

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF  
MASON COUNTY TITLE INSURANCE COMPANY  
SHELTON, WASHINGTON

NAIC CODE 50962  
December 31, 2014

Order No. 15-86  
Mason County Title Insurance Company  
Exhibit A

**SALUTATION**

Seattle, Washington  
March 18, 2015

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 Avenue, Shelton, WA 98584. This report is respectfully submitted showing the financial condition and related corporate matters of MCTIC as of December 31, 2014.

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, 2014.



Patrick H. McNaughton  
Chief Examiner

4-6-15

Date

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## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 2010 through December 31, 2014 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 Commissioners (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 fieldwork on March 18, 2015.

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 section of this report.

This examination was performed in compliance with the 2014 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, to allow the examiners to focus on the Company's greatest areas of risk, and to provide assurance on the Company's financial statements as of the examination date.

## **INSTRUCTIONS**

None

## **COMMENTS AND RECOMMENDATIONS**

None

## **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. The Company ceased writing new business effective December 31, 1998. During the examination period, MCTIC operations were limited to the runoff of claims, and has not had written premium since that date.

### **Capitalization**

Amended Articles of Incorporation were filed with the OIC on July 21, 2014. Prior to the amendment, 50 shares were issued and outstanding. As a result of the amendment, there was a reverse stock split, one for seven, that reduced the number of common stock shares outstanding to seven with a par value of \$0.01. The Company's capitalization includes common stock shares, gross paid-in and contributed surplus of \$23,208, and \$709,629 in unassigned funds. Total capital and surplus as of December 31, 2014 was \$732,837. All issued and outstanding shares of capital stock of the Company are owned by David Bayley.

**Territory and Plan of Operations**

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 Company's growth as reported in its filed NAIC Annual Statements for the five year period under examination:

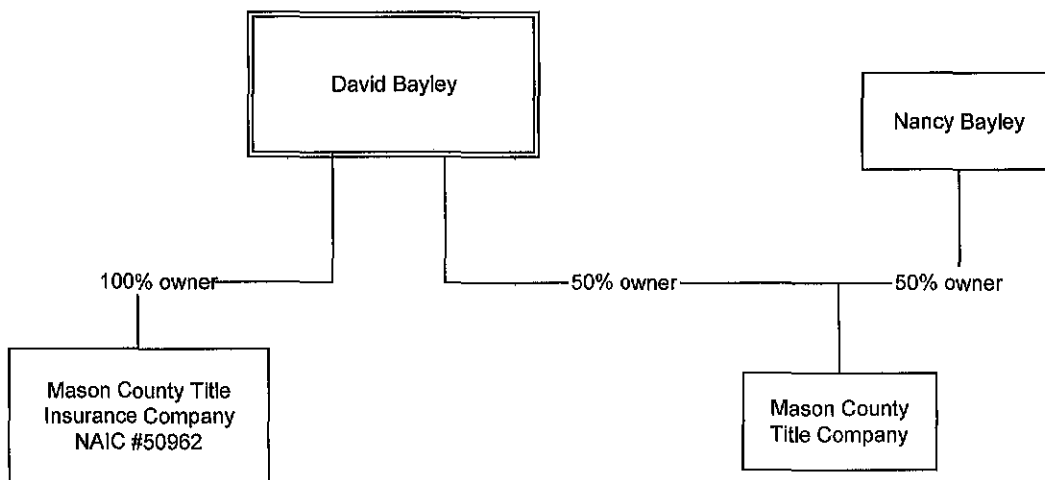
<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	
2014	\$745,892	\$13,055	\$732,837	
2013	759,874	13,713	746,161	
2012	805,839	15,034	790,805	
2011	850,195	19,207	830,988	
2010	860,578	19,250	841,328	

<u>Year</u>	<u>Premium Earned</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2014	\$0	\$0	\$ 865	(\$13,557)
2013	0	0	1,084	(46,390)
2012	0	0	2,435	(44,356)
2011	0	0	2,881	(10,338)
2010	0	0	4,140	(9,651)

**Affiliated Companies**

The following organizational chart is taken from the Company's filed 2014 NAIC Annual Statement:



**Mason County Title Company (MCTC)**

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

**Intercompany Agreement**

As of December 31, 2014, the Company had a lease agreement in force with MCTC for its title plant. The lease was amended in December 2014 to include the provision of accounting, regulatory and federal income tax reporting, and maintenance of shareholder records.

