

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

CONESTOGA TITLE INSURANCE COMPANY
Lancaster, Pennsylvania

**AS OF
April 15, 2009**

COMMONWEALTH OF PENNSYLVANIA

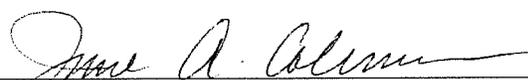


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: June 8, 2009

VERIFICATION

Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


June A. Coleman, Examiner-in-Charge

Sworn to and Subscribed Before me

This 13 Day of April, 2009



Notary Public

COMMONWEALTH OF PENNSYLVANIA

NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2010

CONESTOGA TITLE INSURANCE COMPANY

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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22ND day of July, 2008, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Ronald A. Gallagher, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.





Joel S. Ario
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
CONESTOGA TITLE INSURANCE : 40 P.S. §§ 323.3(a), 477b, 910-25,
COMPANY : 910-27, 910-37(a), 910-37(h), and
137 East King Street : 1171.4
Lancaster, PA 17602 :
: :
Respondent. : Docket No. MC09-04-027

CONSENT ORDER

AND NOW, this 8th day of June, 2009, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra. or other applicable law.

3. Without admitting the allegations of fact and conclusions of law contained herein, Respondent specifically denies that it violated any law or regulation of the Commonwealth.

FINDINGS OF FACT

4. The Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is Conestoga Title Insurance Company, and maintains its address at 137 East King Street, Lancaster Pennsylvania 17602.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2006 through December 31, 2006.
- (c) On April 15, 2009, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on May 14, 2009.
- (e) The Examination Report notes violations of the following:

- (i) 40 P.S. §323.3(a), which requires every company subject to examination to keep all records and documents relating to its business in such manner as may be required in order that the Department may verify whether the company has complied with the laws of this Commonwealth;
- (ii) 40 P.S. § 477b, which prohibits issuing, selling, or disposing of any policy, contract or certificate until the forms have been submitted to, and formally approved by, the Insurance Commissioner;
- (iii) 40 P.S. § 910-25, which requires every title insurance company authorized to transact business within this Commonwealth to, from time to time, certify to the commissioner the names of all agents appointed by it in this Commonwealth;
- (iv) 40 P.S. § 910-27, which requires every agent of a title insurance company to keep the books, records, accounts and vouchers pertaining to the business of title insurance, in such manner that the commissioner or his authorized representative may readily ascertain from time to time, whether or not the agent has complied with all of the applicable provisions of this Act;
- (v) 40 P.S. § 910-37(a), which requires every title insurance company to file with the commissioner every manual of classifications, rules, plans and

schedules of fees and every modification of any of the foregoing relating to the rates which it proposes to use. Every such filing shall state the proposed effective date thereof, and shall indicate the character and extent of the coverage contemplated;

(vi) 40 P.S. § 910-37(h), which provides that no title insurance company or agent of a title insurance company shall charge any fee for any policy or contract of title insurance except in accordance with filings or rates which are in effect for said title insurance company or such agent of a title insurance company as provided in this article; and

(viii) 40 P.S. § 1171.4, which prohibits any person from engaging in this state in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance pursuant to this act.

CONCLUSIONS OF LAW

5. In accord with the above Findings of Fact and applicable provisions of law, the Insurance Department makes the following Conclusions of Law:

(a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

(b) Respondent's violations of 40 P.S. § 477(b) are punishable by the following:

- (i) suspension or revocation of the license(s) of Respondent;
- (ii) refusal, for a period not to exceed one year thereafter, to issue a new license to Respondent;
- (iii) imposition of a fine of not more than one thousand dollars (\$1,000.00) for each act in violation of the Act.

(c) Respondent's violations of 40 P.S. §§ 910-25, 910-27, 910-37(a) and 910-37(h) are punishable by the following, under 40 P.S. §910-48: The commissioner may, if he finds that any person or organization has violated any provision of this article, impose a penalty or not more than \$500 for each violation. If the violation is willful, the commissioner may impose a penalty of not more than \$5,000 for each violation, in addition to any other penalty provided by law;

(d) Respondent's violations of 40 P.S. § 1171.4, are punishable by the following, under 40 P.S. §1171.9:

- (i) cease and desist from engaging in the prohibited activity;
- (ii) suspension or revocation of the license(s) of Respondent.

