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BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF WASHINGTON

Hearings Unit, DIC
Eric D. Petersen
Chief Hearing Officer

In the Matter of the Merger of :

**PACIFIC NORTHWEST TITLE
INSURANCE COMPANY, A
Washington Domestic Insurance
Company, with and into FIRST
AMERICAN TITLE INSURANCE
COMPANY, A California Domestic
Insurance Company,**

Applicants.

NO. G10-026

**PRE-FILED DIRECT TESTIMONY OF
MICHAEL HOLT**

PRE-FILED DIRECT TESTIMONY OF:

**Michael Holt
Chairman
Pacific Northwest Title Insurance Company**

June 21, 2010

PRE-FILED TESTIMONY OF MICHAEL HOLT OF
PACIFIC NORTHWEST TITLE INSURANCE COMPANY

Q1: Please state your name and employment position?

A: Michael Holt. I am the Chairman of Pacific Northwest Title Insurance Company (“Pacific Northwest”).

Q2: What is Pacific Northwest?

A: Pacific Northwest is a title insurer that provides residential and commercial title insurance in the State of Washington. In particular, Pacific Northwest is a licensed title insurer, Certificate of Authority No. 37, NAIC Co. Code 50970.

Q3: Where is Pacific Northwest located?

A: Pacific Northwest’s statutory home office and main administrative office is at 215 Columbia Street, Seattle, Washington, 98104-1511.

Q4: Are you also employed by or hold management positions with any affiliates of Pacific Northwest?

A: Yes.

Q5: Please describe that employment or those positions.

A: I am also the President of Pacific Northwest Title Holding Company (“Pacific Northwest Title”), and a Senior Vice President of First American Title Insurance Company (“FATICO”). My testimony today, however, is offered on behalf of and in my role as President of Pacific Northwest. Mr. Thomas S. Hartman will testify on behalf of FATICO.

Q6: Please provide your professional background.

A: 1987-1990 First American Title Insurance Company, Title Examiner, Whatcom County, WA
1990-1997 First American Title Insurance Company, Title Officer, Pierce County, WA
1997-2003 First American Title Insurance Company, Title Manager, Pierce County, WA
2003-2009 First American Title Insurance Company, County Manager, Pierce County, WA
2009-2010 Pacific Northwest Title Company of Oregon, President
2010 Pacific Northwest Title Holding Company, President

Q7: Please provide your educational background.

A: 1986-1990 Western Washington University, BS Political Science

Q8: Please describe Pacific Northwest's interest in these proceedings.

As previously noted, Pacific Northwest provides title insurance coverage in the State of Washington. For the past several years, the First American group of companies has been improving the efficiency of its operations by, among other things, eliminating affiliated underwriting companies that are licensed in and provide title insurance in the same states. For example, both FATICO and Pacific Northwest are licensed in Washington State, and both entities write the same types of coverage on the same forms and with the same rate structure. It is expensive, however, to own, operate, and ensure compliance with respect to multiple entities operating in the same markets. As such, the First American group of companies has determined that it can offer the same products and services more efficiently with one licensed entity in Washington State. Thus, the proposed merger is about enhanced operational efficiency for the First American group of companies.

Q9: Please describe the capital structure of Pacific Northwest.

A: Pacific Northwest is wholly-owned by Pacific Northwest Title Holding Company, a Washington domiciled holding company, which in turn is wholly owned by FATICO. Accordingly, FATICO is the direct 100% parent of Pacific Northwest Title Holding Company and the 100% indirect parent of Pacific Northwest. FATICO is a wholly owned subsidiary of First American Financial Corporation, a publicly traded Delaware Corporation (formerly a wholly owned subsidiary of The First American Corporation). FATICO owns 100% of the issued and outstanding stock of Pacific Northwest Title Holding Company, a Washington domiciled holding company, which in turn owns 100% of the issued and outstanding stock of Pacific Northwest Title. Pacific Northwest has authorized capital stock of 100,000 shares of common stock, \$100 par value, of which 49,817 are issued and outstanding to Pacific Northwest Title Holding Company.

