, OREGON**

**NAIC COMPANY CODE 50036**

AS OF

December 31, 2007

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## SALUTATION

July 25, 2008

Alfred W. Gross, Commissioner  
Chairman, NAIC Financial Condition (E) Committee  
State Corporation 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 Director and Commissioner:

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

**STEWART TITLE INSURANCE COMPANY OF OREGON**  
**2020 SW 4<sup>TH</sup> Avenue, Suite 190**  
**Portland, Oregon 97201**

**NAIC Company Code 50036**

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

## **SCOPE OF EXAMINATION**

We examined the Company's financial statements as of December 31, 2007. This examination covers the three-year period from December 31, 2004. Material transactions or events subsequent to the examination cut-off date were reviewed and noted during the examination.

We followed the provisions of ORS 731.300 and the procedures and guidelines prescribed by the NAIC. This examination determined the Company's financial condition, ability to fulfill its obligations, nature of operations and compliance with the Insurance Code. Accounting methods, records and supporting evidence were examined or tested. Assets, liabilities, income and expenses related items were also examined or tested. Corrective actions taken by the Company in response to comments and/or recommendations in the December 2004, examination were also reviewed.

## **COMPANY HISTORY**

The Company received a Permit to Organize an insurance corporation with capital stock from the Oregon Department of Consumer and Business Services (DCBS) on April 3, 1997. On that same date, the Company received a certificate of incorporation pursuant to ORS 732.115. The Company received its certificate of authority to transact title insurance on July 29, 1997, and is presently so authorized.

## **CAPITALIZATION**

The Company's Articles of Incorporation authorize 10,000,000 shares of common stock with a par value of \$1 per share. As of December 31, 2007, the Company had 500,000 shares of common stock issued and outstanding. The Company's parent, Stewart Title Guaranty Company (STG), owns 100% of the issued and outstanding shares.

## MANAGEMENT AND CONTROL

The Bylaws vest management and control of the Company in a Board of Directors, consisting of not less than five individuals. The Board of Directors meets all of the provisions of ORS 732.305.

The directors elected and serving at December 31, 2007, were as follows:

<u>Name and Address</u>	<u>Affiliation</u>	<u>Director Since</u>
Stewart Morris, Jr.*	Chairman Stewart Title Company	1997
Robert Paul Oakland	Senior Vice President Stewart Title Guaranty Company	1999
Craig McRae Chisholm	President & Chief Executive Officer Stewart Title Insurance Co. of Oregon	1997
Linda Kay Stoddard	Vice President & Assistant Secretary Stewart Title Insurance Co. of Oregon	2000
Mark Edward Pillette	District Manager Stewart Title Guaranty Company	2004

\*Chairman of the Board

### Officers

Principal officers appointed and serving the Company at December 31, 2007, were as follows:

<u>Name</u>	<u>Office</u>
Stewart Morris, Jr.	Chairman
Craig M. Chisholm	President and Chief Executive Officer
Linda K. Stoddard	Vice President / Assistant Secretary
Kenneth D. Anderson, Jr.	Secretary-Treasurer
Alison R. Evers	Vice President-Controller
Sue M. Pizzitola	Assistant Secretary

### **Parent and Affiliated Companies**

The Company is part of a group of companies that provides a variety of products and services related to the real estate and title industry. A brief description of the companies within this group that are related to operations of the Company are as follows:

Stewart Information Services Corporation (SISCO) is a technology driven global real estate information company. SISCO provides title insurance, title reports, flood determinations, property appraisals, surveys, document preparation, property reports, and background checks to the real estate and mortgage industries. SISCO was formed in 1970 in Delaware and is the Company's ultimate controlling entity.

Stewart Title Guaranty Company (STG), a title underwriter domiciled in Texas, was organized in 1908 in Galveston, Texas. STG is a wholly owned subsidiary of SISCO. STG insures title policies written by its independent agents and affiliated agents.

Stewart Title of Oregon (STO) was formed in November 1999. STO is the largest writer of title insurance for the Company. STO is owned by Stewart Title Company, a non-insurance company, ultimately controlled by SISCO.

