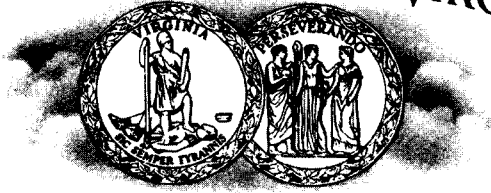


EXAMINATION REPORT
of
SOUTHERN TITLE INSURANCE CORPORATION
Richmond, Virginia
as of
December 31, 2009

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Southern Title Insurance Corporation as of December 31, 2009, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 22nd day of November, 2010

A handwritten signature in cursive script that reads "Alfred W. Gross".

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
August 13, 2010

Honorable James J. Donelon
Secretary – Southeastern Zone
Louisiana Department of Insurance
Baton Rouge, Louisiana

Honorable Alfred W. Gross
Commissioner of Insurance and
Chair of the NAIC Financial Condition (E) Committee
Virginia Bureau of Insurance
Richmond, Virginia

Dear Commissioners:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, a National Association of Insurance Commissioners ("NAIC") Association Examination of the records and affairs of

SOUTHERN TITLE INSURANCE CORPORATION
Richmond, Virginia

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation is a title insurance company licensed pursuant to Chapter 46 of Title 38.2 of the Code of Virginia. An examination was last performed as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009, and was conducted by representatives from the Virginia State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") representing the Southeastern Zone of the NAIC. Notice was provided to all zones of the current examination.

HISTORY

The Corporation was issued a charter on September 22, 1925 as the Virginia Realty Guarantee Title Corporation. Business was conducted until the Corporation was dissolved on December 19, 1935 through a voluntary surrender of its charter. On

December 15, 1938, the Corporation was revived by applying for a new charter for the purpose of continuing the existence and powers of the dissolved Corporation. On May 12, 1948, the Corporation's name was changed to Southern Title Insurance Corporation.

On November 21, 1984, the Corporation was purchased by Investors Southern Corporation ("ISC"), a wholly owned subsidiary of Investors Savings and Loan Association ("ISLA"). On December 13, 1991, ISLA was placed into receivership by the Office of Thrift Supervision and put under the control of the Resolution Trust Corporation ("RTC").

On August 10, 1992, all of the issued and outstanding shares of ISC were acquired by Cedar Incorporated, which changed its name to Southern Capital Corporation ("Southern") in 1993.

On April 30, 1996, Southern entered into an acquisition and merger agreement with Firstmark Corp. ("Firstmark"), a Maine corporation. Pursuant to this agreement, Southern merged into Southern Capital Acquisition Corp., a wholly-owned subsidiary of Firstmark.

On March 5, 1999, Old Guard Group, Inc. ("OGGI"), a Pennsylvania holding company, purchased all of the stock of ISC from Firstmark. On October 1, 2000, OGGI merged with Ohio Farmers Insurance Company ("OFIC"). In August 2002, the organizational structure was changed so that Westfield Financial Corporation, a wholly owned subsidiary of OFIC, became the direct owner of ISC. During 2008, the Corporation received a capital contribution of \$6,200,000 from ISC.

Effective July 1, 2009, Attorneys Liability Protection Society, Inc., a risk retention group, ("ALPS RRG") purchased ISC and its affiliates, including the Corporation, Southern Title Abstractors Corporation, Southern Title Agency Corporation and Glasgow Enterprises Corporation. This transaction was approved by the Commission effective August 4, 2009.

