

**NORTH CAROLINA DEPARTMENT OF INSURANCE
RALEIGH, NORTH CAROLINA**

STATE OF NORTH CAROLINA

**BEFORE THE COMMISSIONER
OF INSURANCE**

COUNTY OF WAKE

**REPUBLIC MORTGAGE
INSURANCE COMPANY and
REPUBLIC MORTGAGE INSURANCE
COMPANY OF NORTH CAROLINA,**

**FINAL ORDER APPROVING
AMENDED AND RESTATED
CORRECTIVE PLAN**

Petitioners,

v.

**NORTH CAROLINA DEPARTMENT
OF INSURANCE,**

**Docket Number 1651
and**

Respondent.

Docket Number 1729

THIS MATTER came on for hearing before the undersigned on June 11, 2014, pursuant to N.C. Gen. Stat. §§ 58-30-60, *et seq.* and the North Carolina Administrative Code §§ 11 NCAC 1.0413 through 1.0430. The undersigned has been designated by the Commissioner of Insurance (“Commissioner”) pursuant to N.C.G.S. § 58-2-55 to serve as the hearing officer in this matter.

Respondent, the North Carolina Department of Insurance (hereinafter the “Department”), was present and represented by the Regulatory Actions Section and Actuarial Services Division. The Department was represented by Special Deputy Attorney General David W. Boone and Assistant Attorney General M. Denise Stanford. Republic Mortgage Insurance Company and Republic Mortgage Insurance Company of North Carolina (“Petitioners”) were represented by William T. Barnett, Jr. and J. Mitchell Armbruster, of Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan, L.L.P.

Intervenor Federal Home Mortgage Corporation (“Freddie Mac”) was represented by David K. Liggett and James L. Conner II, of Ragsdale Liggett PLLC. Intervenor Federal National Mortgage Association (“Fannie Mae”) was represented by Clay C. Wheeler, of Kilpatrick Townsend & Stockton LLP, James M. Pacious, of Fannie Mae, admitted *pro hac vice*, and Andrew R. Holland, of Sidley Austin, LLP, admitted *pro hac vice*. Intervenor Bank of America, N.A. (“Bank of America”) was represented by Johnny M. Loper, of Womble Carlyle Sandridge & Rice, LLP, Harold S. Horwich and William D. Goddard, of Bingham McCutchen LLP, admitted *pro hac vice*, and Timothy P. Law, of Reed Smith LLP, admitted *pro hac vice*.

After careful consideration of the evidence presented, and based upon the record as a whole, the undersigned finds and concludes as follows:

FINDINGS OF FACT

1. A Notice of Hearing (“Notice”) was issued by the undersigned on May 6, 2014. Pursuant to the Notice, Petitioners sent an email notice of the hearing to all of their master policy holders and posted notice of the hearing on the Republic Mortgage Insurance Company (“RMIC”) website.

2. The purpose of this hearing was to consider the proposed Amended and Restated Corrective Plan dated April 16, 2014, submitted by Petitioners to the Department and later modified in Petitioners’ Response to Notice of Hearing dated May 30, 2014 (together, the “Amended Plan”), and to determine whether the Amended Plan should be approved.

3. The stated objectives and elements of the Amended Plan are set forth in Exhibit 1A, which was admitted into evidence and is part of the record in this proceeding, and in Petitioners’ Response to Notice of Hearing dated May 30, 2014, which also is part of the record in this proceeding.

4. Petitioner RMIC was placed into supervision by Summary Order issued by the North Carolina Commissioner of Insurance dated January 19, 2012. Pursuant to that Order, RMIC was ordered to pay no more than fifty percent (50%) of any claim allowed under any policy of insurance issued by RMIC and to develop and implement a corrective plan. RMIC developed a Corrective Plan dated September 14, 2012, which was considered in a hearing held on October 16, 2012 and approved by the undersigned Hearing Officer in an Order dated November 28, 2012. Under the approved Corrective Plan, RMIC was permitted to pay sixty percent (60%) of all settled claims under policies of insurance issued by RMIC, with forty percent (40%) of such claims becoming deferred payment obligations receiving permitted statutory accounting treatment applicable only in this case.

5. An affiliate of RMIC, Republic Mortgage Insurance Company of North Carolina (“RMIC-NC” and together with RMIC, the “Companies”), was negatively affected by the financial condition of RMIC and was placed into supervision by Summary Order of the Commissioner on December 3, 2012, and ordered to pay claims under its policies at no greater percentage than RMIC. RMIC-NC was ordered to develop and implement a corrective plan.