### **INTERCOMPANY AGREEMENTS**

The majority of the Company's operations are performed by STG, its parent. The following is a description of the agreements under which the Company operates as of December 31, 2007:

#### **Management Agreement**

The Company entered into the agreement with STG on January 1, 1997. The terms of this agreement provide that STG perform all operations of the Company including marketing,

underwriting, claims operations, reinsurance contracting, investing, accounting, financial reporting, data processing, and internal affairs. The agreement specifies that these services will be performed consistent with, and subject to, the policies of the Company established by its board of directors. In exchange for the services performed, the Company will reimburse STG for all cost directly attributable to the Company's operations. All indirect expenses are the obligation of STG. The contract states that the Company and STG will agree upon reasonable expense reimbursement for amounts paid or incurred by STG for the direct benefit of the Company.

**Tax Allocation Agreement**

The Company files a consolidated income tax return with its parent and affiliates in accordance with a “Fifth Restated Consolidated Federal Income Tax Return Agreement” dated April 2006. The method of allocation was based on a separate return calculation with an adjustment for tax losses and investment tax credits.

**Computer Service Agreement**

In September 2007 the Company and its parent STG changed its Computer Service Agreement with Ultima Corporation to Property Info Corporation, a Texas Corporation and a member within the holding company structure.

**CONFLICT OF INTEREST**

The Company has a conflict of interest policy that requires officers and directors to report conflicts of interest to the Company. These statements are completed by each director upon election and by each officer upon being appointed. A statement was available for each officer and director and is in compliance with ORS 732.325.

Annually, each individual that is an officer of SISCO and STG completes an updated biographical data/conflict of interest statement. These statements were reviewed and no concerns were noted.

### **CORPORATE RECORDS**

The corporate records, including the Articles of Incorporation, Bylaws and minutes of the Board of Directors meetings, were reviewed for the period under examination.

#### **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 to the Bylaws during the period covered by this examination.

#### **Board of Director Minutes**

A review of the minutes of the Board of Director meetings indicated the Board performed its designated duties in managing the affairs of the Company as specified in the Bylaws. This review covering the years 2005 through 2007 indicated that the Board approved investments in accordance with the provisions of ORS 733.730 and ORS 733.740. A quorum met at all meetings.

### **FIDELITY BONDS AND OTHER INSURANCE**

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The Company's insurance coverages are provided through its parent's insurance policies, which includes all subsidiary and affiliated companies in the group, including the Company, as a named

insured. The group as a whole is insured up to \$15,000,000 per occurrence with a \$1,000,000 deductible against losses from acts of dishonesty and fraud by its own agents and \$10,000,000 per occurrence with \$500,000 deductible for non-owned agents. Fidelity bond coverage was found to exceed the minimum coverage recommended by the NAIC. In addition, the group is covered against directors' and officers' liability for \$15,000,000 for the first layer of coverage, with an additional \$10,000,000 excess of \$15,000,000 under a second layer of coverage.

Other insurance coverages in force at December 31, 2007, were found to be adequate, and are as follows:

Automobile liability	Umbrella liability
Blanket property liability	Windstorm & hail
Comprehensive general liability	Workers' compensation and employer's liability
Employers liability	

#### **PENSION PLANS AND OTHER POST RETIREMENT BENEFITS**

The Company does not have any employees and, therefore, no liability for employee benefits.

#### **TERRITORY AND PLAN OF OPERATION**

The Company is authorized to insure titles to real property and to issue policies of title insurance throughout the State of Oregon. Oregon is the only state in which the Company is authorized to transact insurance. At December 31, 2007, the Company reported ownership of a wholly owned title plant providing full services in Sherman County, Oregon, satisfying the requirements of ORS 731.438.

Under various underwriting agreements, the Company insures titles to real property in Oregon through agents, who, at their own expense, provide complete title insurance services. Policies of title insurance issued by agents must be on approved forms furnished by the

Company. Under a typical underwriting agreement, the agent retains 90% of the premiums as compensation on all title policies issued. In the event of a claim on a policy issued by an agent, the agent may be responsible for reimbursing the Company for a portion 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 by another party, the Company bears the entire loss.

### **GROWTH OF THE COMPANY**

The following exhibit reflects the growth of the Company since the most recent financial examination. The stated amounts were compiled from the Company's filed annual statements except in those years when an examination report was published by the Oregon Insurance Division.

