

REPORT ON EXAMINATION OF
TITLE GUARANTY AND TRUST COMPANY OF CHATTANOOGA
CHATTANOOGA, TENNESSEE

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Dept. of Commerce & Insurance
Company Examinations

AS OF
DECEMBER 31, 2011

THE DEPARTMENT OF COMMERCE AND INSURANCE
STATE OF TENNESSEE
NASHVILLE, TENNESSEE

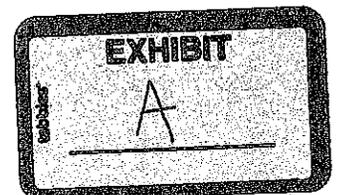


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Nashville, Tennessee
April 29, 2013

Honorable Julie Mix McPeak
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with Tennessee insurance laws and regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a financial examination has been made of the affairs and condition of

TITLE GUARANTY AND TRUST COMPANY OF CHATTANOOGA
617 WALNUT STREET
CHATTANOOGA, TENNESSEE 37402

hereinafter generally referred to as the "Company," and a report thereon is submitted as follows:

SCOPE OF THE EXAMINATION

The Company was last examined as of December 31, 2006, by the State of Tennessee Department of Commerce and Insurance ("TDCI"). The current financial examination covered the intervening period to the close of business on December 31, 2011. Material subsequent events and transactions deemed pertinent will be described in this report.

The examination was conducted in accordance with NAIC *Financial Condition Examiners Handbook* ("Handbook") and Tennessee insurance statutes. The Handbook required planning and performing an examination to evaluate the Company's financial condition and identify prospective risks within the Company. Company information regarding corporate governance, identification and assessment of inherent financial risks, and the evaluation of system controls and procedures used to mitigate financial risks was reviewed. The examination also

included making assessments of the accounting principles used and reviewing significant estimates made by management, as well as evaluating the overall financial statement presentation which included management's compliance with the NAIC's Statutory Accounting Principles and Annual Statement Instructions, and applicable Tennessee statutes and regulations.

The examination was called as of January 16, 2013. All original books and records are kept at 617 Walnut Street, Chattanooga, Tennessee 37402.

This routine, full scope financial examination considered all Company accounts and activities in accordance with the risk-focused examination process in the Handbook. The examination does not include a review of work papers prepared by a certified public accountant since the TDCI waived this requirement for the year ended December 31, 2011.

COMPANY HISTORY

The Company was incorporated under Tennessee law on June 16, 1891. Business commenced on the date of incorporation.

The title plant of the Fidelity Abstract Company was acquired in 1921 at a cost of thirty thousand dollars (\$30,000). This purchase had the effect of combining all title facilities and abstract business in Chattanooga at the time.

The Chattanooga Abstract Company was reactivated in 1956 and placed on an active operating basis. The Company deemed it more desirable, under Tennessee statutes governing the operation of making abstracts to real estate, to separate the operation of making abstracts from making guaranty of title. The Company had been carrying the stock of the abstract company in the value of its title plants. At the end of 1956, it was stock owned by the Company.

Subsidiary, Chattanooga Abstract Company, was merged into the Company on September 09, 2009.

There have been no regulatory actions identified for the Company since the prior examination as of December 31, 2006.

CHARTER AND BYLAWS

Charter:

The original Charter provided for authorized capital of one hundred thousand dollars (\$100,000), which consisted of twenty-five thousand dollars (\$25,000) preferred stock and seventy-five thousand dollars (\$75,000) common stock. The entire amount of the latter was issued for the title plant of the Chattanooga Abstract Company. Over the years, the capital structure of the Company has changed through charter amendments. Authorized capital stock is composed of 1,500 shares of preferred stock and 2,500 shares of common stock. Currently, 2,000 issued and outstanding shares of common stock make up the capital of the Company.

The for-profit corporation was organized to engage in and carry on the business of title insurance pursuant to Tennessee Code Annotated, Title 56, Chapter 35.

Bylaws:

The Bylaws were reviewed and found to contain key provisions noted in the typical bylaws of an insurance corporation. The Bylaws may be amended at any annual or special meeting of the stockholders. Two-thirds of the outstanding capital stock of the corporation is required for amendment.

CORPORATE RECORDS

The minutes of the meetings of the directors and stockholders were reviewed for the period under examination and were adequate to support the actions of the Company.

