

Rating Action: Republic Mortgage Insurance Company

Moody's downgrades Republic Mortgage Insurance Company to A1 and senior debt of Old Republic International to (P)A2

Negative outlook for Republic Mortgage; stable outlook for Old Republic International's debt ratings

New York, June 27, 2008 -- Moody's Investors Service has downgraded the insurance financial strength rating of Republic Mortgage Insurance Company ("RMIC") to A1 from Aa3, and the debt ratings of Old Republic International Corporation (NYSE: ORI) (senior unsecured debt lowered to (P)A2 from (P)A1). The commercial paper rating of Old Republic Capital Corporation was affirmed at P-1. The outlook for the rating of RMIC is negative. The outlook for Old Republic's provisional debt ratings and commercial paper rating is stable.

Today's rating action reflects the deterioration in RMIC's capital adequacy and medium term profitability prospects. The rating agency said that, while mortgage insurance demand and new business quality have both improved in recent months, performance of RMIC's exposures originated prior to 2008 has eroded capitalization and those exposures remain vulnerable to further economic deterioration.

Moody's noted that the ratings of parent company ORI are supported by the credit strength of its three primary operating units -- consisting of property and casualty insurance (insurance financial strength of Aa2, stable outlook), mortgage insurance (insurance financial strength of A1, negative outlook), and title insurance (insurance financial strength of A1, stable outlook). As the second largest unit of the three, the deterioration in credit quality at the mortgage insurer directly impacts the profile of the parent company.

In elaborating on the reasons for the change in RMIC's rating, Moody's said that franchise strength and the ability to withstand cyclical downturns are key factors in its analysis of a mortgage insurer's business and financial profile. Mortgage insurers derive a substantial portion of their franchise strength from the value that they provide to government-sponsored enterprises involved in residential mortgage finance (the GSEs) by allowing them to participate in the high-loan-to-value portion of the mortgage market. RMIC insures approximately 10% of the conforming loan market and is a significant counterparty to the GSEs. Moody's said that RMIC and other mortgage insurers have benefited from the GSEs' increasing penetration of the mortgage origination market, resulting in higher new business volume, improving underwriting criteria and greater pricing power. Fannie Mae and Freddie Mac recently modified their minimum guideline requirements for mortgage insurers, including the elimination of rating triggers. Moody's said that RMIC's ability to retain its status as a Type 1 insurer will be an important rating consideration for the company going forward.

In evaluating capital adequacy, Moody's has segmented the insured portfolio by vintage, delivery channel (flow, bulk, pool) and borrower quality. Portfolio loss estimates were derived using a stochastic simulation model which applies estimates of expected and stress losses for each strata of risk. The model also incorporates the impact of projected premiums on the insured portfolio, as well as the benefit of reinsurance provided by mortgage lender captives. Capital resources were then compared to the present value of projected net losses using a standard benchmark for capital adequacy at a range of rating levels. Moody's also considered the company's capital position relative to regulatory capital requirements.

Moody's said that the performance of RMIC's insured portfolio has deteriorated meaningfully, not only for its traditional primary mortgage insurance portfolio, but even more so for its higher-risk pool insurance policies which account for approximately 33% of Moody's estimate of expected losses. For RMIC's mortgage insurance portfolio overall, capital adequacy on a risk-adjusted basis is slightly below Moody's single-A metrics. However, in Moody's opinion, RMIC's parent company, Old Republic International Corporation ("ORI"), has both the ability and the willingness to increase RMIC's capital resources to levels consistent with single-A metrics in the near term. Furthermore, the company's franchise value, portfolio characteristics and financial flexibility are in line with Moody's metrics for a single-A rated mortgage insurer. The rating agency also noted that RMIC's risk to capital ratio is currently well within regulatory limits.

The negative rating outlook reflects the potential for further adverse development within RMIC's insured portfolio. Moody's also stated that to the extent ORI does not contribute additional capital to RMIC within a reasonable timeframe to remediate the current estimated capital shortfall at the current rating level, RMIC's rating would likely be downgraded.

The following rating has been downgraded with a negative outlook:

Republic Mortgage Insurance Company -- insurance financial strength to A1 from Aa3.

The following ratings have been downgraded with a stable outlook:

Old Republic International Corporation -- provisional senior unsecured debt to (P)A2 from (P)A1; provisional subordinated debt to (P)A3 from (P)A2; and provisional preferred stock to (P)Baa1 from (P)A3.

The following rating has been affirmed with a stable outlook:

Old Republic Capital Corporation -- commercial paper at P-1;

RMIC, writes mortgage insurance in the United States, and is a wholly-owned subsidiary of publicly traded Old Republic International Corporation (NYSE: ORI). ORI, headquartered in Chicago, Illinois, is a multi-line insurance holding company whose subsidiaries are engaged in property and casualty insurance, mortgage guaranty, and title insurance. For the first quarter of 2008, Old Republic International Corporation reported revenue of \$952 million, and a net loss of \$20 million. Shareholders' equity as of March 31, 2008 was \$4.4 billion.

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