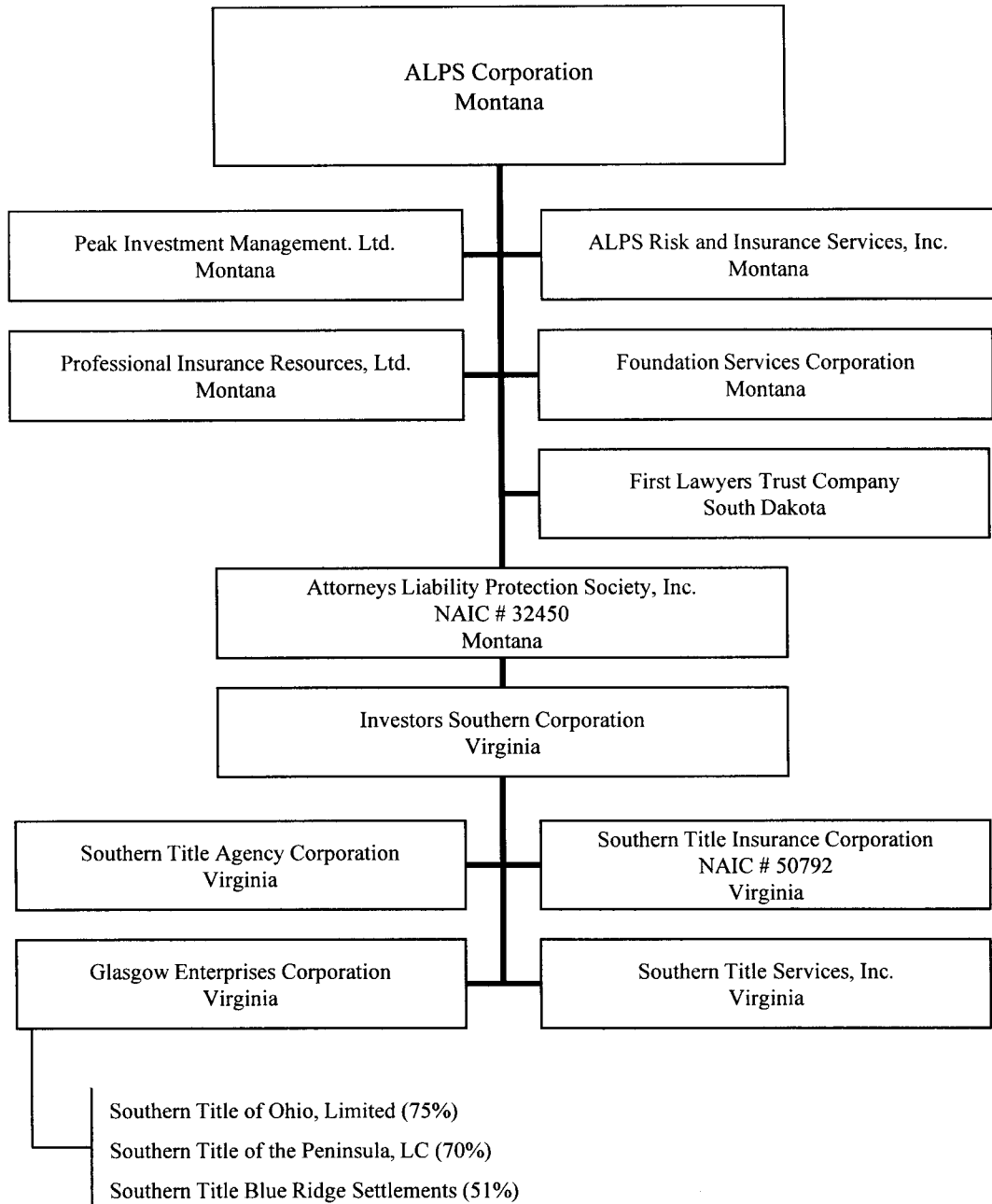
During the third quarter of 2009, ALPS Corporation ("ALPS"), the new ultimate parent of the Corporation made a capital contribution of \$257,000 to the Corporation.