(e) In addition to any penalties imposed by the Department for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Department may, under 40 Purdon's Statutes, Sections 1171.10 and 1171.11 file an action in which the Commonwealth Court may impose the following civil penalties:

(i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);

(ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

6. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department orders and Respondent consents to the following:

(a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Five Thousand Dollars (\$5,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Bureau of Market Conduct, PA Insurance Department, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

7. In the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein, the Department may, in its discretion, pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or it may

enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

8. Alternatively, in the event there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

9. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

10. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

11. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

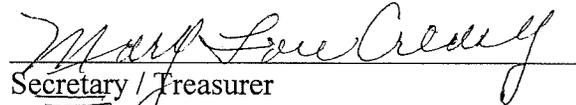
12. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law

contained herein, and this Consent Order is not effective until executed by the
Insurance Commissioner or a duly authorized delegee.

BY: CONESTOGA TITLE INSURANCE
COMPANY, Respondent



President / Vice President



Secretary / Treasurer



COMMONWEALTH OF PENNSYLVANIA
By: Ronald A. Gallagher, Jr.
Deputy Insurance Commissioner

I. INTRODUCTION

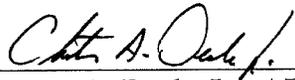
The Market Conduct Examination was conducted on Conestoga Title Insurance Company (“Company”), in the office of the Pennsylvania Insurance Department, located in Harrisburg, Pennsylvania. In addition, the examination included field visits to the locations of the Company’s title agents. The agent interactions confirmed the findings reflected in this report.

The Pennsylvania Market Conduct Examination Report (“Report”) generally notes only those items to which the Department, after review, takes exception. However, the Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review those areas of concern in order to determine the potential impact upon Company operations or future compliance. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties.

Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify potential violations. An exit conference was conducted with Company personnel to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

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

The undersigned participated in this examination and in preparation of this Report.



Chester A. Derk, Jr.
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



June A. Coleman
June A. Coleman
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Conestoga Title Insurance Company at the office of the Pennsylvania Insurance Department located in Harrisburg, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 of the "Insurance Department Act," the Act of May 17, 1921, P.L. 789, No. 185, Art., IX, *as amended* 40 P.S. §§323.3,323.4 and covered the experience period of January 1, 2006 through December 31, 2006, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Underwriting Practices and Procedures
2. Rating
3. Forms
4. Licensing

III. COMPANY HISTORY AND LICENSING

Lancaster Title Abstracting Company was formed in 1954 in Lancaster, Pennsylvania. Lancaster Title was, and still is, a Pennsylvania title agency. Lancaster Title prospered and, by 1973, had accumulated the proper capitalization to form a title insurance underwriting company. Thus, Conestoga Title Insurance Co. was formed as a subsidiary of Lancaster Title in 1973, as a Pennsylvania domiciled title insurance underwriter.

Conestoga Financial Corporation was formed in 1978, to serve as the holding company in a reorganization of Lancaster Title and Conestoga Title. Prior to the reorganization, all of the outstanding shares of Conestoga Title were owned by Lancaster Title. After the reorganization, all of the shares, except the Director's Trustee shares of Conestoga Title, were transferred to Conestoga Financial Corporation.

LICENSING

Conestoga Title Insurance Company is licensed to write title insurance in the Commonwealth of Pennsylvania under a Certificate of Authority issued October 11, 1973. The Company is licensed in the District of Columbia, Alabama, Delaware, Georgia, Indiana, Kentucky, Maryland, Mississippi, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Tennessee and Virginia.

The Company's total direct premium earned in Pennsylvania was \$3,747,281 as of its 2007 annual statement.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

V. RATING

The purpose of the review was to measure compliance with Section 737 of the "Insurance Company Law," the Act of May 17, 1921, P.L. 682, Art., VII, *as amended* 40 P.S. §910-37, which requires every title insurance company to file with the Insurance Commissioner every manual of classifications, rules, plans, and schedules of fees and every modification of any of the foregoing relating to the rates which it proposes to use in the Commonwealth. In addition, this section of the law prohibits a title insurance company or agent of a title insurance company from charging any fee for any policy or contract of title insurance except in accordance with filings or rates which are in effect for the title insurance company or agent of a title insurance company as provided in this article of the law, or in accordance with subsections (f) and (g) of this section.