MANAGEMENT AND CONTROL

The Company's control is vested in a Board of Directors ("Board"). Each year the Company's stockholders elect the current year's Board members.

Board of Directors:

The Board has general control and management of the Company. Additionally, the Board elects all Officers of the Company. The Board consists of a maximum of seven persons and a minimum of three persons. An Executive Committee may be established from the Board membership. The Company's Board, at December 31, 2011, was as follows:

Name	Address	Principal Occupation
Charles O. Hon III *	Chattanooga, TN	CEO, Title Guaranty and Trust Company of Chattanooga
Arthur Poynton III	Atlanta, GA	Escrow Coordinator, Stewart Title Guaranty
Mark W. Degler	Chattanooga, TN	Attorney, Miller & Martin
B. Lamar Rankin	Signal Mountain, TN	Retired banker
Brian F. Kopet	Chattanooga, TN	President & Treasurer, Title Guaranty & Trust Company of Chattanooga
William E Snodgrass III	Chattanooga, TN	Teacher, McCallie School

* Chairman

Officers:

The Officers of the Company consist of a President, one or more Vice Presidents, a Secretary, and a Treasurer. Any two or more offices may be held by the same person except the offices of President and Vice President, and President and Secretary. The Officers of the Company, at December 31, 2011, were as follows:

Name	Title
Charles O. Hon III	Chief Executive Officer
Brian F. Kopet	President and Treasurer
Sally D. Hunt	Secretary
Jason L. Eslinger	Executive Vice President
Cathy R. Gibson	Vice President

Pecuniary Interest:

A review of the Company's compliance with Tenn. Code Ann. § 56-3-103 found no Director or Officer of the Company had any pecuniary interest in the investment or disposition of Company funds.

ORGANIZATION

The Company is a privately held stock company. Charles O. Hon III owns 23.8 percent of the business and maintains voting rights for 12.1 percent of the company stock. (See Organizational Chart on page 18.)

FIDELITY BOND AND OTHER INSURANCE

The following is a summary of the insurance maintained by the Company at December 31, 2011:

<u>Type or Class of Coverage</u>	<u>Limits</u>
Commercial General Liability	\$2,000,000 – each occurrence \$300,000 – damage to rented premises \$10,000 – medical expenses \$2,000,000 – personal and adv. injury
Automobile Liability	\$4,000,000 – general aggregate \$1,000,000 – combined single limit \$1,000,000 – uninsured motorist
Workers Compensation and Employee Liability	\$100,000 – each accident \$100,000 – disease \$500,000 – policy limit
Professional Liability	\$1,000,000
Dishonesty Bond	\$100,000 - employee theft
Business Income & Extra Expense	12 month actual loss
Business Income & Extra Expense	\$25,000
Dependent Property	
Business Income & Extra Expense	\$25,000
Dependent Property	
Business Income & Extra Expense	\$500,000
Newly Acquired Property	
Employee Dishonesty	\$25,000
Expediting Expenses	\$25,000
Identify Theft/Recovery Services	\$25,000

The fidelity coverage was in excess of the suggested minimum amount recommended by the Handbook. All of the above insurance policies were written by companies licensed to write in Tennessee.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The following benefits are available to all full time employees upon completing ninety days of service:

1. Twenty-five thousand dollars (\$25,000) of Life and Accidental Death and Dismemberment coverage with 33 percent benefit reduction at ages 65 and 70.
2. Comprehensive medical insurance is provided to employees at a 50/50 percentage split. For each additional year the employee completes, the percentage decreases by 10 percent. If family coverage is selected, the Company pays the amount for employee only coverage. The additional coverage is picked up by the employee.

All of the above-mentioned benefits continue as long as the employee remains actively at work.

TERRITORY

The Company is licensed only in Tennessee. In its capacity as agent, the Company issues title insurance policies for Stewart Title Guaranty Company, First American Title Insurance Company, and Old Republic Title Insurance Company.

PLAN OF OPERATION

The Company writes only title insurance in the metropolitan Chattanooga area. Georgia policies are written through the Company in its capacity as agent for Stewart Title Guaranty Company.

During the period under review, and through the date of this report, all underwriting was subject to the underwriting rules adopted by the Company and issued in accordance with approved rates.