MANAGEMENT AND CONTROL

The bylaws provide that the business and affairs of the Corporation shall be managed by the board of directors. The bylaws state that the number of directors shall be not less than three or more than five. The bylaws further state that the officers of the Corporation shall be a chairman, a president, a treasurer and a secretary, and where elected, one or more vice presidents. The board of directors may from time to time establish additional officers as provided for in the bylaws. At December 31, 2009, the board of directors and officers of the Corporation were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Michael A. Glasser	Attorney Glasser and Glasser
David R. Grundy	Attorney Lemons, Grundy & Eisenberg
Eugene R. McCullough	President Southern Title Insurance Corporation
Robert W. Minto, Jr.	President and Chief Executive Officer ALPS Corporation
Christopher L. Newbold	Vice President ALPS Corporation
 <u>Officers</u>	
Eugene R. McCullough	President and Chief Executive Officer
Bradley D. Dantic	Executive Vice President, General Counsel and Secretary
Robert W. Blanton, Jr.	Treasurer and Chief Financial Officer
Michael T. Bates	Executive Vice President

At December 31, 2009, the Corporation is a wholly owned subsidiary of ISC, which is owned by ALPS RRG, which in turn is owned by ALPS, a Montana corporation. By virtue of its ownership, the Corporation is a member of an insurance holding company system pursuant to Section 38.2 – 1322 of the Code of Virginia. The chart on the following page summarizes the Company's relationship with selected entities within the holding company system.



RELATED PARTY TRANSACTIONS

Administrative Services and Cost Sharing Agreement

The Corporation is party to an administrative services and cost sharing agreement with ISC and ALPS. Under the agreement, ALPS shall provide general services and access and use of facilities as set forth in the agreement. Such services will include but are not limited to, the following:

1. Corporate services;
2. Accounting and financial services;
3. Legal and regulatory services;
4. Reinsurance services;
5. Human resource services;
6. Actuarial services;
7. Policy forms development and filing services;
8. Information technology services;
9. Other general services;

The Corporation agrees to pay ALPS a service and facility use fee. ALPS shall determine the service and facility use fee utilizing actual cost basis. In determining actual costs, ALPS shall include: (i) all direct and directly allocable costs and expenses that ALPS reasonably and equitably determines to be attributable to the Corporation; and (ii) a reasonable charge for direct and indirect overhead costs and expenses as agreed upon by the parties. Pursuant to the agreement, the service and facility use fee shall be payable in twelve monthly installments. During 2009, the Corporation only paid its direct expenses and did not reimburse ALPS for any indirect overhead costs or expenses.

Tax Allocation Agreement

At December 31, 2009, the Corporation participates in a tax allocation agreement with ALPS and affiliates. Pursuant to this agreement a consolidated federal income tax return is filed. The provisions from the tax allocation agreement met the requirements from the NAIC Examiners' Handbook, including, but not limited to, a) having a written agreement approved by the board of directors, b) balances are settled within a reasonable time and c) the agreement complies with IRS regulations.

Various Management Agreements

The Corporation entered into an agreement with its affiliate, Glasgow Enterprises Corporation ("Glasgow"), effective January 1, 1997. The Corporation, through its officers and employees, agreed to manage Glasgow's title insurance agency and other related business. For these services, Glasgow agreed to pay the Corporation an annual management fee equal to its net annual profits. Glasgow participates in several joint ventures which operate as title insurance agencies. During 2007, 2008 and 2009, Glasgow paid \$210,041, \$144,266 and \$306,164, respectively, to the Corporation for these services.

Effective July 9, 1987, the Corporation entered into an agreement with Southern Title Agency Corporation ("STA"). According to the agreement, the Corporation will manage the sale of title insurance and related operations for STA. For these services, STA will pay the Corporation an annual management fee equal to its net annual profits. During 2007, 2008 and 2009, the Corporation received \$215,838, \$142,706 and \$113,946, respectively, for these services.

The Corporation and Southern Title Services, Inc. ("STS") are parties to a management agreement. The Corporation has agreed to manage title insurance business and related operations on behalf of STS in return for an annual management fee equal to STS's annual net profits. During 2007, 2008 and 2009, the Corporation received \$15,982, \$4,106 and \$5,309, respectively, for these services.