To perform this review, the Department selected 100 lender policies and 100 owner policies from the universe of 1,976 lender policies and 2,852 owner policies that were issued during the experience period.

The Company has a deviation to the Rate Manual ("Rate Manual") (2005 and 2006) of the Title Insurance Rating Bureau of Pennsylvania ("TIRBOP"). The Company submitted a copy of its rate filing approvals for the deviation filings effective for the experience period. By reviewing the documentation supporting the charges under sections 1100, 1200 and 1300 of the HUD-1 settlement sheet, the Department was able to determine compliance with the Company's filed and approved rating plans. The Company was requested to provide monthly reports for additional charges made under Section 2.3 or Section 2.4 of the Rate Manual.

The following findings were made:

A. 1 Violation as a result of the Company not obtaining valid waivers. The violation is of the Unfair Insurance Practices Act, the Act of July 22, 1974, P.L. 589, No. 205, Section 4, as amended 40 P.S. §1171.4 which:

Requires no person shall engage in this state in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance pursuant to this act.

AND the Department's regulations at 31 Pa. Code §126.1 which:

Requires all title insurance companies and agents of title insurance companies, issuing mortgagee's title insurance upon a loan made simultaneously with the purchase of all or a part of the real estate securing the loans, where no owner's title insurance policy has been ordered; shall, prior to the disbursement of the loan funds or the issuance of the mortgagee's title policy, cause the mortgagor to be advised in writing of the fact that a mortgagee's title insurance policy is to be issued, of the fact that the policy does not afford title insurance protection to the owner-mortgagor, and of the owner-mortgagor's right to obtain title insurance in his own favor; and if the mortgagor elects not to purchase owner's title insurance, the title insurance company shall obtain from the mortgagor a statement in writing that the mortgagor has received the notice and that the mortgagor waives the right to purchase owner's title insurance.

B. 6 Violations as a result of the Company's failure to provide documentation to support charges on the HUD settlement sheet. The violations are of the Insurance Company Law 40 P.S. §910-27 which:

Requires every agent of a title insurance company shall keep his, her or its books, records, accounts and vouchers pertaining to the business of title insurance, in such manner that the commissioner or his authorized representative may readily ascertain from time to time, whether or not the agent has complied with all of the applicable provisions of this act. Failure to comply with this section shall be a ground for revocation of the agent's license.

AND the Insurance Company Law at 40 P.S. §910-37(h) which:

Requires that beginning ninety days after the effective date of this amendment, no title insurance company or agent of a title insurance company shall charge any fee for any policy or contract of title insurance except in accordance with filings or rates which are in effect for said title insurance company or such agent of a title insurance company as provided in this article, or in accordance with subsections (f) and (g) of this section.

AND the Insurance Department Act at 40 P.S. §323.3(a) which:

Requires every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department, in its discretion, may require in order that its authorized representatives may readily ascertain whether the company or person has complied with the laws of this Commonwealth. The six (6) violations noted were the result of the Company not providing documentation to support the charges and/or pass through charges under Sections 1100 and 1200 of the HUD-1

sheet according to Section 2.8 and Section 7.4 in the Rate Manual. This resulted in overcharges of \$115.00.

C. 57 Violations as the result of the Company not filing with the Department monthly during the experience period year additional charges in especially difficult title matters, special fees for affirmative risks coverages and policies issued in excess of the filed rate of \$1,000,000 as required. The violations are of the Insurance Company Law at 40 P.S. §910-37(a) which:

Requires every title insurance company to file with the commissioner every manual of classifications, rules, plans, and schedules of fees and every modification of any of the foregoing relating to the rates which it proposes to use. Every such filing shall state the proposed effective date thereof, and shall indicate the character and extent of the coverage contemplated.

D. 50 Violations as a result of the Company making inappropriate charges on the HUD settlement sheet. These are violations of the Insurance Company Law at 40 P.S. §910-37(h) which:

Requires that beginning ninety days after the effective date of this amendment, no title insurance company or agent of a title insurance company shall charge any fee for any policy or contract of title insurance except in accordance with filings or rates which are in effect for said title insurance company or such agent of a title insurance company as provided in this article, or in accordance with subsections (f) and (g) of this section.

