

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
MASON COUNTY TITLE INSURANCE COMPANY
SHELTON, WASHINGTON

NAIC CODE 50962
December 31, 2009

Order No. 11-16
Mason County Title Insurance Company
Exhibit A

SALUTATION

Seattle, Washington
January 25, 2011

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Mason County Title Insurance Company
of
Shelton, Washington

hereinafter referred to as "MCTIC" or the "Company" at its home office located at 130 W. Railroad, Shelton, Washington. This report is respectfully submitted showing the condition of MCTIC as of December 31, 2009.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Mason County Title Insurance Company of Shelton, Washington. This report shows the financial condition and related corporate matters as of December 31, 2009.



Patrick H. McNaughton
Chief Examiner

1-25-2011

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2005 through December 31, 2009 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioner (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field work on December 16, 2010.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following respective sections of this report.

This examination was performed in compliance with the 2009 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2009 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. NAIC Annual Statement Errors, Omissions, and Misclassifications

The results of the examination disclosed three instances in which the Company's filing of the 2009 NAIC Annual Statement did not conform to the AP&P and the NAIC Annual Statement Instructions. With the exception of the classification of assets, none of the following items in this instruction were believed to be material to the financial statements and no examination adjustments were necessary.

a. Federal Income Tax Payable

The Company did not accrue for its 2009 federal income tax liability as required by SSAP 5.

b. Jurat Page

The Company did not list all of its officers under the officers section of the jurat page as required by the NAIC Annual Statement Instructions.

c. Re-Classification of Assets

Page 2, line 24, "Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts" on the 2009 NAIC Annual Statement was incorrect. The Company reported \$25,000 on line 25, "From Separate Accounts, Segregated Accounts and Protected Cells", instead of including it in the total on line 24. (See Examination Adjustment No. 1.)

The Company is instructed to comply with RCW 48.05.073 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

2. Statutory Premium Reserve

The Company did not compute its statutory premium reserve in accordance with RCW 48.29.120. Due to inadequate accounts and records (See Instruction No. 4), we were unable to determine the correct amount of the statutory premium reserve.

The Company is instructed to compute its statutory premium reserve in accordance with RCW 48.29.120.

3. Affiliated Company Agreement

Northwest Contract Collections, Inc., an affiliate and related party as defined by SSAP 25, is performing services on behalf of MCTIC without a written agreement. SSAP 25(6) requires all transactions between related parties to be in the form of a written agreement. In addition, RCW 48.31B.030(1)(b)(iv) requires MCTIC to file the agreement with the Commissioner prior to entering into the transaction.

The Company is instructed to comply with SSAP 25(6) by executing a written contract for all transactions between affiliates, and with RCW 48.31B.030(1) by filing all agreements between the Company and a person in its holding company system with the Commissioner prior to entering into the transaction.

4. Accounts and Records

The Company could not create a complete list of policies in-force. This is not in compliance with RCW 48.05.280 which requires insurers to keep full and adequate accounts and records of its obligations, transactions, and affairs.

WAC 284-07-100 exempts insurers that have less than 1,000 policyholders and less than one million dollars in direct written premiums in any calendar year from filing audited financial statements. The Company's request to exempt itself from filing an audited financial statement was based on the Company's estimate that it has no outstanding policyholders. The Company did not maintain sufficient accounts and records to substantiate that it had less than 1,000 policyholders, and failed to recognize that some policies continue coverage even after the insured property is sold, refinanced, or transferred. (See Follow Up on Previous Examination Findings.)

The Company is instructed to comply with RCW 48.05.280 which requires the insurer to keep full and adequate accounts and records of its assets, obligations, transactions, and affairs, by maintaining a list of policies in-force. The Company should maintain a list of its in-force policies so that it can determine whether it qualifies for exemption from audited financial statements under WAC 284-07-100.

COMMENTS AND RECOMMENDATIONS

1. Fidelity Bond and Other Insurance

The Company does not have any insurance. In order to protect the policyholders and the Company, MCTIC should consider obtaining a fidelity bond and errors & omissions coverage. In addition, the Company should identify any other significant exposures for coverage that might be necessary to protect the Company and policyholders.

It is recommended that the Company obtain a fidelity bond and errors & omissions coverage. Additionally, the Company should research the need for additional insurance coverage for the protection of the Company and its policyholders.

COMPANY PROFILE

Company History

The Company was incorporated on September 7, 1909 as a title insurance company under the laws of the state of Washington and commenced business on the same day.

Territory and Plan of Operation

The Company is licensed only in the state of Washington. The Company ceased writing business effective December 31, 1998.

