

REPORT OF A LIMITED-SCOPE EXAMINATION
of the
AMERICAN GENERAL PROPERTY INSURANCE COMPANY

458N American General Center

Nashville, Tennessee 37250

as of

December 31, 2008

RECEIVED

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**Dept. of Commerce & Insurance
Company Examinations**

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

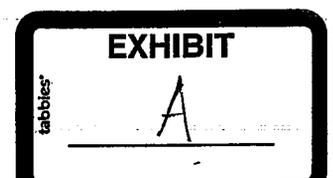


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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
INSURANCE DIVISION
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
NASHVILLE, TENNESSEE 37243-1135

Nashville, Tennessee
November 12, 2009

Honorable Alfred W. Gross Chairman, NAIC Financial Condition (E) Committee Virginia Bureau of Insurance P. O. Box 1157 Richmond, Virginia 23218-1157	Honorable Leslie A. Newman Commissioner of Commerce & Insurance State of Tennessee 500 James Robertson Parkway Nashville, Tennessee 37243
Honorable Joel Ario Secretary, Northeastern Zone, NAIC Pennsylvania Insurance Department 1326 Strawberry Square Harrisburg, Pennsylvania 17120	Honorable James J. Donelon Secretary, Southeastern Zone, NAIC Department of Insurance State of Louisiana P.O. Box 94214 Baton Rouge, Louisiana 70804-9214
Honorable Merle D. Scheiber Secretary, Midwestern Zone, NAIC South Dakota Division of Insurance Department of Revenue and Regulation 445 East Capital Avenue Pierre, South Dakota 57501-3185	Honorable Morris Chavez Secretary, Western Zone, NAIC New Mexico Insurance Division PERA Building 1120 Paseo de Peralta Santa Fe, NM 87501

Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a limited-scope examination was made of the conditions and affairs of the

AMERICAN GENERAL PROPERTY INSURANCE COMPANY
NASHVILLE, TENNESSEE

as of December 31, 2008, hereinafter and generally referred to as the "Company" or AGPIC.

INTRODUCTION

This examination was arranged by the Department of Commerce and Insurance of the State of Tennessee (TDCI or Department) under rules promulgated by the NAIC. It was commenced on September 22, 2008, and was conducted by duly authorized representatives of the TDCI. Due to the Company being licensed in many states, this examination is classified as an Association examination and therefore was called through the NAIC's Examination Tracking System. However, notice of intent to participate was not received from any other state. This examination was made simultaneously with the Company's affiliate, American General Life and Accident Insurance Company (AGLA).

The previous examination was made as of December 31, 2006, by examiners of the State of Tennessee. Their report on examination did not contain any comments, recommendations or directives requiring corrective action by the TDCI. See Comments - Previous Examination section included under Scope of Examination on page 3.

SCOPE OF EXAMINATION

This examination covers the period, January 1, 2007, through December 31, 2008, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

This limited-scope examination was called in September 2008 due to the Company's affiliate, AGLA, and its continued problems with its participation in its ultimate parent's, American International Group, Inc. (AIG), Securities Lending Program and its resulting effect on AGLA's financial position. The Company had been given approval by the TDCI to participate in the Securities Lending Program and at the time when these two (2) examinations were called, it was not known what exposure the Company had to the program.

There were two concerns that gave rise to the need for this limited-scope examination; (1) did the Company have exposure to the Securities Lending Program, and (2) if so, was it affecting the solvency of the Company and its ability to survive as a going concern.

This examination was a limited-scope examination and only focused on the two concerns that gave rise for the need for such exam as was mentioned in the prior paragraph. This limited-scope examination is not intended to communicate all matters of importance for an understanding of the Company's financial condition.

This limited-scope examination was conducted in accordance with rules and procedures as prescribed by the statutes of Tennessee, the Company's state of domicile, and in accordance with guidelines and procedures contained in the *NAIC Financial Condition Examiners Handbook*.

Comments - Previous Examination

The previous examination was made as of December 31, 2006, by examiners of the State of Tennessee. Their report on examination did not contain any comments, recommendations or directives requiring corrective action by the TDCI.