6. The Amended Plan proposes an infusion of the sum of \$125 million of surplus into Petitioner RMIC in the form of \$75 million in cash and \$50 million in securities acceptable to the Department, the repayment of Petitioners’ outstanding deferred payment obligations in full, an end to the previously permitted statutory accounting practice, the payment of all future valid settled claims in their entirety without deferring any portion thereof, and the continuation of the existing regulatory supervision of Petitioners.

7. Susan Coble, Senior Regulatory Specialist for the Department, previously appointed as Assistant Supervisor of Petitioners in the Summary Orders pertaining to each (collectively referred to hereinafter as the "Summary Orders"), testified that she and other Department representatives had monitored the financial condition and operations of Petitioners closely throughout their respective supervisions and had reviewed both the Amended Plan (including Petitioners' Response to Notice of Hearing dated May 30, 2014) and various materials and work papers related to it. She also testified that Petitioners had cooperated fully with the Department, and she recommended that the Amended Plan be approved. Ms. Coble also recommended that the Companies' operations and financial condition should continue to be monitored and that the Companies should remain in supervision.

8. Kevin Conley, Chief Actuary of the Department, also testified on behalf of the Department. Without objection, Mr. Conley was tendered as an expert in actuarial science and admitted as an expert.

9. Mr. Conley testified that he had reviewed the Amended Plan and all supporting materials, and recommended that the Plan be approved. Mr. Conley testified that he agreed with the Amended Plan's conclusion that the Petitioners' invested asset base will be sufficient to fully cover the accumulated reserves and deferred payment obligation liability currently and 100% of all future settled claims.

10. Chris Cash, Chief Financial Officer of the Companies, testified in support of the Amended Plan. Mr. Cash testified as to the adequacy of Petitioners' financial condition, staffing, its management, and its claims handling and policy servicing to support an orderly and effective run-off under the proposed Amended Plan.

11. After the close of the evidence, Intervenor Bank of America, through counsel, expressed a limited objection to approval of the Amended Plan on the grounds that it did not give adequate consideration of the potential impact of contingent and future claims. Bank of America requested in the alternative that if the Hearing Officer disagreed, the Supervisor continue to closely monitor RMIC and RMIC-NC going forward, including their ability to pay contingent claims, and that another hearing be held should there be a material change in the circumstances of RMIC and RMIC-NC to determine whether a DPO should be reinstated.

12. Intervenor Freddie Mac, through counsel after the close of the evidence, expressed support for approval of the Amended Plan and joined the Department and RMIC in requesting approval of the Amended Plan, though Freddie Mac did request that the Department give serious consideration at the appropriate time to approving interest on the deferred payment obligations.

13. The financial condition and operations of the Petitioners should continue to be monitored under supervision and the Petitioners should remain in supervision under the Summary Orders dated January 19, 2012, and December 3, 2012, entered in these respective cases.

CONCLUSIONS OF LAW

1. Under Article 30 of Chapter 58 of the North Carolina General Statutes, the Commissioner has certain powers to institute administrative supervision, rehabilitation, and liquidation over insurers.

2. This matter is properly before the undersigned under the administrative supervision powers of the Commissioner, and the undersigned has subject matter jurisdiction pursuant to the provisions of N.C. Gen. Stat. § 58-30-60 *et seq.* and the Summary Orders.

3. The Amended Plan is designed to bring Petitioners into compliance with all relevant and pertinent provisions of Chapter 58 of the North Carolina General Statutes.

4. The Amended Plan should be approved pursuant to the provisions of N.C. Gen. Stat. § 58-30-60 *et seq.* and the Summary Orders, in the discretion of the undersigned.

THEREFORE IT IS HEREBY ORDERED THAT:

1. Petitioners will remain under the Commissioner's administrative supervision pursuant to the provisions of N.C. Gen. Stat. § 58-30-60 *et seq.*

2. The Amended Plan is hereby approved and the Summary Orders and the Final Order Approving Corrective Plan, dated November 28, 2012, entered in Docket Number 1651, are hereby amended to incorporate the Amended Plan, subject to the following conditions:

(a) If at any time prior to December 21, 2021, the Commissioner has reason to believe that either Petitioner's financial condition has changed in any material respect, he may order further hearings to determine whether any other aspect of the Plan should be revised;

(b) The statutory accounting treatment for the deferred payment obligations provided for in the Summary Orders and the Final Order Approving Corrective Plan, dated November 28, 2012, entered in Docket Number 1651, is hereby ended and the statutory accounting treatment provided for in these cases does not constitute a general precedent or rule applicable in other cases or proceedings;

(c) The Supervisor expressly retains the authority to modify the payment percentage of claims provided for in the Amended Plan in the event of a material change of circumstances that would justify an amendment or modification; notice of any such proposed modification shall be given to Petitioners and their policyholders, together with notice of an opportunity to request a hearing on any amendment or modification;