Of the 50 violations noted, 12 violations were the result of the Company charging incorrect rates according to the Policies and Rates Section in the Rate Manual. This resulted in overcharges of \$563.72 and undercharges of (\$1,053.74). Two (2) violations were the result of the Company charging incorrect amounts for endorsements according to the Endorsements and Rates Section in the Rate Manual. This resulted in overcharges of \$59.35 and undercharges of (\$75.30). Thirty-two (32) violations were the result of the Company charging inappropriate charges and/or pass through charges under Sections 1100 and 1200 of the HUD-1 sheet according to Section 2.8 and Section 7.4 in the Rate Manual. This resulted in overcharges of \$990.50 and undercharges of (\$5.00). The remaining four (4) violations were the result of the Company charging inappropriate charges and/or pass through charges under Section 1300 of the HUD-1 sheet according to Section 2.8 and Section 7.4 in the Rate Manual. This resulted in overcharges of \$60.00.

E. 9 Violations as a result of not properly disclosing information on the HUD-1 settlement sheets. These are violations of the Unfair Insurance Practices Act at 40 P.S. §1171.4 which:

Requires no person shall engage in this state in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance pursuant to this act.

VI. FORMS

All files were reviewed to verify the use of Department approved forms in compliance with the Insurance Company Law at 40 P.S. §477b, Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, the Insurance Company Law provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner.

The following finding was made:

A. 1 Violation as a result of using an endorsement form which was not filed and approved for use by the Company. The violation is of the Insurance Company Law at 40 P.S. §477b which:

Requires that before any insurance company doing business in the Commonwealth to issue, sell, contract all forms of casualty insurance, or use applications, riders, or endorsements, in connection therewith, file forms of the same for approval by the Insurance Commissioner.

VII. LICENSING

In order to determine compliance with the licensing requirements of the Insurance Company Law at 40 P.S. §§910-24 - 910-31, the Company was asked to provide a list of active agents during the experience period. In addition, the Company was asked to submit a list of all agents whose contracts or agency agreements were canceled during the experience period. The Company's policy files were also reviewed for the purpose of identifying agents.

The following findings were made:

A. 14 Violations as a result of the Company's failure to certify a list of its appointed agents. These are violations of the Insurance Company Law at 40 P.S. §910-25 which:

Requires every title insurance company to certify to the commissioner the names of all agents appointed by it in this Commonwealth.

The following agents were found to be writing policies without having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

Agent

Kornerstone Property Settlements, Inc
Blakinger, Byler & Thomas
Community Settlement, LLC
(Doing Business as Abstracting Co of York County)
Countywide Abstract LP
Brinser, Wagner & Zimmerman
Fisher Abstracting
(Alias for Somerset Cty Settlement & Abstract Co Inc)
Abco Of Northampton, LLC
Preferred Closing Service

ABA Abstract Co., LLC
CTC Pennsylvania
All Penn Abstract
Shoop, Rickey
(Designated Licensee of Community Settlement LLC)
Caporin, Michele T
(Designated Licensee of ABCO of Northampton LLC)
Blaum, James Patrick
(Designated Licensee of ABA Abstract)

VIII. DEPARTMENT CONCERNS

The Department notes concerns involving business practices related to closing and/or settlement costs which practices may not be within the Company's direct control or direction. Accordingly, such practices are not designated herein as title violations by the Company, as within the Department's regulatory authority. These concerns were brought to the attention of the Company for their review and response.

Related to the appropriateness of closing and/or settlement costs, the Company noted that it does not receive compensation or payment for anything other than the actual title insurance. As a general rule, the Company does not request or require documentation to support charges listed on HUD settlement sheets as a precondition to issuing a policy, because the charges do not constitute insurance premium. Another frequently noted concern was that, in many cases, the title or settlement agent was unable or unwilling to produce to the Company, documentation to support charges made. As such, in many cases, the third party charges could not be supported by documentation.

Some of the more frequently noted concerns involved charges for delivery fees, which ranged from \$15.50 to \$100.00, and recording service fees which ranged from no charge to \$35.00. Numerous charges were also noted for email and document preparation, ranging from \$15.00 to \$250.00, and wire fees, ranging from \$15.00 to \$50.00. Other fees noted included attorney fees from no charge to \$750.00, tax information fees, ranging from no charge to \$34.00, and settlement/closing fees from no charge to \$300.00.