An examination was made into the following matters:

- Securities Lending Program
- Solvency of Company

These will be discussed as follows:

SECURITIES LENDING PROGRAM

Background:

Tenn. Code Ann. § 56-3-303 (Authorized Investments) paragraph (a) (18) allows for domestic insurance companies to participate in securities lending as an investment practice. The NAIC Accounting Practices and Procedures Manual addresses accounting and collateral requirements for securities lending transactions in SSAP No. 91 paragraph 56. On November 2, 2001, the Company's Board of Directors approved an Investment Plan that included securities lending as an authorized investment practice and the Company began its participation in the program in the same year. On May 24, 2002, AIG and the Company gave notice (Form D) to the TDCI of the proposed Securities Lending Agency Agreement where it would participate in a securities lending program with AIG Global Securities acting as agent for each lender.

On July 9, 2002, the Company's Securities Lending Agency Agreement was approved by the TDCI with the following stipulation:

“ Each loan shall receive collateral with a market value equal to at least a percentage of the market value of the securities lent, which percentage shall be not less than the prevailing industry standard for such transaction but shall never be less than 100 percent.”

In the prior full financial examination performed by the TDCI as of December 31, 2006, it was determined that although the Company has approval to participate in AIG's Securities Lending Program, the Company actually has never participated in the program. During the period of that examination (2001 through 2006), assets listed by the Company on financial statements were verified by examination as being free and clear of any encumbrances to include possible securities lending transactions.

Examination Procedures:

1. To further verify the Company's non-participation in the AIG's Securities Lending Program the examination reviewed Company Annual and Quarterly Statements for the period starting January 1, 2007 through the reporting date of this examination in 2009. The examination procedures were limited to inquiry of company officials and the review of all agreements, management reports and data concerning the Security Lending Program.
2. Since it appears that the Company did not actively participate in the Securities Lending Program, Quarterly and Annual Statements were examined with particular attention given to the possible discovery of Company transaction related to securities lending. The examination also reviewed transactions between the Company and AGLA for possible involvement.

Examination Findings:

In the examination of Company Quarterly and Annual Statements, the Company has not reported any participation in AIG's Securities Lending Program and lists no transactions related to securities lending. In the interview of Company officials it was further confirmed that although the Company is party to a Securities Lending Agency Agreement approved by the TDCI, the Company did not at anytime lend securities. The examination's review of all AIG documents and status reports leading up to termination of the Securities Lending Program on December 12, 2008 provided no proof of Company participation.

Conclusion of Securities Lending Program Concern:

This limited-scope examination was conducted to determine if the Company had any exposure to AIG's Securities Lending Program and if so, would that exposure constitute a solvency concern for the Company.

Through examination procedures it was determined that the Company had been given approval to participate in the Securities Lending Program. However, it was determined that the Company never participated in the Securities Lending Program, and therefore, did not have any exposure related to the program.

SOLVENCY OF COMPANY

Background:

The Company's solvency during the period of the limited-scope statutory examination was reviewed for compliance with Tenn. Code Ann. §§ 56-2-114 and 115 which requires an insurer of this Company's type to maintain a minimum capital and surplus of two million dollars (\$2,000,000), and to meet solvency requirements established by the NAIC in accordance with the Risk Based Capital (RBC) program. In order to avoid any regulatory action under the RBC program the Company must have a RBC above the 200 percent level.

Examination Procedures:

1. The Company's total surplus as regards policyholders and the components in its make-up were reviewed over a five year period with additional attention given to the amounts as reported on the 2007 and 2008 Annual Statements to determine if the Company is in compliance with statutory requirements as stated in the background paragraph above.
2. The Company's RBC level was reviewed to determine if there has been any significant change in its capitalization requirements as expressed by the RBC model. The goal in reviewing the Company's RBC is to determine if the Company's risk profile has changed and if so, has it resulted in a change in the Company's RBC control level.

Examination Findings:

The Company reported in its 2008 Annual Statement, surplus as regards policyholders of \$40.5 million with a RBC of 1,275.9% (See table below). The significant increase in the Company's Fast Score during 2007 and 2008 is attributed to Company's significant decrease in premiums written during those years and will not affect Company solvency.

The Company's significant decrease in unassigned funds in 2007 and 2008 is a result of the Company's non-admittance of its investment in its subsidiary American General Property Insurance Company of Florida (AGPIC-FL) in accordance with requirements of SSAP No. 97 paragraph 19. This transaction had a significant affect on total capital and surplus but did not result in non-compliance with statutory requirements or a change in the RBC level.

