

**SECURITY TITLE INSURANCE AGENCY, LLC**

**SCHEDULE OF ALL ESCROW ACCOUNTS**

**June 30, 2007**



**Independent Auditors' Report**

The Members of  
Security Title Insurance Agency, LLC  
St. Louis, Missouri

We have audited the schedule of all escrow accounts of Security Title Insurance Agency, LLC (the Company) as of June 30, 2007. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of all escrow accounts is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of all escrow accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying schedule of all escrow accounts was prepared as described in Note 1 and is not intended to be a complete presentation of the financial statements of Security Title Insurance Agency, LLC.

In our opinion, the schedule of all escrow accounts referred to above presents fairly, in all material respects, the escrow accounts of Security Title Insurance Agency, LLC at June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

*Cummings, Ristau & Associates, P.C.*

August 10, 2007



# SECURITY TITLE INSURANCE AGENCY, LLC

## Schedule of All Escrow Accounts

June 30, 2007

Balance per bank at June 30, 2007	\$ 20,086,754	
Deposits in transit	1,454,139	
Disbursements per books not received by bank	(18,949,240)	
Receipts by bank not recorded on books, net	<u>(1,310,305)</u>	
Adjusted bank balance at June 30, 2007		\$ <u>1,281,348</u>
Balance per books at June 30, 2007		\$ 1,281,348
Less schedule of customer escrow funds at June 30, 2007		<u>(1,281,348)</u>
Escrow surplus (shortfall)		\$ <u>0</u>

See accompanying note to schedule.

## **SECURITY TITLE INSURANCE AGENCY, LLC**

Note to Schedule of All Escrow Accounts

June 30, 2007

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Following is a summary of significant accounting policies followed in the preparation of the schedule of all escrow accounts.

#### **Nature of Operations**

Security Title Insurance Agency, LLC provides title insurance, primarily for commercial real estate transactions, which protects the customer against potential losses or claims in connection with those transactions. The Company operates as an agent for national underwriting companies.

#### **Basis of Presentation**

The accompanying schedule includes all escrow accounts, as represented by management, for which the Company has fiduciary responsibility for customer funds. It is presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.



## Buckle up: Originations to dwindle

*Countrywide announced it plans to lay off another 12,000 employees this year to brace for a anticipated 25 percent reduction in loan originations in 2008. Read on to see how this will impact the title insurance industry.*  
(9/10/2007)

Declining production is contributing to massive job cuts at U.S. mortgage lenders. Countrywide Financial Corp. capped last week off with the warning it is preparing for as many as 12,000 more layoffs this year.

The move comes on top of 900 mostly production job cuts announced last week. Last month, Countrywide confirmed more than 500 subprime employees were released, including 400 from Full Spectrum Lending. Toward the end of the first quarter, 108 wholesale subprime sales employees were laid off.

The largest U.S. home-mortgage lender also expects that its loan originations in 2008 will be about 25 percent lower than this year. "We are taking decisive action to ensure that Countrywide continues to be well-positioned for further success," said **Angelo Mozilo**, Countrywide's chairman and chief executive, in a prepared statement.

Standard & Poor's Ratings Services said it believes mortgage originations will decline steadily between 2006 and 2009, so operating performance for title insurers will be strained for at least the next six quarters

The worst U.S. housing slump in 16 years may lead mortgage companies to eliminate almost 100,000 jobs, more than double the number already cut this year.

As many as 20 percent of the nation's real estate loan officers and mortgage brokers will be fired, according to **Josh Rosner**, managing director at the New York investment research firm Graham Fisher & Co. That's in addition to the 10 percent reduction from December to July that thinned their ranks to 450,000 as investors stopped buying mortgages and lenders curtailed financing to avoid rising subprime defaults.

"Originations are going to decline dramatically," Rosner said. "We are just at the front-end of seeing the large banks and investment banks start to cut their capacity."

At least 100 mortgage companies have sought buyers or halted lending since the start of 2006, according to data compiled by Bloomberg. A record number of Americans faced foreclosures in the second quarter, the Mortgage Bankers Association in Washington reported last week.

