

Report of Examination of

**The Bankers Guarantee Title & Trust Company**  
Fairlawn, Ohio

As of December 31, 2012

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Columbus, Ohio  
May 6, 2013

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**The Bankers Guarantee Title & Trust Company**

an Ohio domiciled, title insurance company, hereinafter referred to as the “Company.”

**Scope of Examination**

The Department last examined the Company as of December 31, 2007. The Department’s current examination covers the intervening period through December 31, 2012.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statements of Statutory Accounting Principles (“SSAPs”) and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Department approved the Company’s request for exemption from filing audited financial statements based on Statutory Accounting Principles. However, the Certified Public Accounting firm of Stinnett, Padrutt & Aranyosi provided an unqualified opinion on the consolidated financial statements of the Company and its wholly-owned subsidiary, Ohio General Corporation, as of December 31, 2012, in conformity with Generally Accepted Accounting Principles. The audit report and related work papers were reviewed by the Department during the examination.

## Management and Control

### Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<b>Name</b>	<b>Principal Occupation</b>
J.D. Crawfis, III	Retired
John P. Davis	Chief Financial Officer, Wrayco Industries
David Herberich	Director, Pricing and Strategy, Sears Holding Corporation
Richard Herberich	Vice President, The Bankers Guarantee Title & Trust Company
Richard L. Pace	President, The Bankers Guarantee Title & Trust Company
Patricia K. Smith	Vice President, Secretary and Treasurer, The Bankers Guarantee Title & Trust Company

### Officers

As of the examination date, the following officers were serving in the designated position:

<b>Name</b>	<b>Title</b>
Richard L. Pace	President
Richard Herberich	Vice President
Patricia K. Smith	Vice President, Secretary and Treasurer

## **Insurance Holding Company System**

Nevada General Corporation (“Nevada General”) owns 98.42% of the Company. Members of the Company’s management and their family members have a controlling interest in Nevada General. The Company’s wholly-owned subsidiary, Ohio General Corporation (“Ohio General”), is engaged in real estate lending.

## **Territory and Plan of Operations**

The Company is licensed to transact title insurance business in the State of Ohio; however, its primary operations include the origination of mortgage loans that are subsequently pooled and sold to FNMA or GNMA. The Company retains the servicing rights to the pooled mortgages.

Nevada General and Ohio General advance funds to the Company to satisfy operational needs under lend/borrow authority agreements approved by the Department in 2009. At December 31, 2012, the Company owed Nevada General and Ohio General \$2,594,000 and \$424,800, respectively, under the agreements.

## **Reinsurance**

The Company does not assume or cede reinsurance.

## **Financial Statements**

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department are reflected in the following:

- Statement of Assets, Liabilities, Capital and Surplus
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus  
December 31, 2012**

**Assets**

Common stocks	\$ 355,163
Mortgage loans on real estate:	
First liens	17,973,094
Other than first liens	896,508
Real estate held for sale	55,299
Cash, cash equivalents, and short term investments	<u>394,193</u>
Subtotal, cash and invested assets	19,674,257
Investment income due and accrued	46,452
Funds segregated for others	<u>9,203,044</u>
Total Assets	<u>\$ 28,923,753</u>

**Liabilities, Capital and Surplus**

Liabilities:

Losses and loss adjustment expenses incurred	\$ 0
Statutory premium reserve	84,050
Other expenses	260,102
Current federal income taxes payable	160,484
Net deferred tax liability	66,145
Borrowed money	9,644,554
Loan escrow	17,655
Funds segregated for others	<u>9,203,044</u>
Total liabilities	<u>19,436,034</u>

Capital and Surplus:

Common capital stock	631,250
Gross paid in and contributed surplus	5,456,495
Unassigned funds	<u>3,399,974</u>
Total capital and surplus	<u>9,487,719</u>
Total liabilities, capital and surplus	<u>\$ 28,923,753</u>

**Statement of Income  
As of December 31, 2012**

Operating Income:

Title insurance premiums earned	\$ 100,645
Income from mortgage operations	<u>1,855,470</u>
Total operating income	<u>1,956,115</u>

Operating Expenses Incurred

Losses and loss adjustment expenses	0
Title and escrow operating expenses	83,475
Expenses from mortgage operations	<u>1,259,551</u>
Total operating expenses	<u>1,343,026</u>

Net operating gain 613,089

Net investment income earned 548,092

Net investment gain 548,092

Net income before federal income taxes 1,161,181

Federal income taxes incurred 378,038

Net income \$ 783,143

**Statement of Changes in the Capital and Surplus Account**  
(in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, prior year-end	<u>\$ 9,550</u>	<u>\$10,592</u>	<u>\$ 11,196</u>	<u>\$ 11,164</u>	<u>\$ 11,930</u>
Net income	783	530	566	550	469
Change in net unrealized capital gains (losses)	(17)	(27)	54	95	0
Change in net deferred income tax	(12)	(41)	0	54	0
Change in nonadmitted assets	121	(938)	(749)	714	(477)
Cumulative effect of changes in accounting principles	0	0	0	(935)	0
Prior period adjustment	0	(28)	0	0	0
Dividends to stockholder	<u>(937)</u>	<u>(538)</u>	<u>(475)</u>	<u>(446)</u>	<u>(758)</u>
Net change in capital and surplus	<u>(62)</u>	<u>(1,042)</u>	<u>(604)</u>	<u>32</u>	<u>(766)</u>
Capital and surplus, current year-end	<u>\$ 9,488</u>	<u>\$ 9,550</u>	<u>\$ 10,592</u>	<u>\$ 11,196</u>	<u>\$ 11,164</u>

**Notes to Financial Statements**

**Investments**

During 2012, a borrower defaulted on repayment at maturity on a \$3.64 million land loan. As part of a workout agreement, the maturity date was extended to September 3, 2013 and the interest rate was reduced. The borrower is required to make monthly payments of accrued interest on the unpaid principal balance of the loan plus a monthly escrow for real estate taxes. Management has indicated it does not anticipate any loss on this loan.

**Statutory Premium Reserve**

The Department approved the Company's request for exemption from filing an actuarial opinion. The statutory premium reserve, as calculated by management, is in accordance with ORC 3953.11.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company at December 31, 2012, and is summarized as follows:

Total Assets	<u>\$ 28,923,753</u>
Liabilities	19,436,034
Capital and Surplus	<u>9,487,719</u>
Total Liabilities, Capital and Surplus	<u>\$ 28,923,753</u>

### Subsequent Events

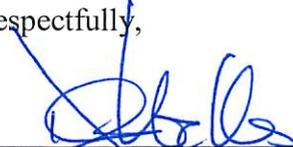
There have been no events subsequent to the examination date that would have a material effect on the financial condition of the Company.

### Acknowledgement

Appreciation is expressed for the assistance extended by the Company's officers and employees during the course of this examination.

In addition to the undersigned, Jyotika Patel, of the Department, participated in this examination.

Respectfully,

  
\_\_\_\_\_  
Donnie G. Wells, CFE  
Examiner-in-Charge  
Office of Risk Assessment  
Ohio Department of Insurance

  
\_\_\_\_\_  
Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2012.

  
Donnie G. Wells  
Examiner-in-Charge

5/14/13  
Date

  
Jeffrey K. Ebert  
Assistant Chief Examiner

5/14/13  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named Donnie G. Wells personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

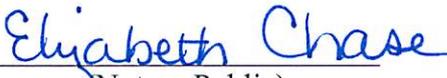
Subscribed and sworn to before me this 14 day of May, 2013.

  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires

State of Ohio  
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 14 day of May, 2013.

  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires

2/14/13

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2/14/13

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ELIZABETH CHASE  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 25, 2013

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*[Handwritten signature]*  
ELIZABETH CHASE  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 25, 2013