The Corporation has a services agreement with ISC whereby the Corporation will provide certain services related to reporting, insurance, accounting, and taxation. ISC shall reimburse the Corporation for the direct costs borne by the Corporation for providing such services.

Dividends:

During the period under review, the Corporation paid the following dividends which were considered ordinary and did not require prior approval of the Bureau:

2007	\$406,115
2008	\$0
2009	\$355,380

CONFLICT OF INTEREST

The Corporation has adopted a conflict of interest policy. The objective of this policy is to ensure that each director, officer, and employee of the Corporation discharge their business responsibilities in a manner that furthers the interest of the Corporation and must not compromise the interests of the Corporation because of a conflict of interest with their business or personal interest. To ensure compliance with the policy, the Corporation has established procedures which require directors, officers and responsible employees to sign a conflict of interest disclosure form annually.

OFFICERS AND EMPLOYEES BENEFIT PLANS

The Corporation has a 401(k) plan available for employees who meet certain participation requirements. Pursuant to the plan, an employee may make savings contributions, subject to certain limitations. The Corporation reserves the right to determine the percentage of the employee's savings contribution it will match on an annual basis. Effective in 2009 the Corporation is not currently matching any percentage of the employee's contributions to the 401(k) plan.

The Corporation makes other traditional benefits such as health, life, and disability insurance available to its employees.

Executive Employment Agreements

The Corporation has several executive employment contracts in effect at December 31, 2009. These contracts contain certain non-compete clauses and bonus provisions pertaining to after tax net income of the Corporation or branch office, as applicable. The contracts with branch managers renew on a year-to-year basis after the initial term.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2009, the Corporation maintained fidelity coverage of \$1,000,000 to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Corporation maintained general liability, directors and officer's liability, workers compensation and other coverages usual and customary to the nature of its business. Insurance coverages for the Corporation are provided either by direct policies or by endorsements to ALPS's policies.

TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to transact the business of title insurance in the following jurisdictions:

Alabama	Louisiana	Ohio
Arkansas	Maryland	Pennsylvania
Colorado	Mississippi	South Carolina
Delaware	Nevada	Tennessee
District of Columbia	New Jersey	Texas
Florida	New Mexico	Virginia
Georgia	North Carolina	West Virginia

In 2009, Virginia accounted for 35.6% of the business written and Alabama, Maryland, Tennessee and Texas combined to account for 36.7% of the business written. The Corporation operates through six branch offices, six affiliates, and approximately 442 agencies. Independent agencies receive commissions of 50 to 85% of premiums. Each agency's authority is pursuant to its contract with the Corporation. Generally, most agencies have authority to issue both title commitments and policies within its contractual limitations.

Policies are issued based on an application from an approved attorney or as a result of a real estate settlement conducted by the Corporation or one of its affiliates or agencies. Prior to the issuance of a policy, the Corporation requires a title search of the public records, back title files, maps and/or other documents affecting the property in question.

Two types of policies are issued: An owner's policy and a lender's policy. In addition to the title premium, fees are charged for examination of title, preparation of commitment for title insurance settlement or other related services provided to the attorney or insured.

In addition to owner's and lender's policies, a letter of agreement entitled an "Insured Closing Service Agreement" is available to lenders who wish to utilize the services of approved attorneys or settlement agents in closing transactions where title insurance is purchased. This agreement indemnifies the lender against loss resulting from fraud or dishonesty of such attorneys or settlement agents or their failure to follow closing instructions. No charge is made for this agreement in Virginia, although in certain states a charge is imposed.