**MANAGEMENT AND CONTROL**

**Board of Trustees (BOT)**

Trustees as of December 31, 2014:

David Bayley  
Nancy Bayley

**Officers**

Officers as of December 31, 2014:

David Bayley	President
Nancy Bayley	Secretary/Treasurer

**Conflict of Interest**

The Company has a conflict of interest policy which includes procedures for reporting all potential conflicts of interest. No exceptions were noted during our review.

**Fidelity Bond and Other Insurance**

The Company does not have a fidelity bond or any other insurance.

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

The Company has no welfare or pension plans

**CORPORATE RECORDS**

The Company's Articles of Incorporation, Bylaws, Certificate of Authority, and meeting minutes of the BOT and its committees were reviewed for the period under examination. All BOT meetings were conducted with a quorum present. The BOT minutes documented the approval of the Company's transactions and events. No exceptions were noted.

### **UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

The OIC approved the Company's request for an exemption for the December 31, 2014 Statement of Actuarial Opinion under the authority of WAC 284-07-060(2)(a), effective October 31, 2014. However, subsequent to the approval of the actuarial opinion exemption, the OIC required the Company to obtain an actuarial opinion from its appointed actuary as of December 31, 2014. This requirement was made in consideration of the subsequent Form A filing (change of control), as detailed in the SUBSEQUENT EVENTS section of this report.

Reserves carried by the Company for statutory premium reserves and supplemental reserves were \$10,477 and \$2,578, respectively, as of December 31, 2014. In the opinion of the Company's appointed actuary, the total reserves make a reasonable provision for all the combined unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements. OIC's senior actuary reviewed the statement of actuarial opinion and the underlying actuarial report, and agrees with this conclusion.

### **STATUTORY DEPOSITS**

The Company maintained no statutory deposits as of December 31, 2014.

### **ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis. The Company is not audited by a certified public accounting firm. On October 31, 2014, the OIC granted the Company a financial hardship exemption to allow it not to file CPA audited financial statements under the authority of WAC 284-07-220(1). The OIC approved the Company's request for an exemption for the December 31, 2014 Statement of Actuarial Opinion under the authority of WAC 284-07-060(2)(a), effective October 31, 2014.

### **SUBSEQUENT EVENTS**

A Stock Purchase Agreement was signed by the sole shareholder of the Company, David Bayley, on January 23, 2015, to sell 100 percent of the outstanding shares of the Company. Subsequently, a Form A was filed with the OIC by REtitle Holding Company, LLC on January 29, 2015 seeking approval of the transaction. If approved by the OIC, MCTIC would change its name and file for redomestication to the state of California. If the state of California approves the redomestication and grants the Company a license to issue policies of title insurance, simultaneous with the sale, the Company would withdraw from the state of Washington subject to the terms approved by the OIC. The transaction is being reviewed by the OIC. In anticipation of



the consummation of the transaction, three additional company officers were appointed by the BOD in a special meeting held in January 2015.

### **FINANCIAL STATEMENTS**

The following financial statements show the financial condition of Mason County Title Insurance Company as of December 31, 2014:

Assets, Liabilities, Surplus and Other Funds  
Statement of Income and Capital and Surplus Account  
Five Year Reconciliation of Surplus

**Mason County Title Insurance Company  
Assets, Liabilities, Surplus and Other Funds  
December 31, 2014**

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<b>Assets</b>			
Cash, cash equivalents, and short-term investments	\$745,892	\$0	\$745,892
<b>Total Assets</b>	<u><u>\$745,892</u></u>	<u><u>\$0</u></u>	<u><u>\$745,892</u></u>
<b>Liabilities, Surplus and Other Funds</b>			
Known claims reserves	\$0	\$0	\$0
Statutory premiums reserves	10,477		10,477
Supplemental reserve	2,578		2,578
<b>Total Liabilities</b>	<u><u>13,055</u></u>	<u><u>0</u></u>	<u><u>13,055</u></u>
Common capital stock	5,000		5,000
Gross paid in and contributed surplus	18,208		18,208
Unassigned funds (surplus)	709,629		709,629
<b>Surplus as regards policyholders</b>	<u><u>732,837</u></u>	<u><u>0</u></u>	<u><u>732,837</u></u>
<b>Total Liabilities, Surplus and Other Funds</b>	<u><u>\$745,892</u></u>	<u><u>\$0</u></u>	<u><u>\$745,892</u></u>

