

**REPORT ON EXAMINATION**

of the

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

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JUN 02 2008

Dept. Of Commerce & Insurance  
Company Examinations

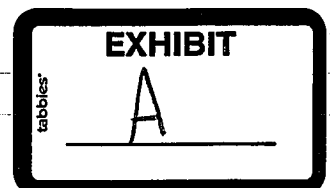
as of

**DECEMBER 31, 2006**

**DEPARTMENT OF COMMERCE AND INSURANCE**

**STATE OF TENNESSEE**

**NASHVILLE, TENNESSEE**



## TABLE OF CONTENTS

| <u>Item</u>  | <u>Page</u> |
|--|-------------|
| Salutation   | 3           |
| Scope of Examination   | 3           |
| History  | 3           |
| Prior Examination Findings   | 4           |
| Capital Stock  | 4           |
| Dividends  | 4           |
| Management   | 4           |
| Corporate Records  | 5           |
| Affiliated Companies   | 5           |
| Fidelity Bond  | 5           |
| Statutory Deposit  | 5           |
| Territory and Plan of Operation  | 6           |
| Accounts and Records   | 6           |
| Financial statements   |             |
| Assets   | 7           |
| Liabilities, surplus and other funds                                   | 8           |
| Statement of Income  | 9           |
| Reconciliation of Capital and Surplus for the period under examination | 10          |
| Summary of Examination Changes   | 11          |
| Subsequent Events  | 11          |
| Conclusion   | 11          |
| Affidavit  | 12          |
| Organizational Chart   | 13          |

Nashville, Tennessee  
June 2, 2008

Honorable Leslie A. Newman  
Commissioner  
State of Tennessee  
Department of Commerce and Insurance  
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a risk-focused financial examination was made of the condition and affairs of

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

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

**Scope of Examination**

This examination report covers the period from December 31, 2001, the date of the previous examination, to the close of business on December 31, 2006, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. To substantiate the various items, a risk focused basis exam was recommended by the Department of Commerce and Insurance, State of Tennessee ("Department") as prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency.

**History**

The Company was incorporated on June 16, 1891, and commenced business on that date to "guarantee titles to real estate for a consideration". There were no amendments to the charter and bylaws during the period under examination.

Prior Examination Findings

The following were the prior examination recommendations and company corrective actions:

1. "the Company meets the definition of an insurance company holding system per Tenn. Code Ann. § 56-11-201 - 203. The Company neglected to make all the required filings per Tenn. Code Ann. § 56-11-205 during the period of examination."

The Company amended the 2002 registration statement to adhere to Tenn. Code Ann. § 56-11-205.

2. "According to SSAP No. 16, paragraph 5, there are certain disclosures that are required to be made about electronic data processing equipment. The Company neglected to make the disclosures."

Since the examination recommendation, the Company's annual statement filings have been reviewed by the Department without exception to this disclosure.

3. "the Company report unclaimed property to the State in accordance with Title 66 Tenn. Code Ann."

The Company has filed Unclaimed Property reports to the State, when necessary.

Capital Stock

At December 31, 2006, the Company's authorized capital stock was 2,000 shares of \$100 par value common capital stock, of which all shares were outstanding.

Dividends

The following dividends were paid by the Company during the examination period:

| <u>Year</u> | <u>Paid To</u> | <u>Amount</u> |
|-------------|----------------|---------------|
| 2004        | Stockholders   | \$10,000      |

Management

Management of the Company is vested in its Board of Directors. Members of the Board were elected in accordance with the bylaws of the Company. Members shall hold office until the next annual meeting and until successors are elected and qualified. The Board is comprised of the following members as of December 31, 2006:

| <b>Name</b>              | <b>Principal Occupation</b>                           |
|--------------------------|---|
| Charles O. Hon, III      | Chairman  |
| Arthur Poynton, III      | Escrow Coordinator; Stewart Title Guaranty            |
| Mark W. Degler           | Attorney; Miller & Martin                             |
| B. Lamar Rankin          | Retired banker  |
| Phillip M. Hon           | Insurance Sales                                       |
| Brian F. Kopet           | President & Treasurer, Title Guaranty & Trust Company |
| William E Snodgrass, III | Teacher, McCallie School                              |

As of the examination date, the following officers were elected and serving in accordance with the Company's bylaws:

| Name              | Title                    |
|-------------------|--------------------------|
| Brian F. Kopet    | President and Treasurer  |
| Jason L. Eslinger | Executive Vice President |
| Cathy R. Gibson   | Vice President           |
| Sally D. Hunt     | Secretary                |

#### Corporate Records

Minutes of meetings of stockholders, directors, and committees were approved and support company transactions and events.

#### **Affiliated Companies**

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-201. The Company's ultimate parent is Charles O. Hon, III, individual. An organizational chart is attached to this report on page 13.

The Company expects to merge the assets and liabilities of its subsidiary, Chattanooga Abstract Company, into the company.