"When you're born in a boom, you generally die in a bust," Mozilo said. "Most of the companies that are gone have never been through a period like this."

Mortgage volume may drop to \$1.8 trillion next year, the lowest since 2000, after a peak of \$4 trillion in 2003, **Moshe Orenbuch**, an analyst at Credit Suisse Group, wrote in an Aug. 30 report. "The housing market is unlikely to rebound until 2009," he said. Mortgage originations sank to \$1.4 trillion in 2000.

**Bert Ely**, an Alexandria, Va.-based consultant said employees remaining in the mortgage industry probably will have a lower pay, including executives whose bonuses depend on profits. He suggested there probably aren't too many optimists that believe the downturn will run its course by year's end.

The contraction may also lead to continued lost jobs and income for title companies, appraisers and settlement attorneys, he said.

The First American Corp. and Fidelity National Financial both have issued a hiring freeze. First American expects to eliminate about 1,900 jobs by the end of the third quarter, while Fidelity is targeting another 500 layoffs. That would bring its reductions to about 2,000 this year.

"We are taking no new agents," said **Bill Foley**, Fidelity's chief executive officer. "If an agent is looking for an underwriter today, chances are there's a reason for that and they aren't an agent to have."

LandAmerica Financial Group Inc. it was eliminating 1,100 jobs, or approximately 13 percent of the company's residential and lender services groups and related functions, during the second half of 2007.

The mortgage industry's decline may have contributed to a drop of 4,000 U.S. jobs in August, according to a Sept. 7 report from the Department of Labor. The drop in nationwide employment was the first in four years.

**Sean Egan**, managing director of Egan-Jones Ratings Co., expects to see more cuts at Countrywide and other lenders over the next 30 days.

September 10, 2007

PROPERTY REPORT


## End of Boom For Housing Hits Title Firms

Recent Jump in Claims,  
Drop in New Business  
Pressures the Insurers

By LIAM PLEVEN

September 10, 2007; Page C2

### DOW JONES REPRINTS

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Problems confronting title insurers may offer fresh clues about economic stress points in the nation's housing market.

Title insurers issue policies that essentially guarantee a homebuyer is the rightful owner of a property. The industry's fortunes are closely tied to the health of the real-estate industry -- and some major firms are seeing claims rise sharply, particularly on policies issued during recent boom years.

One of the nation's largest title insurers, **First American Corp.**, recently said paid claims jumped 52% in the second quarter, compared with the same period last year.

Rising title claims are significant because they can be a broader sign of economic pain than foreclosures. Claims are often filed even in the absence of a foreclosure. And they can be triggered not only by homebuyers, but also by complaints from another party, such as a subcontractor who has filed a lien for unpaid work on a house. Claims data also can include commercial properties.

"In times of economic loss, title claims go up," says Theodore L. Chandler Jr., chief executive of **LandAmerica Financial Group Inc.**, another big title insurer based in Richmond, Va. There was a severe spike in claims, for instance, during the recession in the early 1990s.

Moreover, some title insurers are reporting a drop in new business. While that might not sound particularly surprising, given the real-estate slowdown, it could be a glimpse of more trouble ahead: Title-search orders usually come at least several weeks before a buyer takes out a mortgage.

"If you want to know what's going on with mortgage activity, you look at title orders," says Nik Fiskens, an insurance-industry analyst at Stephens Inc.

First American says average daily title orders were down 6% in July from June and that preliminary results indicate another 9.3% drop from July to August. **Fidelity National Financial**, a major title insurer based in Jacksonville, Fla., says there was a nearly 8% decline between April and June.

Fidelity National hasn't disclosed additional data about more recent months. But Chief Financial Officer Anthony Park says, "It's slowed down considerably, particularly in the month of August."

By comparison, the Mortgage Bankers Association has forecast a 20% drop in the value of mortgage originations in the third quarter.