Overall, at no time during the period of examination did the Company's capital, surplus or RBC levels reach thresholds that would affect the Company's solvency.

(In Thousands)

Capital and Surplus	2004	2005	2006	2007	2008
Capital Stock	17,574	17,574	17,574	17,574	17,574
Gross Paid-In Surplus	27,167	27,167	27,167	27,167	27,167
Unassigned Funds	540	2,609	6,731	-4,166	-4,216
Total Capital and Surplus	45,281	47,350	51,472	40,575	40,525
RBC	1,205.6%	1,403.1%	2,076.2%	1,807.6%	1,275.9%
Fast Score	80	90	70	610	420

Conclusion of Solvency of Company Concern:

The fact that the Company never participated in the Security Lending Program, and its capital, surplus, and RBC amounts are all well above required statutory and RBC capitalization levels, there appears to be no threat to the Company becoming insolvent in the near future.

Financial Statement

There follows a statement of assets, liabilities and a statement of income as of December 31, 2008, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its financial statement

	<u>Assets</u>	Non-Admitted Assets As a Result <u>of the Exam</u>	Net-Admitted <u>Assets</u>
Bonds	\$45,252,967		\$45,252,967
Common Stocks	0		0
Cash and Cash Equivalents	7,337,452		7,337,452
Receivables for securities	1,570,384		1,570,384
Investment Income Due and Accrued	714,958		714,958
Reinsurance:			
Amounts recoverable from reinsurers	1,618		1,618
Funds held by or deposited with reinsured companies	129,823		129,823
Current federal and foreign income tax recoverable	1,278,322		1,278,322
Net deferred tax asset	535,966		535,966
Guaranty funds receivable or on deposit	5,733		5,733
Receivables from parent, subsidiaries and affiliates	35,000		35,000
	\$56,862,223	\$0	\$56,862,223
Totals	\$56,862,223	\$0	\$56,862,223

Liabilities, Surplus and Other Funds

Losses		\$13,309,858
Reinsurance payable on paid losses and LAE		215,764
Loss adjustment expenses (LAE)		2,288,000
Other expenses		18,563
Taxes, licenses and fees		191,465
Ceded reinsurance premiums payable		2,244
Remittances and items not allocated		132
Payable to parent, subsidiaries and affiliates		182,503
Aggregate write-ins for liabilities		<u>128,575</u>
Total Liabilities		\$16,337,104
Common capital stock	\$17,574,100	
Gross paid in and contributed surplus	27,166,656	
Unassigned funds (surplus)	<u>(4,215,637)</u>	
Surplus as Regards Policyholders		<u>40,525,119</u>
Totals		<u><u>\$56,862,223</u></u>

Statement of Income

UNDERWRITING INCOME:

Premiums earned		\$20,371
Losses incurred	\$1,320,183	
Loss expenses incurred	2,551,048	
Other underwriting expenses incurred	(52,959)	
Aggregate write-ins for underwriting deductions	<u>8</u>	
Total underwriting deductions		<u>3,818,280</u>
Net Underwriting Gain or (Loss)		(\$3,797,909)

INVESTMENT INCOME:

Net investment income earned	\$2,562,593	
Net realized capital gains or (losses)	<u>40,634</u>	
Net Investment Gain or (Loss)		2,603,227

OTHER INCOME:

Aggregate write-ins for miscellaneous income	<u>(\$2,278)</u>	
Total Other Income		<u>(2,278)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		(\$1,196,960)
Dividends to policyholders		<u>0</u>
Net income, after dividends to policyholders but before federal and foreign income taxes		(\$1,196,960)
Federal and foreign income taxes incurred		<u>(1,166,472)</u>
Net Income		<u><u>(\$30,488)</u></u>

Capital and Surplus Account

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total Surplus as Regards Policyholders December 31, prior year	\$44,740,756	\$45,280,552	\$47,349,535	\$51,471,712	\$40,574,723
Net income or (loss)	\$3,689,121	\$2,853,860	\$3,484,143	\$1,062,540	(\$30,488)
Change in net unrealized capital gains or (losses)	(1,798,302)	(501,483)	809,177	331,946	561,460
Change in net deferred income tax	(21,573)	311,946	(248,062)	4,489	(30,950)
Change in non-admitted assets	(1,329,450)	(593,448)	76,919	(12,296,195)	(551,287)
Change in provision for reinsurance	-0-	(1,892)	-0-	231	1,661
Net change in surplus as regards policyholders for the year	\$539,796	\$2,068,983	\$4,122,177	(\$10,896,989)	(\$49,604)
Total Surplus as Regards Policyholders December 31, current year	<u>\$45,280,552</u>	<u>\$47,349,535</u>	<u>\$51,471,712</u>	<u>\$40,574,723</u>	<u>\$40,525,119</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS
RESULTING FROM EXAMINATION**