GROWTH OF THE CORPORATION

The following data obtained from Annual Statements filed with the Bureau and from this and previous examination reports, reflects the growth of the Corporation for the ten-year period ending December 31, 2009:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Common Capital Stock</u>	<u>Paid-In Surplus</u>	<u>Unassigned Funds</u>
2000	\$9,313,537	\$3,993,110	\$1,001,123	\$5,277,633	(\$958,329)
2001	10,870,182	4,445,669	1,001,123	5,277,633	145,757
2002	12,100,969	5,116,240	1,001,123	5,277,633	705,973
2003	14,392,021	6,884,532	1,001,123	5,277,633	1,228,733
2004	17,751,912	10,088,224	1,001,123	5,277,633	1,384,932
2005	19,481,762	11,321,524	1,001,123	5,277,633	1,881,482
2006	21,172,735	12,511,970	1,001,123	5,975,338	1,684,304
2007	23,386,522	15,670,916	1,001,123	5,975,338	739,145
2008	25,676,923	17,674,037	1,001,123	12,175,338	(5,173,575)
2009	23,005,992	16,846,440	1,001,123	12,432,338	(7,273,909)

<u>Year</u>	<u>Total Operating Income</u>	<u>Total Operating Deductions</u>	<u>Net Operating Gain or (Loss)</u>	<u>Net Income or (Loss)</u>
2000	\$11,570,592	\$12,335,492	(\$764,900)	(\$292,795)
2001	16,277,033	15,691,675	585,358	722,781
2002	21,007,431	20,531,090	476,341	544,790
2003	35,528,251	33,224,285	2,303,966	1,579,443
2004	37,575,572	36,164,287	1,411,285	901,992
2005	46,119,513	44,413,964	1,705,549	1,284,844
2006	55,480,631	55,673,091	(192,460)	128,559
2007	53,404,248	55,596,764	(2,192,516)	(1,020,999)
2008	44,696,759	55,400,698	(10,703,939)	(6,721,885)
2009	30,872,982	35,524,427	(4,651,445)	(2,665,320)

REINSURANCE

At December 31, 2009, the Corporation is party to a reinsurance agreement with Old Republic National Title Insurance Company ("Old Republic"). This agreement, effective July 5, 2008, provides for the Corporation to retain the first \$1,000,000 of liability for each loss. Old Republic will be responsible for 100% of the ultimate net loss over and above \$1,000,000, subject to a limit of liability of \$24,000,000 for each loss and a proportionate share of the allocated loss adjustment expenses. All policies and commitments in excess of \$15,000,000 must be submitted to Old Republic for review and comment prior to the Corporation agreeing to issue such policies or commitments.

For occurrences prior to July 5, 2008, the Corporation has a reinsurance agreement with Fidelity National Title Insurance Company. The Corporation's retention limits pursuant to this agreement are \$500,000 or \$1,000,000, depending upon the date the policy was written.

The aforementioned reinsurance agreements contain the required insolvency clause.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2007 through December 31, 2009. Assets were verified and liabilities established at December 31, 2009.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Corporation, assess corporate governance, identify and assess inherent risks within the Corporation, 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2009; a summary of operations for the year ended December 31, 2009; a reconciliation of capital and surplus for the period under review; a statement of cash flows for the year ending December 31, 2009; and a statement of Examiners' changes in capital and surplus at December 31, 2009. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$15,847,380		\$15,847,380
Properties occupied by the company	159,841		159,841
Cash and short-term investments	2,811,139		2,811,139
Title plants	2,032,475		2,032,475
Investment income due and accrued	168,276		168,276
Uncollected premiums and agents' balances in the course of collection	192,990	72,569	120,421
Amounts recoverable from reinsurers	325,000		325,000
Current federal income tax recoverable	257,673		257,673
Net deferred tax asset	1,944,227	1,284,766	659,461
Electronic data processing equipment and software	80,421	42,941	37,480
Furniture and equipment	74,679	74,679	
Receivables from parent, subsidiaries and affiliates	410,013	59,146	350,867
Aggregate write-ins for other than invested assets	307,616	71,637	235,979
Totals	<u>\$24,611,730</u>	<u>\$1,605,738</u>	<u>\$23,005,992</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Known claims reserve		\$5,509,313
Statutory premium reserve		10,466,310
Other expenses		620,009
Taxes, licenses and fees		59,470
Premiums and other considerations received in advance		<u>191,338</u>
 Total liabilities		 \$16,846,440
 Common capital stock	\$1,001,123	
Gross paid in and contributed surplus	12,432,338	
Unassigned funds (surplus)	<u>(7,273,909)</u>	
 Surplus as regards policyholders		 <u>6,159,552</u>
 Totals		 <u><u>\$23,005,992</u></u>