These concerns were not uniform or consistent, in that they were not identified in every file reviewed. Also, there was wide disparity in the number of concerns involving fees and the corresponding charges made, supporting the fact there is a

general lack of uniformity in the settlement process. One conclusion may be that this puts the consumer at a disadvantage, resulting in potentially higher costs.

IX. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

1. The Company must review the Unfair Insurance Practices Act specifically 40 P.S. §1171.4 and the Department's regulations at 31 Pa. Code §126.1 with its agents to ensure that the owner-mortgagor is advised in writing of the right to obtain title insurance in one's own favor. This is to ensure that violations noted in the Report do not occur in the future.
2. The Company must reinforce internal controls to ensure that all records and documents are maintained in accordance with the Insurance Department Act and the Insurance Company Law so that violations noted in the Report do not occur in the future.
3. The Company must make monthly filings with the Department for additional charges in especially difficult title matters, special fees for affirmative risks coverages and policies issued in excess of the filed rate as required. This is to ensure that violations noted under the Insurance Company Law at 40 P.S. §910-37(a) do not occur in the future.
4. The Company must review the Insurance Company Law at 40 P.S. §910-37(h) and must take appropriate measures to ensure the rating violations listed in the Report do not occur in the future. The overcharges noted in the Rating Section of this Report must be refunded to the insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the Report issue date.

5. The Company must implement procedures to ensure that the violations of the Unfair Insurance Practices Act at 40 P.S. §1171.4, regarding the proper disclosure of information on the HUD-1 settlement sheet noted in the Report, do not occur in the future.

6. The Company must review the Insurance Company Law at 40 P.S. §477b to ensure that violations regarding filing forms for approval by the Insurance Commissioner, as noted in the Report, do not occur in the future.

7. The Company must ensure that all agents are properly appointed, as required by the Insurance Company Law at 40 P.S. §910-25 prior to accepting business from an agent.

X. COMPANY RESPONSE



CONESTOGA TITLE INSURANCE CO.

May 14, 2009

Chester A. Derk Jr., AIE, HIA
PENNSYLVANIA INSURANCE DEPARTMENT
Bureau of Market Conduct
1227 Strawberry Square
Harrisburg, PA 17120

Re: Examination Warrant Number 07-M19-002

Dear Mr. Derk:

Thank you for the Report of Examination of Conestoga Title Insurance Co. in connection with the above referenced warrant. We appreciate and respect the examination conducted by the Department and understand its importance. We will use the findings to better serve title insurance consumers in Pennsylvania. We work very hard to ensure that we operate completely within the legal requirements and regulations of all jurisdictions that we do business. We assure you that any findings of nonconformity in the Report were not / are not intentional in any way.

Enclosed is our response to the Report. Conestoga would like to thank the Department and its Examiners. This process has been valuable and it has been a pleasure working with everyone at Department. Please contact me if you have any questions.

Sincerely,

Don Delgado

Vice President – Agency Administration

/dlld

Enclosure

Cc: John Nikolaus, ALTP, President (Conestoga)

Conestoga Title Insurance Co.
Response to Report of Examination of Conestoga Title Insurance Co.
Pennsylvania Insurance Department
(Examination period January 1, 2006 - December 31, 2006)
(Warrant Number 07-M19-002)

III. COMPANY HISTORY AND LICENSING

The Company would like to note that on August 27, 2008, the Company was acquired by Commonwealth Insurance Services, a subsidiary of Donegal Mutual Insurance Company (Marietta, PA).

V. RATING

A. 1 Violation as a result of the Company not obtaining valid waivers. The violation is of the Unfair Insurance Practices Act, the Act of July 22, 1974, P.L. 589, No. 205, Section 4, as amended 40 P.S. §1171.4 AND the Department's regulations at 31, Pa. Code §126.1.

Response

The Company is familiar with the legal requirements and regulations. The Company does not conduct settlements and it does not maintain direct control over the acts of its agents. The waiver form is in the agent's manual provided by the Company to its agents (and provided to the Department as part of the examination process – see Page 45 of the Example Forms). All agents are instructed to utilize the waiver in accordance with the legal requirements and regulations. These instructions are emphasized at the time the agents sign an agency agreement with the Company and whenever the issue is discovered during agency audits.