At December 31, 2006 Chattanooga Abstract Company reported \$30,000 in common stock and \$65,375 in retained earnings with no revenue or expense.

#### **Fidelity Bond**

The Company is listed as the named insured on the fidelity insurance coverage at December 31, 2006. The Company's fidelity coverage is in excess of the suggested minimum amount per the NAIC Financial Condition Examiners Handbook.

#### **Statutory Deposits**

| State     | Description                     | Book/Adjusted Carrying Value | Fair Value       |
|-----------|---------------------------------|------------------------------|------------------|
| Tennessee |                                 |                              |                  |
|           | FHLB - CUSIP#3133X72N3          | \$39,929                     | \$39,400         |
|           | FNMA - CUSIP#3136F5NA5          | 39,837                       | 38,838           |
|           | FFCB - CUSIP#31331TMS7          | 30,000                       | 29,428           |
|           | TN HSG DEV AGY- CUSIP#8804596E7 | 10,000                       | 10,000           |
| Total     |                                 | <u>\$119,766</u>             | <u>\$117,666</u> |

### **Territory and Plan of Operations**

The Company is only licensed in Tennessee for title insurance business. The Company, in the capacity of an agent, issues policies for Lawyers Title Insurance Corporation of Glen Allen, Virginia, Commonwealth Land Title Insurance Company of Glen Allen, Virginia, and Stewart Title Guaranty Title Company of Houston, Texas, in Tennessee and Georgia.

### **Accounts and Records**

During the course of examination, such tests and audit procedures were made as were considered necessary. Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

## Financial Statements

The financial condition of the Company, as of December 31, 2006, is reflected in the Statement of Assets, Liabilities, Surplus and Other Funds.

|   | <b>Assets</b>      |                              |                               |
|---|--------------------|------------------------------|-------------------------------|
|   | <u>Assets</u>      | Nonadmitted<br><u>Assets</u> | Net Admitted<br><u>Assets</u> |
| Bonds   | \$119,766          | \$                           | \$119,766                     |
| Real Estate                                       | 128,533            |                              | 128,533                       |
| Cash and short-term investments                   | <u>1,117,143</u>   |                              | <u>1,117,143</u>              |
| Total cash and invested assets                    | <u>1,365,442</u>   | <u>0</u>                     | <u>1,365,442</u>              |
| Electronic data processing equipment and software | 29,642             |                              | 29,642                        |
| Furniture and equipment                           | 25,377             | 25,377                       | 0                             |
| Aggregate write-ins                               | <u>225,620</u>     | <u>141,021</u>               | <u>84,599</u>                 |
| Totals  | <u>\$1,655,778</u> | <u>\$168,518</u>             | <u>\$1,487,260</u>            |

## LIABILITIES, SURPLUS AND OTHER FUNDS

|  |                    |
|--|--------------------|
| Statutory Premium Reserve  | \$246,803          |
| Aggregate of other reserves required by law  | 100,000            |
| Commissions, brokerage, and other charges due or accrued by attorneys,<br>agents and real estate brokers | 5,854              |
| Other expenses   | 191,415            |
| Taxes, licenses and fees   | 7,428              |
| Current federal and foreign income taxes   | 71,849             |
| Net deferred tax liability   | <u>10,432</u>      |
| Total liabilities  | <u>633,781</u>     |
| Common capital stock   | 200,000            |
| Gross paid in and contributed surplus  | 17,733             |
| Unassigned funds (surplus)   | <u>635,746</u>     |
| Surplus as regards policyholders   | <u>853,479</u>     |
| Total  | <u>\$1,487,260</u> |



## STATEMENT OF INCOME

### Title Insurance and related income

Title insurance premiums earned \$275,571

Other title fees and service charges 1,030,049

Aggregate write-ins for other operation income 446,377

Total Operating Income 1,751,997

### Deduct:

Operating expenses incurred 1,519,535

Net Operating gain or (loss) 232,462

### INVESTMENT INCOME

Net investment income earned 18,977

Net investment gain 18,977

### OTHER INCOME

Net income before all other federal and foreign income taxes 251,439

Federal and foreign income taxes incurred (89,449)