Surplus as Regards Policyholders:

\$40,525,119

Total surplus as regards policyholders as established by this examination is the same as what was reported by the Company in its December 31, 2008, Annual Statement. There were no changes made to any asset or liability items as a result of our examination as performed as of December 31, 2008.

Tenn. Code Ann. §§ 56-2-114 and 115 require an insurer of this Company's type to maintain a minimum capital and surplus of two million dollars (\$2,000,000). Therefore, the Company as of December 31, 2008, for this examination does maintain capital and surplus in excess of the amounts required per Tennessee Statutes.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments:

A. Conclusion to Securities Lending Program concern – Page 4

This limited-scope examination was conducted to determine if the Company had any exposure to AIG's Securities Lending Program and if so, would that exposure constitute a solvency concern for the Company.

Through examination procedures it was determined that the Company had been given approval to participate in the Securities Lending Program. However, it was determined that the Company never participated in the Securities Lending Program, and therefore, did not have any exposure related to the program.

B. Conclusion to Solvency of Company concern – Page 6

The fact that the Company never participated in the Security Lending Program, and its capital, surplus, and RBC amounts are all well above required statutory and RBC capitalization levels, there appears to be no threat to the Company becoming insolvent in the near future.

Recommendations:

There were no recommendations noted in this limited-scope examination report.

CONCLUSION

The customary insurance examination practices and procedures, as promulgated by the NAIC have been followed in connection with this limited-scope examination of American General Property Insurance Company located in Nashville, Tennessee.

In such manner, it was noted that as of December 31, 2008, the Company had admitted assets of \$56,862,223 and liabilities, exclusive of surplus, of \$16,337,104. Thus, there existed for the additional protection of the policyholders, the amount of \$40,525,119 in the form of common capital stock, gross paid in and contributed surplus and unassigned funds.

The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

Respectfully submitted,



A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC



Gregory Bronson, CIE
Insurance Examiner, III
State of Tennessee
Southeastern Zone, NAIC

EXAMINATION AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of American General Property Insurance Company located in Nashville, Tennessee dated November 12, 2009, and made as of December 31, 2008, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.

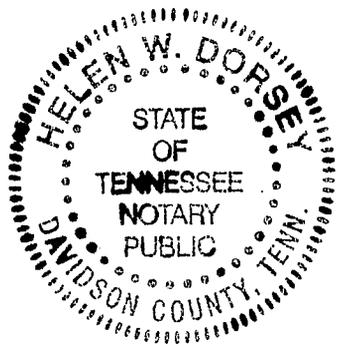

A Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

County Davidson
State Tennessee

Subscribed and sworn to before me
this 12th day of
November, 2009


(NOTARY)

My Commission Expires
05/22/2010



My Commission Expires MAY 22, 2010



American General Life and
Accident Insurance Company
American General Center
Nashville, TN 37250-0001
615-749-2499 Telephone
615-749-1251 Fax
Charles.Gibson@aglife.com

Charles K. Gibson, CPA
Vice President and Controller

November 30, 2009

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Dept. of Commerce & Insurance
Company Examinations

Mr. Horace E. Gaddis, Jr., CFE
Insurance Examinations Director
TN Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Re: Report of Limited-Scope Examination of
American General Life and Accident Insurance Company
American General Property Insurance Company
Made as of December 31, 2008

Dear Mr. Gaddis:

In reply to your November 16, 2009 letter to Mr. James A. Mallon, President, we are in agreement with the limited-scope examinations reports of American General Life and Accident Insurance Company and American General Property Insurance Company and wish to waive our right to a rebuttal.

Sincerely,

Charles K. Gibson, CPA
Vice President and Controller

XC: Gregory Hayes
Charlie Beam
Connie Ansley



CHANGING THE WAY AMERICANS THINK ABOUT, PURCHASE AND USE LIFE INSURANCE

EXHIBIT

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