(d) The Supervisor shall retain all supervisory powers provided for in the Summary Orders and all of the powers provided for in N.C. Gen. Stat. §§ 58-30-60 and 58-30-62 until further order of the Commissioner;

(e) The Amended Plan and all of its terms shall be reviewed from time to time on an ongoing basis by the Supervisor on an internal basis in the normal course of business, but no less than annually. The terms of the Amended Plan may be amended or modified should circumstances warrant such an amendment or modification, after notice and the opportunity for a hearing. Intervenors may seek a hearing on the terms of the Amended Plan upon changed material circumstances pursuant to applicable statutes and regulations;

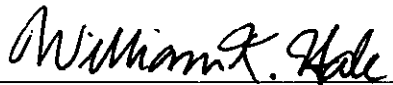
(f) The Supervisor may, in her discretion, consider allowing interest, at a to-be-determined appropriate rate, on the deferred payment obligations that arose prior to the entry of this Order, to be paid from surplus remaining at the conclusion of supervision and successful execution of the Amended Plan after notice to Petitioners and their policyholders and an opportunity for a hearing;

(g) Petitioners shall continue to post on their website (www.rmic.com) and thereby make available to all policyholders and the general public, Petitioners' quarterly and annual financial statements as filed with the Department. Such postings shall be made no later than the date such statements are required to be filed with the Department. Petitioners shall not be required to post any filing that is confidential under applicable law.

3. Except as modified herein and the Amended Plan, the Summary Orders remain in full force and effect. In addition, this Final Order supersedes the Final Order Approving Corrective Plan, dated November 28, 2012, which was entered in Docket No. 1651.

4. Any adversely affected party, including qualified intervenors, may appeal this Order pursuant to N.C.G.S. § 58-30-60.

This 27th day of June, 2014.



William K. Hale
Hearing Officer and
Special Counsel
N.C. Department of Insurance
1201 Mail Service Center
Raleigh, N.C. 27699-1201

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served a copy of the foregoing FINAL ORDER APPROVING AMENDED AND RESTATED CORRECTIVE PLAN by hand-delivery to:

Mary Faulkner
North Carolina Department of Insurance
1201 Mail Service Center
Raleigh, NC 27699-1201

I HEREBY CERTIFY that I have this day served a copy of the foregoing FINAL ORDER APPROVING AMENDED AND RESTATED CORRECTIVE PLAN by mailing a copy of the same via U.S. mail, in first class postage prepaid envelopes addressed as follows:

Bill Barnett
Mitch Armbruster
Smith, Anderson, Blount, Dorsett,
Mitchell & Jernigan, L.L.P.
P.O. Box 2611
Raleigh, NC 27602-2611

Spencer LeRoy III
Senior Vice President,
General Counsel and Secretary
Old Republic International Corporation
307 N. Michigan Avenue
Chicago, IL 60601-5382

Hayden J. Silver, III
Johnny M. Loper
Christopher J. Jones
Womble, Carlyle Sandridge & Rice, LLP
150 Fayetteville Street, Ste. 2100
P.O. Box 831
Raleigh, NC 27602

John N. Ellison
Timothy P. Law
Reed Smith, LLP
Three Logan Square
1717 Arch Street
Philadelphia, PA 19103

Harold S. Horwich
William D. Goddard
Bingham McCutchen LLP
One State Street
Hartford, CT 06103

Clay C. Wheeler
Kilpatrick Townsend & Stockton, LLP
4208 Six Forks Road, Suite 1400
Raleigh, NC 27609

James M. Pacious
Federal National Mortgage Association
3900 Wisconsin Avenue, N.W.
Washington, DC 20016-2892

Robert Schaefer
Vice President,
Credit Enhancement Strategy and Management
3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

Bradford Martin
Principal Advisor
Office of Conservatorship Operations
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

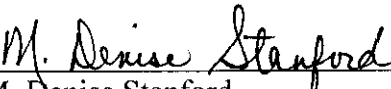
Paige Wisdom
Executive Vice President and
Chief Enterprise Risk Officer
Freddie Mac
P.O. Box 4180
Reston, VA 20190-1759

Gina Healy
Vice-President-Special Asset
Enterprise Risk Management
Freddie Mac
8000 Jones Branch Drive
McLean, VA 22102

David K. Liggett
James L. Conner, II
Ragsdale Liggett, PLLC
2840 Plaza Place, Suite 400
Raleigh, NC 27612

Barry M. Parsons
Associate General Counsel
General Litigation & Investigations
Freddie Mac
8000 Jones Branch Road, MS 202
McLean, VA 22102

This the 27th day of June, 2014.



M. Denise Stanford
Assistant Attorney General
N.C. State Bar Number 17601
N. C. Department of Justice
P.O. Box 629
Raleigh, NC 27602-0629
(919) 716-6610