<b><u>Year</u></b>	<b><u>Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Surplus as Regards Policyholders</u></b>	<b><u>Net Income</u></b>
2004*	\$3,705,499	\$1,660,274	\$2,045,225	\$(14,591)
2005	4,301,802	1,801,393	2,500,409	(80,685)
2006	4,726,660	2,119,279	2,607,381	12,720
2007*	5,308,129	2,434,138	2,873,991	127,290

\*Per examination

### **LOSS EXPERIENCE**

The Company does not retain any liability or risk on claims so there is no Loss Experience to track (see Reinsurance). Premiums earned have increased \$1,424,372 (16.9%) during the years included in the following exhibit that reflects the earned premium amount since the most recent financial examination. The amounts were compiled from copies of the Company's filed annual statements except in those years when an examination report was published by the Oregon Insurance Division.

<u>Year</u>	<u>(A) Earned Premiums</u>	<u>(B) Incurred Claims</u>	<u>(C) LAE Incurred</u>	<u>(B+C)/A Ratio</u>
2004*	\$8,412,144	\$0	\$0	0%
2005	9,697,656	0	0	0
2006	9,698,609	0	0	0
2007*	9,836,516	0	0	0

\*Per examination

Premiums earned have increased during the period under examination. See the reinsurance section of this report for explanation of loss and loss adjustment expenses incurred.

### **INSURANCE HOLDING COMPANY REGISTRATION**

Timely and complete insurance holding company registration statements were filed by the Company in accordance with the provisions of ORS 732.552, ORS 732.554, ORS 732.675 and Oregon Administrative Rule (OAR) 836-027-0020(1).

### **DIVIDENDS**

The Company did not declare or pay any cash dividends during the period examined.

### **REINSURANCE**

#### **Ceded Reinsurance**

The Company entered into an excess of loss agreement with STG effective January 1, 1997. The Company amended the agreement on October 1, 1999, whereby STG (reinsurer) assumes 100% of the liability on all policies written by the Company.

The reinsurance agreement insolvency clause contains a direct access provision which allows the insured, in the event of a claim, to request payment directly from the reinsurer. The terms of this direct access clause are conveyed to the insured in an assumption certificate that is attached to each policy issued by the Company.

The Company retains a primary loss retention of \$0. It does not, therefore, retain risk on any one insured in excess of 10% of its surplus and is in compliance with ORS 731.504.

**Assumed Reinsurance**

The Company assumes no reinsurance.

**ACCOUNTS AND RECORDS**

All records were made available to the examiners in compliance with the provisions of ORS 733.170. Assets are maintained in accordance with the provisions of ORS 732.245. In addition, as of December 31, 2007, all disbursements in excess of \$100 were supported by signed vouchers or related documents as required by ORS 732.320.

**PRIOR EXAMINATION RECOMMENDATIONS**

As of December 31, 2007, the Plan had complied with all recommendations referenced in the 2004 financial examination report published by the Oregon Department of Consumer and Business Services.

**STEWART TITLE INSURANCE COMPANY OF OREGON**  
**BALANCE SHEET**  
**As of December 31, 2007**

<b><u>ASSETS</u></b>	<b><u>Per Company</u></b>	<b><u>Examination Adjustments</u></b>	<b><u>Per Examination</u></b>
Bonds (Note 1)	\$ 3,551,979	\$ 0	\$ 3,551,979
Cash & short term investments (Note 1)	1,538,969	0	1,538,969
Investment income due and accrued	41,550	0	41,550
Title plant	27,097	0	27,097
Uncollected premiums and agents' balances in course of collection	117,002	0	117,002
Net deferred tax asset	30,532	0	30,532
Receivable from parent, sub., affil.	<u>1,000</u>	<u>0</u>	<u>1,000</u>
 Total Admitted Assets	 <u>\$ 5,308,129</u>	 <u>\$ 0</u>	 <u>\$5,308,129</u>
 <b><u>LIABILITIES</u></b>			
Statutory premium reserve	\$2,274,776	\$ 0	\$2,274,776
Other expenses	3,000	0	3,000
Current federal income taxes	93,173	0	93,173
Payable to parent, sub., affiliate	26,721	0	26,721
Aggregate write-ins for other liabilities	<u>36,468</u>	<u>0</u>	<u>36,468</u>
Total Liabilities	<u>2,434,138</u>	<u>0</u>	<u>2,434,138</u>
 <b><u>SURPLUS</u></b>			
Common capital stock	500,000	0	500,000
Gross paid in and contributed surplus (Note 2)	2,544,359	0	2,544,359
Unassigned funds	<u>(170,368)</u>	<u>0</u>	<u>(170,368)</u>
Surplus as regards policyholders	<u>2,873,991</u>	<u>0</u>	<u>2,873,991</u>
Total Liabilities and Surplus	<u>\$ 5,308,129</u>	<u>\$ 0</u>	<u>\$ 5,308,129</u>