Growth of Company

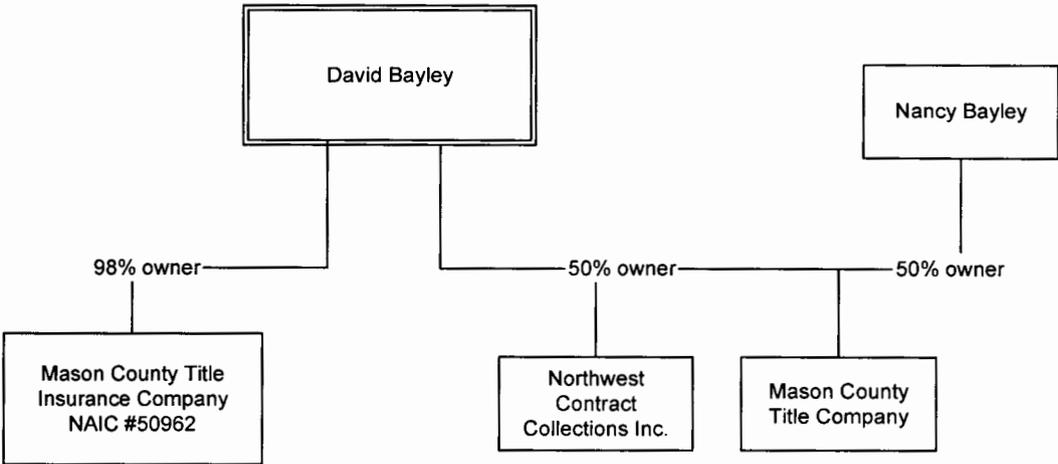
The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2009	\$870,195	\$25,010	\$845,185
2008	859,160	26,304	832,856
2007	857,157	34,470	822,687
2006	828,279	27,561	800,718
2005	805,568	29,896	775,672

<u>Year</u>	<u>Net Investment Income (Loss)</u>	<u>Net Income</u>
2009	\$19,951	\$12,325
2008	16,628	9,291
2007	31,231	20,291
2006	30,578	22,711
2005	16,485	(11,701)

Affiliated Companies

The following is an organization chart as of December 31, 2009:



Mason County Title Company (MCTC)

MCTC began operations in 1991. David Bayley and Nancy Bayley own 100% of the stock of MCTC. MCTC is an agent for Stewart Title Guaranty Company. David Bayley is the President and Manager, and Nancy Bayley is the Secretary-Treasurer.

Northwest Contract Collections Inc. (NCCI)

NCCI began operations in 1991. David Bayley and Nancy Bayley own 100% of the stock of NCCI, a contract-servicing escrow agency, licensed by the Washington State Department of Financial Institutions. David Bayley is the President and Secretary, and Nancy Bayley is the Vice President and Treasurer.

Intercompany Agreements

The Company has a lease agreement with MCTC dated December 26, 1999 which allows the Company to lease a title plant from MCTC and to use employees of MCTC as needed. In addition, NCCI is performing services on behalf of MCTIC without a written agreement. (See Instruction No. 3.)

MANAGEMENT AND CONTROL

Board of Trustees (BOT)

Board of Trustees as of December 31, 2009:

- David Bayley
- Nancy Bayley

Officers

Officers as of December 31, 2009:

David Bayley	President
Nancy Bayley	Secretary/Treasurer

Committees

The Company does not have any committees.

Conflict of Interest

The Company has a conflict of interest policy which includes procedures for reporting all potential conflicts of interest. Conflict of interest disclosures for 2009 were reviewed without exception.

Fidelity Bond and Other Insurance

The Company does not have a fidelity bond or any other insurance. (See Comments and Recommendations No. 1.)

Officers', Employees', and Agents' Welfare and Pension Plans

The Company has no welfare or pension plans.

CORPORATE RECORDS

Corporate records were reviewed for the period under examination. All trustee meetings were conducted with a quorum present. There have been no changes to the Articles of Incorporation or By-Laws during the examination period. The minutes of the meetings of trustees adequately document appropriate approvals and support the Company's transactions and events.

STATUTORY DEPOSITS

Mason County Title Insurance Company maintained the following statutory deposit as of December 31, 2009:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Washington	CD	\$25,000	\$25,000

ACCOUNTING RECORDS AND INFORMATION SYSTEM

The Company maintains its accounting records on a GAAP accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. The Company is not audited by a certified public accounting firm. (See Instruction No. 4.) The Company's accounting procedures were reviewed during the planning and testing phase of the examination and several exceptions were noted. (See Instructions No. 1 through No. 4.)

SUBSEQUENT EVENTS

There were no material events impacting the Company between the examination date and the end of our field work.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

The last examination report contained the following instruction:

In accordance with WAC 284-07-100(2), until such time as it can prove it has less than 1,000 policies, the Company is instructed to obtain an annual audit of its financial statements or to obtain a specific OIC exemption from this requirement.