Dividends may be paid to policyholders from unassigned surplus. A dividend of twenty thousand dollars (\$20,000) was paid to the stockholders in 2007 during the examination period. Subsequent to December 31, 2011, the Company declared a dividend during 2012. (See the Subsequent Events section on page nine.)

The largest amount underwritten by the Company for any one risk was one million dollars (\$1,000,000).

MARKET CONDUCT ACTIVITIES

Underwriting and Policy Rates

The Company's underwriting materials were reviewed. No instances of unfair

competition or deceptive acts were noted. No rate increases were enacted during the period under examination.

Form Filings

Policy form filings were reviewed and compared to active insurance policies examined as part of the underwriting procedures of the examination without exception.

Claims Review

A claims sample was reviewed. Claims were paid in accordance with policy provisions and settlements were made upon receipt of proper evidence of the liability.

Advertising

The examination of advertising used by the Company showed it included print and internet methods. A sample the advertising media used was reviewed and was found to comply with Tenn. Code Ann. § 56-8-104.

Privacy of Nonpublic Personal Information

The Company has a privacy statement which meets the requirements of Tenn. Comp. R. & Regs. 0780-1-72 with respect to the privacy of nonpublic personal information.

GROWTH OF THE COMPANY

The following comparative data reflected the growth of the Company for the period under review (\$000's omitted):

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Admitted assets	1,448	1,349	1,390	1,506	1,592
Total liabilities	541	445	446	488	463
Surplus	907	904	944	1,017	1,128
Net operating gain (loss)	93	(45)	14	106	125
Net investment gain (loss)	38	47	45	40	39
Net income	82	(15)	49	108	105

LOSS EXPERIENCE AND OTHER PERCENTAGES

The following comparative data reflects the loss experience and other percentages of the Company for the period under review (\$000's omitted):

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Premiums Written	260	234	229	253	236
Losses and Loss expense Incurred	1	18	0	0	48
Losses and Loss expense incurred to net premiums written	0.38%	7.69%	-	-	20.34%
Operating Expenses	1,589	1,426	1,253	1,311	1,374
Operating Expenses Incurred to Net Premiums Written	611.15%	609.40%	547.16%	518.18%	582.20%

ACCOUNTS AND RECORDS

During the course of examination, tests and audit procedures were made as were considered necessary, including verification of postings, extensions and footings. Accounting records conformed to generally accepted insurance accounting practices that supported the observations and conclusions of the examination work and report.

The Company was granted an exemption from filing audited annual financial statements required under Tenn. Comp. R. & Regs. 0780-01-65-.18.

The Company was not required to submit a Risked Based Capital report as required by Tenn. Code Ann. § 56-46-110.

STATUTORY DEPOSITS

The Company maintained the following deposits, at December 31, 2011, for the benefit of all policyholders, claimants, and creditors:

<u>Where Deposited And Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Tennessee - Federal National Mortgage Association 3.000%, Due 09/29/2025	\$40,000	\$40,000	\$40,131

Federal National Mortgage Association 2.000%, Due 09/16/2025	\$40,000	\$40,000	\$40,047
Federal Home Loan Mortgage Corporation 2.000%, Due 12/13/2019	\$30,000	\$30,000	\$30,045
Federal Home Loan Mortgage Corporation 2.500%, Due 11/09/2021	\$10,000	\$10,000	\$10,046

The above deposits were verified by direct correspondence with the regulating jurisdiction.

COMMITMENTS AND CONTINGENCIES

From the examination data made available, no financially material commitments and contingencies were reported by the Company, other than matters arising out of the normal course of business.

SUBSEQUENT EVENTS

The Company declared a thirty thousand dollar (\$30,000) dividend on December 21, 2012.

