

NORTH CAROLINA DEPARTMENT OF INSURANCE
RALEIGH, NORTH CAROLINA

STATE OF NORTH CAROLINA
COUNTY OF WAKE

BEFORE THE
COMMISSIONER OF INSURANCE

IN THE MATTER OF:

REPUBLIC MORTGAGE
INSURANCE COMPANY and
REPUBLIC MORTGAGE
GUARANTY INSURANCE
CORPORATION

Petitioners,

v.

NORTH CAROLINA DEPARTMENT
OF INSURANCE

Respondent.

ORDER

Docket Number: 1882
(Previous Orders entered under Docket
Numbers 1651 and 1729)

THIS MATTER came on for hearing before the undersigned on November 2, 2017, pursuant to N.C. Gen. Stat. §§ 58-30-60, *et seq.* and North Carolina Administrative Code §§ 11 NCAC 1 .0413 through 1 .0430. The undersigned has been designated by the North Carolina Commissioner of Insurance (the "Commissioner") to serve as the hearing officer in this matter pursuant to N.C. Gen. Stat. § 58-2-55.

Respondent, the North Carolina Department of Insurance (the "Department"), was present and represented by the Regulatory Actions Section and Actuarial Services Division. The Department was represented by Special Deputy Attorney General M. Denise Stanford and Assistant Attorney General Heather H. Freeman.

Petitioners Republic Mortgage Insurance Company and Republic Mortgage Guaranty Insurance Corporation, which formerly was known as Republic Mortgage Insurance Company of North Carolina (collectively, the "Petitioners"), were represented by William T. Barnett, Jr. and J. Mitchell Armbruster, of Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan, L.L.P.

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 October 17, 2017. As required by the Notice, Petitioners sent an e-mail notice of the hearing to all of their master policyholders and posted notice on the Republic Mortgage Insurance Company (“RMIC”) website.

2. The purpose of this hearing was to consider the Petition to Allow a Discretionary Payment of Investment Income to Policyholders in Regards to Previously Outstanding Deferred Payment Obligations dated September 29, 2017 (the “Petition”), including whether the payment of an appropriate rate of interest by Petitioners on the deferred payment obligations (“DPOs”) that arose prior to the entry of the Final Order Approving Amended and Restated Corrective Plan dated June 27, 2014 (the “June 27, 2014 Final Order”) should be allowed.

3. The stated objectives of the Petition are set forth in Exhibit A to the Notice. The Notice was admitted into evidence as Exhibit 1 and the Petition was admitted into evidence as Exhibit 1A.

4. Due to non-compliance with applicable financial requirements, Petitioner RMIC was placed into supervision by Summary Order of the Commissioner dated January 19, 2012. This Summary Order was admitted into evidence as Exhibit 4. Pursuant to that Order, RMIC was required to pay no more than fifty percent (50%) of any claim allowed after January 19, 2012 under any policy of insurance issued by RMIC, with the balance deferred as a claim reserve DPO, and to develop and implement a corrective plan.

5. RMIC developed a Corrective Plan dated September 14, 2012, which was submitted to the Department, considered in a hearing held on October 16, 2012, and approved by the Hearing Officer in a Final Order Approving Corrective Plan dated November 28, 2012 (the “November 28, 2012 Final Order”). The November 28, 2012 Final Order was admitted into evidence as Exhibit 6. Under the approved Corrective Plan, RMIC was required to pay sixty percent (60%) of all claims settled after January 19, 2012 under policies of insurance issued by RMIC, with the remaining forty percent (40%) of such claims becoming DPOs that received permitted statutory accounting treatment applicable only in this case.

6. Republic Mortgage Guaranty Insurance Corporation, an affiliate of RMIC that formerly was known as Republic Mortgage Insurance Company of North Carolina (“RMGIC”), was negatively affected by the financial condition of RMIC,

was placed into supervision by Summary Order of the Commissioner dated December 3, 2012, and was ordered to pay claims under its policies at no greater percentage than RMIC. This Summary Order was admitted into evidence as Exhibit 5.

7. Pursuant to a Notice of Hearing dated May 6, 2014, a hearing was held on a proposed Amended and Restated Corrective Plan dated April 16, 2014 that was prepared by Petitioners, submitted to the Department, and later modified in Petitioners' Response to Notice of Hearing dated May 30, 2014 (together, the "Amended and Restated Corrective Plan"). The Amended and Restated Corrective Plan dated April 16, 2014 was admitted into evidence as Exhibit 7. Following the hearing, the June 27, 2014 Final Order approved the Amended and Restated Corrective Plan. The June 27, 2014 Final Order was admitted into evidence as Exhibit 8. The June 27, 2014 Final Order required, *inter alia*, 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 DPOs 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.

8. The June 27, 2014 Final Order, which was amended by Order of the Commissioner issued on April 24, 2015 (the "April 24, 2015 Amendment") and modified by Supplemental Instructions of the Department dated September 15, 2016 (the "Supplemental Instructions"), contemplated that the Supervisor would continue to monitor the financial condition of the Companies. The April 24, 2015 Amendment was admitted into evidence as Exhibit 9 and the Supplemental Instructions were admitted into evidence as Exhibit 10. The June 27, 2014 Final Order also required, among other things, that the Supervisor consider, in her discretion, allowing interest to be paid on the DPOs that arose prior to the entry of the Order, after notice to the Petitioners and their policyholders and an opportunity for a hearing.