Although the Company was granted an exemption from filing audited financial statements, the exemption was granted based on the Company's estimate that it had no outstanding policyholders. The accounts and records were insufficient to determine the number of outstanding policyholders at December 31, 2009 because the Company did not maintain a list of its in-force policies. (See Instruction No. 4.) All other report instructions were corrected.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Mason County Title Insurance Company as of December 31, 2009:

Assets, Liabilities, Surplus, and Other Funds
Operations and Investment Exhibit
Five Year Reconciliation of Surplus
Analysis of Changes in Financial Statements Resulting from the Examination

Mason County Title Insurance Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2009

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
ASSETS				
Cash, cash equivalents, and short term investments	\$870,195	\$0	\$870,195	
Subtotals, cash & invested assets	<u>870,195</u>	<u>0</u>	<u>870,195</u>	
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>845,195</u>	<u>25,000</u>	<u>870,195</u>	1
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>25,000</u>	<u>(25,000)</u>	<u>0</u>	1
Total Assets	<u>\$870,195</u>	<u>\$0</u>	<u>\$870,195</u>	
LIABILITIES, SURPLUS AND OTHER FUNDS				
Aggregate of other reserves required by law	\$25,000	\$0	\$25,000	
Taxes, licenses and fees due or accrued(excluding federal & foreign income taxes)	<u>10</u>		<u>10</u>	
Total Liabilities	<u>25,010</u>	<u>0</u>	<u>25,010</u>	
Common capital stock	5,000		5,000	
Gross paid in and contributed surplus	18,208		18,208	
Unassigned funds (surplus)	<u>821,977</u>		<u>821,977</u>	
Total surplus and other funds	<u>845,185</u>	<u>0</u>	<u>845,185</u>	
Total Liabilities, Surplus and Other Funds	<u>\$870,195</u>	<u>\$0</u>	<u>\$870,195</u>	

**Mason County Title Insurance Company
Operations and Investment Exhibit
For the Year Ended December 31, 2009**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Operating Income			
Title insurance premiums earned	\$0	\$0	\$0
Total Operating Income	0	0	0
Operating expenses incurred	5,987		5,987
Total Operating Deductions	5,987	0	5,987
Net operating gain or (loss)	(5,987)	0	(5,987)
Investment Income			
Net Investment Income earned	19,951		19,951
Net Investment gain (loss)	19,951		19,951
Net Income after capital gains tax and before all other federal income taxes	13,964		13,964
Federal and foreign income taxes incurred	1,639		1,639
Net Income	\$12,325	\$0	\$12,325
Capital and Surplus Account			
Surplus as regards policyholders, December 31, prior year	\$832,856	\$0	\$832,856
Net Income	12,325		12,325
Aggregate write-ins for gains and losses in surplus	4		4
Change in surplus as regards policyholders for the year	12,329	0	12,329
Surplus as regards policyholders, December 31, current year	\$845,185	\$0	\$845,185

**Mason County Title Insurance Company
Five Year Reconciliation of Surplus
For the Years Ended December 31,**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Surplus as regards policyholders, December 31, prior year	<u>\$832,856</u>	<u>\$822,687</u>	<u>\$800,718</u>	<u>\$775,672</u>	<u>\$784,576</u>
Net income or (loss)	12,325	9,291	20,291	22,711	(11,701)
Aggregate write-ins for gains or (losses) in surplus	4	878	1,678	2,335	2,797
Net change in capital & surplus	<u>12,329</u>	<u>10,169</u>	<u>21,969</u>	<u>25,046</u>	<u>(8,904)</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$845,185</u></u>	<u><u>\$832,856</u></u>	<u><u>\$822,687</u></u>	<u><u>\$800,718</u></u>	<u><u>\$775,672</u></u>

**Mason County Title Insurance Company
Analysis of Changes in Financial Statements Resulting from the Examination
December 31, 2009**

	<u>Per Annual Statement</u>	<u>Per Examination</u>	<u>Notes</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
Capital and surplus 12/31/2009 Per NAIC Annual Statement					\$845,185
Assets					
Total assets excluding separate accounts, segregated accounts, and protected cell accounts, page 2, line 24	845,195	870,195	1	25,000	
From separate accounts, segregated accounts, and protected cell accounts, page	25,000	0	1	(25,000)	
Change in surplus					0
Capital and surplus 12/31/2009 per examination					<u>\$845,185</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Reclassify assets to the correct NAIC Annual Statement line. There is no impact on surplus. (See Instruction No. 1.c.)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Mason County Title Insurance Company and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Susan Campbell, CPA, FLMI, CFE, Reinsurance Specialist; and Cynthia Clark, CPA, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Adrienne C. DeBella". The signature is written in black ink and is positioned above a horizontal line.

Adrienne C. DeBella, CPA, CFE, ALMI
Examiner-in-Charge
State of Washington