Q10: Please describe the legal steps that have been taken with respect to the proposed merger.

A: Consistent with the general laws of California and Washington relating to business corporations, after deliberation, on or about October 14, 2009, the FATICO Board adopted resolutions recommending that Pacific Northwest, its indirect subsidiary, be merged with and into FATICO. FATICO's sole shareholder adopted a similar resolution on or about October 15, 2009. Consistent with the general laws of Washington relating to business corporations, after deliberation, on or about October 15, 2009, the Pacific Northwest Board adopted resolutions recommending that Pacific Northwest be merged with and into FATICO. Pacific Holding, Pacific Northwest's sole shareholder, adopted a similar resolution on or about February 12, 2010. FATICO and Pacific Northwest executed an Agreement and Plan of Merger on or about February 12, 2010. By its terms the Agreement and Plan of Merger cannot take effect until receiving all necessary regulatory approvals or June 30, 2010, whichever occurs later. The companies filed an application for approval in Washington on March 11, 2010, and also filed an application for approval in California on March 11, 2010. The California Department of Insurance approved the merger application on June 9, 2010.

Q11: What would the effect of the merger be on the structure of the two entities?

A: Under the terms of this proposed merger, at the effective time each share of Pacific Northwest that is outstanding immediately prior to the effective time of the proposed merger, and all rights and obligations in respect of those shares, would without further action be canceled and extinguished without any consideration. No shares of stock or other consideration of FATICO would be issued in connection with the proposed merger. FATICO, as the Surviving Corporation, would thereafter continue to exist by virtue and under the laws of Washington State and California. The corporate identity, existence, purpose, powers, franchises, rights, and immunities of FATICO would continue unaffected and unimpaired by the merger, and the corporate identity, existence, purpose, powers, franchises, rights, and immunities of Pacific Northwest would be merged with and into FATICO, and FATICO would be fully vested. The separate existence of Pacific Northwest, except insofar as it may be continued by reason of applicable Washington statute, would cease upon the Agreement and Plan of Merger becoming effective and thereupon Pacific Northwest and FATICO would become a single corporation, FATICO. Further, as of the effective time of the proposed merger, all rights and obligations of Pacific Northwest would become the rights and obligations of FATICO as the Surviving Corporation. Further, under the terms of this proposed merger, FATICO would continue to exist as an insurance corporation domiciled under the laws of the state of California, with all of the rights and obligations of such surviving corporation as are provided by the California Corporations Code and the Washington Business Corporation Act.

Q12: Will the merged entity continue to qualify for licensure as a title insurance company in Washington State after the merger?

A: Yes. After the proposed merger is consummated, FATICO will continue to be able to satisfy the requirements for its license to transact insurance business of the state of Washington as a title insurer, and will continue to be licensed as such.

Q13. Has Pacific Northwest received any comments, objections, or questions of any kind from policyholders or members of the public with respect to the proposed merger?

A. No. I have reviewed and am familiar with the Notice of Hearing that the Office of Insurance Commissioner published on June 14, 2010, and the Amended Notice of Hearing that the Office of Insurance Commissioner published on June 16, 2010. I am not aware of anyone at Pacific Northwest having received any response from policyholders or consumers about the proposed merger in response to those Notices or otherwise.

Q14: Will the proposed merger be fair, equitable, and consistent with applicable law?

A: Yes. The merger treats all stakeholders -- including policyholders of both companies, the general public, the merging companies, and the shareholders -- fairly and equitably and consistent with applicable law. This is demonstrated by the terms of the Agreement and Plan of Merger which was submitted as part of the merger application, the legal steps described

previously, and by the following issues that I will address separately: (1) lack of impact on competition in the state, (2) the financial strength of Pacific Northwest and FATICO both individually and as a merged entity, (3) the plans to continue operation in the state after the merger, and (4) the strong management team that will continue to lead the company after the merger.