9. Chris Cash, Vice President and Chief Financial Officer of the Petitioners, testified at the hearing in support of the Petition. Mr. Cash testified as to the adequacy of Petitioners' financial condition, staffing, its management, and its claims handling and policy servicing to support a continued orderly and effective run-off under the Amended Plan.

10. Mr. Cash also testified that the Petitioners' execution of the Amended and Restated Corrective Plan has been and continues to be successful and that their financial forecasts show that the Petitioners' current and projected capital levels are sufficient to permit the discretionary payment of investment income to

policyholders as described in the Petition and still allow the Petitioners to meet all of their obligations during the remainder of the run-off period. He also summarized the methodology by which Petitioners calculated the proposed payment of investment income, which methodology and calculations are set forth in more detail in the Petition. He testified that the Petitioners post their quarterly and annual statutory financial statements on the RMIC website and that if approved, the proposed payment of investment income will be made from Petitioners' Surplus.

11. Richard Kohan, Associate Property & Casualty Actuary for the Department, testified on behalf of the Department. Mr. Kohan testified that he had reviewed the Petition and various supporting materials, work papers and financial forecasts related to it that have been submitted to the Department on a confidential basis, including loss and financial projections.

12. Mr. Kohan also testified that the supporting materials and forecasts submitted to the Department show to his satisfaction that Petitioners' current and projected financial condition is sufficient to permit the discretionary payment of investment income described in the Petition and still allow Petitioners to meet all of their obligations during the remainder of the run-off period. He testified that the proposed payment is fair and reasonable under the circumstances, and he recommended approval of the payment as detailed in the Petition.

13. Susan Coble, Chief Regulatory Specialist for the Department, who previously was appointed as Supervisor of Petitioners, testified that she and other Department representatives have monitored and continue to monitor the financial condition and operations of Petitioners closely throughout their respective supervisions and had reviewed the Corrective Plan, the Amended and Restated Corrective Plan, the Petition, and various materials and work papers related to them that were submitted confidentially. She testified that Petitioners had cooperated fully with the Department throughout their supervision, and that Petitioners' execution of the Amended and Restated Corrective Plan has been and continues to be successful.

14. Ms. Coble also testified that the methodology by which the Petitioners calculated the proposed payment to Policyholders was fair and reasonable under the circumstances and that the proposed payment is expected to be made from Petitioners' Surplus. She recommended that the Petition and the payment of investment income to policyholders described therein be approved. She also recommended that the Petitioners' operations and financial condition continue to be monitored under supervision until after completion of the payment of investment income described in the Petition.

15. The financial condition and operations of the Petitioners should continue to be monitored by the Department and the Petitioners should remain in supervision under the Summary Orders dated January 19, 2012 and December 3, 2012, as modified by the November 28, 2012 Final Order, the June 27, 2014 Final Order, as modified and supplemented, and this Order, until further Order of the Commissioner following Petitioners' completion of the payment of investment income described in the Petition.

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 Petition requests that Petitioners be allowed to make a discretionary payment of investment income to Policyholders in regards to the previously outstanding DPOs that are described in the Petition, in the amounts and in accordance with the methodologies described in the Petition.

4. The Petition and the proposed payment of investment income described therein should be approved pursuant to the provisions of N.C. Gen. Stat. § 58-30-60 *et seq.*, the Summary Orders, the November 28, 2012 Final Order, the June 27, 2014 Final Order, as amended and modified, and this Order, all in the discretion of the undersigned.

5. The financial condition and operations of the Petitioners should continue to be monitored by the Department and the Petitioners should remain in supervision under the Summary Orders dated January 19, 2012 and December 3, 2012, as modified by the November 28, 2012 Final Order, the June 27, 2014 Final Order, as amended and modified, and this Order, until further Order of the Commissioner following Petitioners' completion of the payment of investment income described in the Petition.

ORDER

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 Petition and the payment of investment income to Policyholders described therein is hereby approved. When completed, this payment of investment income to Policyholders will be the full and final settlement of all matters related to the DPOs described in the Petition.

3. Except as modified herein, the Summary Orders remain in full force and effect, as modified by the November 28, 2012 Final Order, the June 14, 2014 Final Order, the April 24, 2015 Amendment and the Supplemental Instructions.

APPEAL RIGHTS

This Order shall be subject to review, pursuant to N.C. Gen. Stat. § 58-2-75, in the Superior Court of Wake County on petition by any person aggrieved filed within thirty (30) days from the date of the delivery of a copy of the order.

This 9th day of November, 2017.


A. John Hoomani
Hearing Officer
N.C. Department of Insurance

CERTIFICATE OF SERVICE

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

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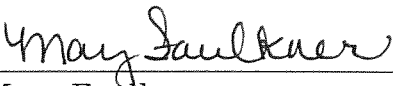
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This the 9th day of November, 2017.



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