OPERATIONS AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Title insurance and related income:	
Title insurance premiums earned	\$29,738,308
Escrow and settlement services	54,744
Other title fees and service charges	706,399
Aggregate write-ins for other operating income	<u>373,531</u>
Total operating income	<u>\$30,872,982</u>
Deductions:	
Losses and loss adjustment expenses incurred	\$4,769,333
Operating expenses incurred	<u>30,755,094</u>
Total operating deductions	<u>\$35,524,427</u>
Net operating loss	<u>(\$4,651,445)</u>

INVESTMENT INCOME

Net investment income earned	\$806,731
Net realized capital gains	<u>279,951</u>
Net investment gain	<u>\$1,086,682</u>
Net income before federal income taxes	(\$3,564,763)
Federal income taxes incurred	<u>(899,443)</u>
Net income	<u><u>(\$2,665,320)</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Surplus as regards policyholders, December 31, previous year	<u>\$8,660,765</u>	<u>\$7,715,606</u>	<u>\$8,002,886</u>
Net income	(\$1,020,999)	(\$6,721,885)	(\$2,665,320)
Net unrealized capital gains or losses	71,990	(19,483)	(296,165)
Change in net deferred income tax	243,442	172,194	(546,039)
Change in nonadmitted assets	166,523	(343,979)	1,762,570
Cumulative effect of changes in accounting principals		1,000,433	
Paid in capital		6,200,000	257,000
Dividends to stockholders	<u>(406,115)</u>	<u> </u>	<u>(355,380)</u>
Change in surplus as regards policyholders for the year	<u>(\$945,159)</u>	<u>\$287,280</u>	<u>(\$1,843,334)</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$7,715,606</u></u>	<u><u>\$8,002,886</u></u>	<u><u>\$6,159,552</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$29,830,465
Net investment income	920,584
Miscellaneous income	1,134,674
Total	<u>\$31,885,723</u>
Benefit and loss related payments	\$4,872,114
Commissions, expenses paid and aggregate write-ins for deductions	31,114,810
Federal income taxes paid	(606,608)
Total	<u>\$35,380,316</u>
Net cash from operations	<u>(\$3,494,593)</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$2,410,398
Real estate	116,000
Total investment proceeds	<u>\$2,526,398</u>
Cost of investments acquired (long-term only):	
Bonds	\$1,636,626
Total investments acquired	<u>\$1,636,626</u>
Net cash from investments	<u>\$889,772</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus	\$257,000
Dividends to stockholders	(355,380)
Other cash provided	150,104
Net cash from financing and miscellaneous sources	<u>\$51,724</u>
Net change in cash and short-term investments	<u>(\$2,553,097)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$5,364,236
End of year	2,811,139
Net change in cash and short-term investments	<u>(\$2,553,097)</u>

EXAMINERS' CHANGES IN CAPITAL AND SURPLUS

	<u>Company</u>	<u>Examiners</u>	<u>Increase (Decrease)</u>
<u>Liabilities:</u>			
Known claims reserves	\$4,591,602	\$5,509,313	<u>(\$917,711)</u>
Examiners' decrease in capital and surplus			<u>(\$917,711)</u>
Capital and surplus per the Corporation			\$7,077,263
Capital and surplus per the Examiners			<u>6,159,552</u>
Examiners' decrease in capital and surplus			<u>(\$917,711)</u>

RECOMMENDATION FOR CORRECTIVE ACTION**Accounts and Records**

1. Known claims reserves \$5,509,313

The above liability is \$917,711 more than the amount reported by the Corporation in its 2009 Annual Statement. The increase is a result of the Examiners' development of claims incurred December 31, 2009 and prior and paid January 1, 2010 through June 30, 2010. The Examiners' amount includes the Corporation's estimate of claims reserves at June 30, 2010 for claims December 31, 2009 and prior but does not include a provision for adverse development of such claims.