Q15. Would the proposed merger have any impact on competition in the insurance market in Washington State?

A. No, the merger would have no impact on competition in Washington State, and would certainly not lessen competition in insurance in this state or tend to create a monopoly. It is my understanding that there are currently ten title insurance underwriters actively writing business in Washington. After the proposed merger, there would still be nine title insurance underwriters actively writing business in Washington. Moreover, the combined premium of both FATICO and Pacific Northwest Title during Q1 2010 constitutes only 25.1% of the title insurance market in Washington. As such, combining these affiliates will not impact competition in Washington.

Q16: Can you describe the current financial position of Pacific Northwest?

A: Yes. As of March 31, 2010, as indicated in the quarterly financial statements on file with the Washington Office of the Insurance Commissioner, Pacific Northwest has assets in excess of \$26,297,340, liabilities in the amount of \$13,408,418, and surplus as regards policyholders in the amount of \$12,888,922. Moreover, Pacific Northwest has a financial strength rating of "A-" from A.M. Best.

Q17: Can you also describe the financial impact of the proposed merger on Pacific Northwest?

A: Yes. Pacific Northwest will become part of a larger and financially stable affiliated title insurer. As indicated in the proforma financial statements that were submitted with the application to approve the merger, as of December 31, 2009, FATICO's total assets would increase from \$2,112 million to \$2,126 million; its surplus as regards policyholders would remain constant at \$710 million; its total operating income would increase from \$2,728 million to \$2,783 million; and other key financial data points would be similarly enhanced. The proposed merger will have no adverse financial impact on FATICO or Pacific Northwest, and the proposed merger is in no way likely to be hazardous or prejudicial to the insurance-buying public. Moreover, Pacific Northwest policyholders will not be adversely affected in any way.

Q18: Are there any plans or proposals to liquidate Pacific Northwest, sell its assets, consolidate or merge it with any person, or structure, or management, which are unfair and unreasonable to policyholders of Pacific Northwest or not in the public interest.

A: No. There are no plans or proposals to liquidate Pacific Northwest, sell its assets, consolidate or merge it with any person, or structure, or management, which are unfair and unreasonable to

policyholders of Pacific Northwest or not in the public interest. Rather, Pacific Northwest will be merged with and into FATICO, which will continue to transact business in Washington.

Q19: Can you please summarize the competence, experience, and integrity of the management of the surviving entity, FATICO?

A: As individuals and as a whole, FATICO's management are professional industry leaders. The competence, experience, and integrity of the people who currently control, and post-merger would continue to control, the operations of FATICO are well established and they will protect the interests of policyholders of FATICO, the policyholders of Pacific Northwest Title, and the public. In addition to myself, the management team of officers includes Dennis Gilmore (President), Timothy Kemp (Secretary), James Harmsworth (Chief Financial Officer), John Casbon (Executive Vice President), Timothy Sullivan (General Counsel), and John Hollenbeck (Senior Executive Vice President). Each of these officers has many years of title insurance experience, and has been an integral part in developing the financial and consumer-service strength of FATICO. Each of these officers will remain in their positions after the proposed merger, and there will be no change in the management structure of FATICO as a result of this proposed merger.

Q20: Will management of Pacific Northwest be compensated for assisting in the proposed merger?

A: No. No director, officer, member, or subscriber of any insurer party to the merger will receive any fee, commission, compensation, or any other valuable consideration apart from their ordinary compensation package for in any manner aiding, promoting, or assisting in the proposed merger.

Q21: Is there anything you would like to add to your testimony at this time?

A: No. I have nothing to add at this time, but I may supplement this pre-filed testimony at the hearing.

Executed under penalty of perjury, this ___ day of June, 2010.



Michael Holt