**Mason County Title Insurance Company**  
**Statement of Income and Capital and Surplus Account**  
**For the Year Ended December 31, 2014**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
<b>Operating Income</b>			
Title insurance premiums earned	\$ 0	\$ 0	\$ 0
Total Operating Income	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expenses</b>			
Operating expenses incurred	14,422		14,422
Total Operating Deductions	14,422	0	14,422
Net operating gain or (loss)	<u>(14,422)</u>	<u>0</u>	<u>(14,422)</u>
<b>Investment Income</b>			
Net Investment Income earned	865		865
Net Investment gain (loss)	865		865
Net Income after capital gains tax and before all other federal income taxes	<u>(13,557)</u>		<u>(13,557)</u>
Federal and foreign income taxes incurred	0		0
<b>Net Income</b>	<u><b>(\$ 13,557)</b></u>	<u><b>\$ 0</b></u>	<u><b>(\$ 13,557)</b></u>
<b>Capital and Surplus Account</b>			
Surplus as regards policyholders, December 31, prior year	\$ 746,161	\$ 0	\$ 746,161
Net Income	(13,557)		(13,557)
Aggregate write-ins for gains and losses in surplus	233		233
Change in surplus as regards policyholders for the year	<u>(13,324)</u>	<u>0</u>	<u>(13,324)</u>
<b>Surplus as regards policyholders, December 31, current year</b>	<u><b>\$ 732,837</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 732,837</b></u>

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and Surplus, December 31, prior year	<u>\$746,161</u>	<u>\$790,805</u>	<u>\$830,988</u>	<u>\$841,328</u>	<u>\$845,185</u>
Net income (loss)	(13,557)	(46,390)	(44,356)	(10,338)	(9,651)
Aggregate write-ins for gains and losses in surplus	233	1,746	4,173	(2)	5,794
Change in surplus as regards policyholders for the year	<u>(13,324)</u>	<u>(44,644)</u>	<u>(40,183)</u>	<u>(10,340)</u>	<u>(3,857)</u>
Capital and Surplus, December 31, current year	<u>\$732,837</u>	<u>\$746,161</u>	<u>\$790,805</u>	<u>\$830,988</u>	<u>\$841,328</u>

**NOTES TO THE FINANCIAL STATEMENTS**

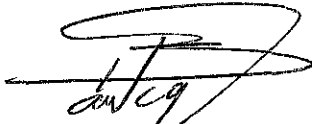
On October 31, 2014, the OIC granted the Company a financial hardship exemption to allow it not to file CPA audited financial statements under the authority of WAC 284-07-220(1).

**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 Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Timothy Hays, CPA, JD, Investment Specialist; James R. Gill, CPA, MBA, Financial Examiner; Lee Barclay, FCAS, MAAA, Senior Actuary, 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 black ink, appearing to read 'T. Subbagh', written over a horizontal line.

Tarik Subbagh, MSBA, CPA, CFE  
Examiner-in-Charge  
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }  
                                          } ss  
COUNTY OF KING         }

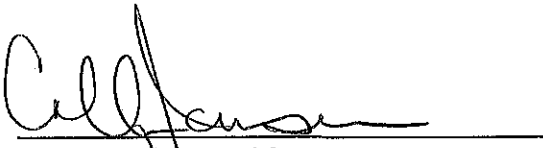
Tarik Subbagh, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination Mason County Title Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners.



Tarik Subbagh, MSBA, CPA, CFE  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me this 6<sup>th</sup> day of April, 2015.



Notary Public in and for the  
State of Washington