It is recommended that the Corporation review its methodology for establishing claim reserves to ensure that adequate reserves are established in future filings with the Bureau.

SUBSEQUENT EVENTS

1. On February 17, 2010, the Commission approved an application for an exemption from the provisions of Code of Virginia §§38.2-1323 through 38.2-1327 with regards to a change in the direct ownership of ISC from ALPS RRG to ALPS. The Commission determined that ALPS would continue to be the ultimate controlling person of the Corporation and the transaction was not entered into for the purpose of and did not have the effect of changing or influencing control of the Corporation.
2. On March 2, 2010, the Corporation reached an agreement with the Texas Department of Insurance ("TDI"), whereby the Corporation would pay \$500,000 in restitution to settle the following issues: a) Failure to notify TDI of late receipt of the title insurance audit report; b) Failure to conduct an audit of the title insurance agent's unused forms in a timely manner; and c) Failure to audit the title insurance agent's trust fund accounts and provide the audit to TDI. The Corporation accrued a liability of \$400,000 in its financial statements at December 31, 2009 and Westfield agreed to pay the remaining \$100,000. On April 2, 2010, the Corporation made restitution to TDI and Westfield reimbursed the Corporation \$100,000.
3. During July 2010 and August 2010, the Corporation received capital contributions totaling \$500,000 and \$300,000, respectively, from its ultimate parent, ALPS.

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Chris Collins, AFE, Jack Drean, CFE, and Kevin Knight, AFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John E. Bunce", with a long horizontal flourish extending to the right.

John E. Bunce, CFE
Assistant Chief Examiner
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC

SOUTHERN TITLE INSURANCE CORP.

P. O. BOX 399 • RICHMOND, VIRGINIA 23218

EUGENE R. McCULLOUGH
PRESIDENT

November 11, 2010

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
Bureau of Insurance
State Corporation Commission
Commonwealth of Virginia
P.O. Box 1157
Richmond, VA 23218

RE: Southern Title Insurance Corporation (NAIC No. 50792) Examination Report Response

Dear Mr. Smith:

The purpose of this letter is to submit Southern Title Insurance Corporation (the "Company") Management's written response explaining what procedures have been implemented, or are anticipated to be implemented, with respect to each recommendation for corrective action.

Accounts and Records

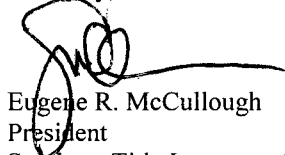
1. During a review of claims, the Examiners calculated a Known Claims Reserve as of December 31, 2009 to \$5,509,313. The liability calculated is \$917,711 more than the amount reported by the Corporation in its 2009 Annual Statement. The increase is a result of the Examiners' development of claims incurred December 31, 2009 and prior and paid January 1, 2010 through June 30, 2010. The Examiners' amount includes the Corporation's estimate of claims reserves at June 30, 2010 for claims December 31, 2009 and prior but does not include a provision for adverse development of such claims. It is recommended that the Corporation review its methodology for establishing claim reserves to ensure that adequate reserves are established in future filings with the Bureau.

Management's Response

Southern's management has reviewed the methodology previously employed in establishing claims reserves and is implementing changes that will minimize the chances of adverse development for overall claims activity occurring in 2011 and beyond.

If you need additional information or have any questions, please feel free to contact me at my office (804) 648-6000 x-3006.

Sincerely,



Eugene R. McCullough
President
Southern Title Insurance Corporation