Net income \$161,990

**RECONCILIATION OF CAPITAL AND SURPLUS  
FOR THE PERIOD UNDER EXAMINATION**

|   | <u>2002</u>             | <u>2003</u>             | <u>2004</u>             | <u>2005</u>             | <u>2006</u>             |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Surplus as regards policyholders December 31, Previous Year</b>  | \$319,168               | \$235,599               | \$529,828               | \$712,113               | \$732,665               |
| Net Income  | (95,457)                | 176,790                 | 188,167                 | 147,520                 | 161,990                 |
| Net unrealized capital gains and (losses)                           | (37)                    | (76)                    | (681)                   | 271                     | 13                      |
| Change in net deferred income tax                                   | 21,947                  | (3,653)                 | (46,458)                | (9,611)                 | (3,104)                 |
| Change in non-admitted assets                                       | (10,022)                | 121,168                 | 51,257                  | (118,203)               | (38,085)                |
| Change in provision for reinsurance                                 | 0                       | 0                       | 0                       | 0                       | 0                       |
| Cumulative effect of changes in accounting principles               | 0                       | 0                       | 0                       | 0                       | 0                       |
| Surplus adjustments: paid in  | 0                       | 0                       | 0                       | 0                       | 0                       |
| Dividends to stockholders   | 0                       | 0                       | (10,000)                | 0                       | 0                       |
| Aggregate Write ins for gains or (losses) in surplus                | <u>0</u>                | <u>0</u>                | <u>0</u>                | <u>575</u>              | <u>0</u>                |
| <b>Surplus as regards to policyholders December 31 Current Year</b> | <b><u>\$235,599</u></b> | <b><u>\$529,828</u></b> | <b><u>\$712,113</u></b> | <b><u>\$732,665</u></b> | <b><u>\$853,479</u></b> |

### Summary of Examination Changes

There were no changes made to the financial statements as a result of this examination.

### Subsequent Events

During 2007, the Company gave notice and issued an ordinary dividend of \$5 per share for the years of 2005 and 2006 for a total disbursement of \$10,000 per year.

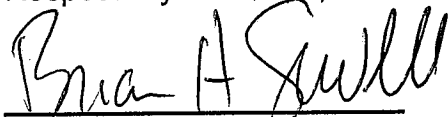
### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2006, and is summarized as follows:

|  |                    |
|--|--------------------|
| Total Assets   | <u>\$1,487,260</u> |
| Liabilities  | \$633,781          |
| Surplus as Regards Policyholders                       | <u>853,479</u>     |
| Total Liabilities and Surplus as Regards Policyholders | <u>\$1,487,260</u> |

The Company's surplus exceeds the requirements set forth by Tenn. Code Ann. § 56-35-112.

Respectfully submitted,



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 The Title Guaranty and Trust Company of Chattanooga dated June 2, 2008, and made as of December 31, 2006, on behalf of the Tennessee Department of Commerce and Insurance. 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

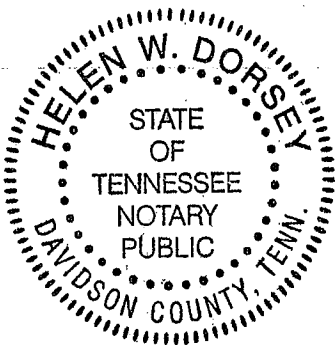
2nd day of June, 2008

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 05/22/2010

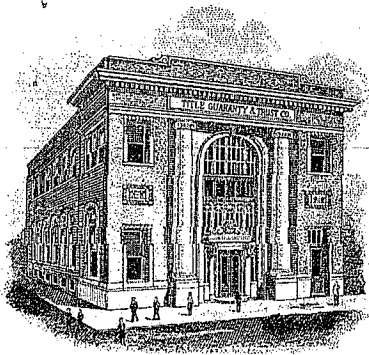


My Commission Expires MAY 22, 2010

CHARLES O. HON, III, individual, domiciled in Tennessee ✓  
476.516 shares owned  
242.2 shares not owned, but voting rights  
718.716 shares controlled of 2000 outstanding  
35.94% controlled

THE TITLE GUARANTY AND TRUST COMPANY OF CHATTANOOGA  
A Tennessee corporation domiciled in Tennessee

CHATTANOOGA ABSTRACT COMPANY ✓  
A Tennessee corporation domiciled in Tennessee  
Owned 100% by The Title Guaranty and Trust Company of Chattanooga



The South's Oldest Title Company

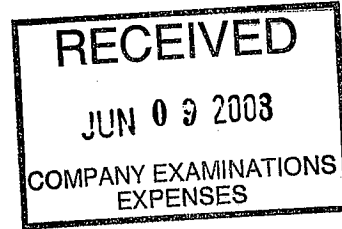
# The Title Guaranty and Trust Company of Chattanooga

617 Walnut Street  
Chattanooga, Tennessee 37402  
Telephone (423) 266-5751  
Facsimile (423) 265-8855

Charles O. Hon, III.....Chairman, CEO  
Brian F. Kopet.....President, Treasurer  
Jason L. Eslinger.....Executive Vice President  
Cathy Gibson.....Vice President  
Sally D. Hunt.....Secretary

June 5, 2008

Philip Blustein, CFE  
Insurance Examinations Director  
State of Tennessee  
Department of Commerce and Insurance  
500 James Robertson Parkway, 4<sup>th</sup> Floor  
Nashville, Tennessee 37243



RE: Certified Mail 7001 0360 0000 8860 3954  
Financial Condition Examination of  
The Title Guaranty and Trust Company of Chattanooga  
Made as of December 31, 2006

Dear Mr. Blustein:

I am in agreement with The Financial Condition Examination of The Title Guaranty and Trust Company of Chattanooga made as of December 31, 2006, and therefore wish to waive my right to a rebuttal.

Sincerely,

Brian F. Kopet  
President