This violation was a result of an agent failing to follow the legal requirements and regulations in one transaction. The Company provides agents with clear instructions regarding waivers, but the Company cannot assume responsibility for an agent's non-compliance. In an effort to reinforce the importance of compliance with the legal requirements and regulations, the Company will distribute a memorandum to all of its Pennsylvania agents reminding them about the legal requirements and regulations.

B. 6 Violations as a result of the Company's failure to provide documentation to support charges on the HUD settlement sheet. The violations are of the Insurance Company Law 40 P.S. §910-27 AND the Insurance Company Law at 40 P.S. §910-37(h) AND the Insurance Department Act at 40 P.S. §323.3(a).

Response

The Company is familiar with the legal requirements noted. While the Company does not maintain direct control over the acts of its agents, all agents are instructed to maintain a separate file for each policy written to include among many other things, receipts for charges made on HUD-1 settlement statements. It is in fact, a provision of the agency agreement itself. These instructions are emphasized at the time the agents sign an agency agreement with the Company and whenever the issue is discovered during agency audits.

The 6 violations were a result of agents failing to follow the legal requirements. While the Company does not assume responsibility for agents' non-compliance, the Company will voluntarily refund the \$115.00 in overcharges cited by the Department. In an effort to reinforce the importance of compliance with the legal requirements, the Company will also distribute a memorandum to all of its Pennsylvania agents reminding them about the legal requirements.

- C. 57 Violations as the result of the Company not filing with the Department monthly during the experience period year additional charges in especially difficult title matters, special fees for affirmative risks coverages and policies issued in excess of the filed \$1,000,000 as required. The violations are of the Insurance Company Law at 40 P.S. §910-37(a).

Response

The Company has been periodically reporting policies issued in excess of the filed rate to the Department. It will immediately start to do so on a monthly basis and will include a monthly report of additional charges made in especially difficult title matters and for affirmative risk coverages.

- D. 50 Violations as a result of the Company making inappropriate charges on the HUD settlement sheet. These are violations of the Insurance Company Law at 40 P.S. §910-37(h).

Response

The Company is familiar with the legal requirements, but does not conduct settlements. The Company's independent agents conduct settlements. While the Company does not maintain direct control over the acts of its agents, all agents are provided with a copy of the Company's Manual of Rates, Policies and Endorsements that is filed with and approved by the Department at the time they sign an agency agreement with the Company. All agents are specifically instructed to make only those charges that are in strict compliance with the Manual. They are always strongly encouraged to contact the Company whenever they have a question. These instructions are emphasized at the time the agents sign an agency agreement with the Company and whenever the issue is discovered during agency audits.

The 50 violations were a result of agents failing to follow the Company's Manual of Rates, Policies, and Endorsements that is filed with and approved by the Department. While the Company does not assume responsibility for agents' non-compliance, the Company will voluntarily refund the \$563.72 in overcharges cited by the Department for charging incorrect rates for policies; the \$59.35 in overcharges cited by the Department for charging incorrect rates for endorsements; the \$990.50 in overcharges cited by the Department for inappropriate charges and/or pass through charges in Sections 1100 and 1200 of the HUD-1 settlement statements; and the \$60.00 in overcharges cited by the Department for charging inappropriate charges and/or pass through charges in Section 1300 of the HUD-1 settlement statements.

In an effort to reinforce the importance of compliance with the legal requirements, the Company will also distribute a memorandum to all of its Pennsylvania agents reminding them of the legal requirements and the importance of charging for policies, endorsements and pass-through charges in strict accordance with the Company's approved Manual of Rates, Policies and Endorsements. The Memorandum will include very specific instructions for each line of the HUD-1 settlement statement Sections 1100 – 1300.

- E. 9 Violations as a result of not properly disclosing information on the HUD-1 settlement sheets. These are violations of the Unfair Insurance Practices Act at 40 P.S. §1171.4.

Response

The Company is familiar with the legal requirements. In these instances, its agents failed to disclose endorsements and liability amounts. The Company does not assume responsibility for agents' non-compliance. All agents are instructed to conduct operations in strict compliance with the Real Estate Settlement Procedures Act, which includes proper preparation and use of HUD-1

settlement statements. It is in fact, a provision of the agency agreement itself. These instructions are emphasized at the time the agents sign an agency agreement with the Company and whenever the issue is discovered during agency audits.

In an effort to reinforce the importance of compliance with the legal requirements, the Company will distribute a memorandum to all of its Pennsylvania agents reminding them of the legal requirements and the importance of proper preparation of the HUD-1 settlement statements and the proper disclosure of information on same.