People in the industry are quick to caution that, in terms of capturing what's going on in the housing market, data on title claims and orders can't replace widely watched indicators such as the foreclosure rate or the number of housing starts.

Moreover, title-insurance claims and orders aren't disclosed weekly or monthly on an industry-wide basis, unlike some other key indicators.

But title data can flesh out the picture of a market in trouble. The housing market is plagued by rising delinquencies and foreclosures, particularly in home loans made to borrowers with subprime credit ratings. Housing sales also have been falling recently, and prices are dropping in much of the country.

In discussing the claims they are getting, for instance, First American and LandAmerica both pointed particularly to claims on policies issued between 2004 and 2006. In those years, investors and homebuyers were gobbling up houses and lenders were shoveling out loans, in some cases to buyers who provided little or no documentation of their assets or ability to pay.

"It appears that many of these claims involve fraud, forgery and other factors often seen where loans are made to borrowers in financial distress," First American's CEO, Parker Kennedy, told investors last month.

Title-insurance claims generally arise when there is a challenge or a question about the owner's right to a property. Claims are much lower than for other types of insurers, because title insurers try to identify any problems during the title search, before issuing a policy.

Claims can occur for a number of reasons. For instance, when the housing market is booming, a growing number of transactions often need to get done in a short period of time, which can increase the potential for mistakes during the title-search process.

Any title problems are more likely to come to light when the real-estate market is weak. Title problems can turn up during a foreclosure, so if foreclosures are rising, claims can follow. Many title-insurance policies are held by lenders, and they sometimes file claims during the foreclosure process.

But claims can also turn up in the absence of a foreclosure. The costs associated with claims can rise if title-insurance agents -- who are generally independent -- are under economic stress and don't pass along premium payments properly, because the insurer still must honor the policies.

And even in the absence of a foreclosure, people facing financial difficulty may have an incentive to look for problems with the title.

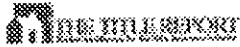
"Everybody looks for the deep pocket to get them out of a bad deal," says Jim Maher, of the American Land Title Association, a trade group. Many of those claims are legitimate, he says, but might not have been pursued if home values were shooting up.

The headwinds facing title insurers have had a significant impact on some of the industry's largest players, including, in some cases, steep drops in earnings, deep staff cuts, and double-digit declines in their stock prices.

First American, for instance, swung to a loss of \$66 million in the second quarter, after recording net income of \$25.5 million in the same period last year. The Santa Ana, Calif., firm last week said it will cut 1,300 jobs this quarter, after shedding 600 in the second quarter.

Shares in LandAmerica have fallen by more than 57% since hitting a recent closing high in June, while shares in Fidelity National are down about 40% and First American's are down more than 28%.

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## LandAmerica completes audit of defunct Missouri title agency

The underwriter forwarded its findings to the Missouri Department of Insurance following a nearly three-month audit of Guaranty Title Co.'s records.  
(9/10/2007)

LandAmerica Financial Group has completed its audit of a Missouri title insurance company that abruptly closed in June, according to the *Springfield Business Journal*.

The underwriter forwarded its findings to the Missouri Department of Insurance following a nearly three-month audit of the Guaranty Title Co.'s records.

Department of Insurance officials received LandAmerica's audit report Aug. 31 and have requested supplemental information from the underwriter, said department spokeswoman **Emily Kampeter**. Because the department is investigating Guaranty Title's closure, Kampeter declined to disclose details from the audit report. It also is LandAmerica's policy not to comment about ongoing investigations.

Once the state's investigation is complete, the department will determine whether to take any disciplinary action against the licensed parties involved, Kampeter said, including LandAmerica. At the appropriate time, officials will decide whether to forward evidence to a county prosecutor or the U.S. Attorney's Office for criminal charges, she said.

LandAmerica said nearly \$4.5 million is missing from Guaranty Title Co.'s escrow accounts. The underwriter filed a lawsuit against Guaranty Title in Christian County Circuit Court in late June and asked a judge to appoint a "master" to oversee the resolution of claims made by former Guaranty Title customers.