**STEWART TITLE INSURANCE COMPANY OF OREGON**  
**SUMMARY OF OPERATIONS**  
**For the Year Ended December 31, 2007**

**OPERATING INCOME**

Title insurance premiums earned	\$ 9,836,516
Total operating income	<u>9,836,516</u>
Less:	
Operating expenses incurred	<u>9,799,809</u>
Total operating deductions	<u>9,799,809</u>
Net operating gain/(loss)	<u>36,707</u>

**INVESTMENT INCOME**

Net investment income earned	<u>175,981</u>
Net investment gain	175,981

**OTHER INCOME**

Net income before Federal taxes	212,688
Federal income taxes incurred	<u>85,398</u>
Net income	<u>\$ 127,290</u>

**CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders, December 31, 2006	<u>2,607,381</u>
Net income	127,290
Change in net deferred income tax	10,167
Change in nonadmitted assets	29,153
Paid in surplus	<u>100,000</u>
Change in surplus as regards policyholders for the year	<u>266,610</u>
Surplus as regards policyholders, December 31, 2007	<u>\$ 2,873,991</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 - Investments

Most of the Plan's investments were in US Treasury obligations and certificates of deposits with various banks. 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>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2004	\$2,174,501	\$1,362,820	59%	37%
2005	2,274,285	1,835,100	53%	43%
2006	2,719,068	1,844,662	58%	39%
2007	3,551,979	1,538,969	67%	29%

As of December 31, 2007, invested assets of \$ 5,090,948 representing 96% of the total assets were invested in amply secured obligations of the United States or FDIC insured cash deposits and certificates of deposit. This exceeded the amount of these types of assets that is required by ORS 733.580.

### Note 2 – Paid-in or Contributed Surplus

ORS 731.562 was amended in 2001 to require title insurers to have and maintain a minimum of \$2.5 million in surplus to policyholders. There was a grandfather clause in the statute that allowed domestic insurers to gradually attain the new requirement by December 31, 2006.

In order to meet the increasing capital and surplus requirement, STG, the parent company, contributed \$400,000 to the Company in December 2005. At the end of December 2005, the Company's surplus had grown to \$2,500,409. In addition, STG contributed an additional \$100,000 during 2006 and 2007.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

## CONCLUSION

During the three year period covered by this examination, the surplus of the Company increased from \$2,045,225, as presented in the December 31, 2004, report of examination to \$2,873,991, as shown in this report of examination. The comparative assets and liabilities are shown below:

	<u>2007</u>	<b>December 31,</b> <u>2004</u>	<u>Change</u>
Assets	\$5,308,129	\$3,705,499	\$1,602,630
Liabilities	<u>2,434,138</u>	<u>1,660,274</u>	<u>773,864</u>
Surplus	<u>\$2,873,991</u>	<u>\$2,045,225</u>	<u>\$ 828,766</u>

## SUBSEQUENT EVENTS

1. The Board of Directors on March 19, 2008, appointed Michael B. Skalka to serve as Chairman of the Board of Directors. Additionally, John B. Mitchell, Senior Vice President and Denise Carraux, Assistant Secretary, were elected to serve as officers of the Company. Ms. Carraux replaced Sue M. Pizzitola, who retired from the Company.
2. On April 4, 2008, the Company sold the Morrow County Title Plant to AmeriTitle for \$10,000. The Company acquired the plant through a court decision on December 19, 2005. The title plant was valued by the Company at \$1.

## **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, Mike P. Phillips, CFE, CPA, AES, Supervising Insurance Examiner participated in the examination.

Respectfully submitted,

---

Timothy R. Hurley, CFE  
Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON            )  
  )  ss  
County of Marion            )

Timothy R. Hurley, CFE, being duly sworn, states as follows:

1.     I have authority to represent the state of Oregon in the examination of Stewart Title Insurance Company of 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 Stewart 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.

\_\_\_\_\_  
Timothy R. Hurley, CFE  
Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn before me this \_\_\_\_\_ day of \_\_\_\_\_, 2008

\_\_\_\_\_  
NOTARY PUBLIC for the State of Oregon

My commission expires \_\_\_\_\_