VI. FORMS

A. 1 Violation as a result of using an endorsement form which was not filed and approved for use by the Company. The violation is of the Insurance Company Law at 40 P.S. §477b.

Response

The Company is familiar with the legal requirements and instructs its agents to only issue those endorsements that have been filed and approved for use by the Company when conducting settlements. While the Company does not maintain direct control over the acts of its agents, all agents are provided with a copy of the Company's Manual of Rates, Policies and Endorsements that is filed with and approved by the Department at the time they sign an agency agreement with the Company. All agents are specifically instructed to issue only those forms that are in strict compliance with the Manual and they are always strongly encouraged to contact the Company whenever they have a question. These instructions are emphasized at the time the agents sign an agency agreement with the Company and whenever the issue is discovered during agency audits.

This violation was a result of one agent that failed to follow the Manual of Rates, Policies, and Endorsements that is filed with and approved by the Department in one transaction. The endorsement that was issued has since been filed with and approved by the Department. In an effort to reinforce the importance of compliance with the legal requirements, the Company will distribute a memorandum to all of its Pennsylvania agents reminding them of the legal requirements.

VII. LICENSING

A. 14 Violations as a result of the Company's failure to certify a list of its appointed agents. These are violations of the Insurance Company Law at 40 P.S. §910-25.

Response

The Company is familiar with the legal requirements. All of the agents listed in this Section of the Report have since been appointed. The Company has reviewed its entire list of appointments to ensure completeness and accuracy. The Company will verify the appointments of each agency and its designated licensees prior to entering into an agency agreement and annually when the agency is audited.

VIII. DEPARTMENT CONCERNS

The Company acknowledges the Department's concerns. Due to the unique nature of the title insurance industry, agents are responsible for and are in complete control of the settlement process. All of the Company's agents (and other company's agents) offer settlement services, including those noted by the Department, that are outside of the realm of title insurance. These services are not governed by the Company's (or any other company's) Manual of Rates. The Company always has the consumer's interest in mind. Agency audits are performed annually and the Company does not tolerate agents that do not work to comply with all legal requirements and the Company's instructions.

IX. RECOMMENDATIONS

1. The Company will distribute a memorandum to all of its Pennsylvania agents reminding them about the Unfair Insurance Practices Act, specifically 40 P.S. § 1171.4 and the Department's regulations at 31 Pa. Code §126.1 to ensure that violations of same do not occur in the future.
2. The Company will distribute a memorandum to all of its Pennsylvania agents reminding them about the Insurance Department Act and Insurance Company Law requiring the maintenance of records and documents. The Company has also reinforced its agency audit procedures to ensure that violations of same do not occur in the future.
3. The Company has implemented procedures to make monthly filings with the Department for additional charges made in especially difficult title matters, special fees for affirmative risk coverages and policies issued in excess of the filed rate.
4. The Company has reviewed the Insurance Company Law at 40 P.S. §910-37(h). The Company will distribute a memorandum to all of its Pennsylvania agents reminding them of the law and the importance of charging for policies, endorsements and pass-through charges in strict accordance with the Company's approved Manual of Rates, Policies and Endorsements. The company has also reinforced its agency audit procedures to further ensure that violations do not occur in the future. The Company will voluntarily refund the overcharges noted in the Rating Section of the Report to the insured parties and provide proof of same to the Department within 30 days of the Report issue date.
5. The Company will distribute a memorandum to all of its Pennsylvania agents reminding them of the Unfair Practices Act at 40 P.S. § 1171.4. The memorandum will stress the importance of proper disclosure of information on HUD-1 settlement statements. The company has also reinforced its agency audit procedures to further ensure that violations of the Act to not occur in the future.
6. The Company has reviewed the Insurance Company Law at 40 P.S. §477b. The Company will distribute a memorandum to all of its Pennsylvania agents reminding them of the legal requirements. The Company has also reinforced its agency audit procedures to further ensure that violations of the legal requirements do not occur in the future.
7. The Company has reviewed its entire list of appointments to ensure completeness and accuracy as required by the Insurance Company Law at 40 P.S. §910-25. The Company will verify the appointments of each agency and its designated licensees prior to entering into an agency agreement and annually when the agency is audited.