FINANCIAL STATEMENT

Statements of assets, liabilities, revenue and expenses at December 31, 2011, follow. A reconciliation of reserves and unassigned funds for the period under review, as established by this examination, also follows:

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	120,000	0	120,000
Stocks			
Preferred stocks	46,306	0	46,306
Common stocks	60,800	50,000	10,800
Real Estate			
Properties occupied by the company	108,765		108,765
Properties held for sale	5,000	0	5,000
Cash and short-term investments	<u>1,165,212</u>	<u>0</u>	<u>1,165,212</u>
Subtotals, cash and invested assets	1,506,083	50,000	1,456,083
Investment income due and accrued	768		768
Premiums and considerations			0
Uncollected premiums and agents' balances in the course of collection	17,579	1,482	16,097
Electronic data processing equipment and software	26,269	0	26,269
Furniture and equipment	12,872	12,872	0
Aggregate write-ins for other than invested assets			
Cash Value of Life Insurance	183,250	90,018	93,232
Leasehold Improvements	6,552	6,552	0
Other Assets Nonadmitted	<u>45,098</u>	<u>45,098</u>	<u>0</u>
Totals	<u>1,798,471</u>	<u>206,022</u>	<u>1,592,449</u>

LIABILITIES, CAPITAL AND SURPLUS

Statutory Premium Reserve	\$237,703
Aggregate of other reserves required by law	100,000
Commissions, brokerage, and other charges due or accrued by attorneys, agents and real estate brokers	7,483
Other expenses	86,887
Taxes, licenses and fees	1,921
Current federal and foreign income taxes	21,065
Net deferred tax liability	8,540
Total liabilities	<u>463,599</u>
Common capital stock	200,000
Gross paid in and contributed surplus	17,733
Unassigned funds (surplus)	911,117
Surplus as regards policyholders	<u>1,128,850</u>
Totals	<u>\$1,592,449</u>

STATEMENT OF INCOME

Operating Income	
Title insurance and related income	
Title insurance premiums earned	238,796
Other title fees and service charges	761,514
Other operating income	<u>548,508</u>
Total Operating Income	1,548,818
Expenses	
Losses and loss adjustment expenses incurred	48,239
Operating expenses incurred	1,374,582
Total Operating expenses	<u>1,422,821</u>
Net operating gain (loss)	125,997
Investment income	
Net investment income earned	39,715
Net investment gain (loss)	39,715
Net income, after capital gains tax and before all other federal income taxes	165,712
Federal and foreign income taxes incurred	<u>60,318</u>
Net income	<u>105,394</u>

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

	2011	2010	2009	2008	2007
Surplus as regards policyholders, December 31 prior year	1,017,229	944,103	904,276	907,607	853,479
Net income	105,394	108,653	49,256	-15,424	82,871
Change in net unrealized capital gains or (losses)				133	100
Change in deferred income taxes	7,226	-3,441	-1,904	2,801	-2,790
Change in nonadmitted assets	-999	-32,086	-7,525	9,159	-6,053
Dividends to stockholders					-20,000
Change in surplus as regards policyholders for the year	111,621	73,126	39,827	-3,331	54,128
Surplus as regards policyholders, December 31 prior year	1,128,850	1,017,229	944,103	904,276	907,607

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS
RESULTING FROM EXAMINATION

During the period covered by this examination, there were no changes made to the Company's reported December 31, 2011, financial statement.

COMMENTS AND RECOMMENDATIONS

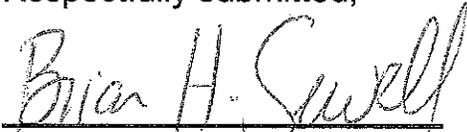
None.

CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that, as of December 31, 2011, the Company had net admitted assets of one million, five hundred ninety-two thousand, four hundred forty-nine dollars (\$1,592,449) and liabilities, exclusive of capital and surplus, of four hundred sixty-three thousand, five hundred ninety-nine dollars (\$463,599). Thus, there existed for the additional protection of the policyholders, the amount of one million, one hundred twenty-eight thousand, eight hundred fifty dollars (\$1,128,850) in the form of statutory reserves and unassigned funds.

Respectfully submitted,

A handwritten signature in cursive script that reads "Brian H. Sewell". The signature is written in dark ink and is positioned above a horizontal line.

Brian H Sewell, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Title Guaranty and Trust Company of Chattanooga dated May 1, 2013 and made as of December 31, 2011, on behalf of the TDCI. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information, and belief.

Brian H. Sewell

Brian H. Sewell, CFE
Examiner-in Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

1st day of May, 2013

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014



ORGANIZATIONAL CHART

as of December 31, 2011

Chales O. Hon III
(controls approximately 35.93% of
common stock)

Title Guaranty and Trust Company
of Chattanooga