**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 GUARANTY INSURANCE CORPORATION (formerly named REPUBLIC MORTGAGE INSURANCE COMPANY OF NORTH CAROLINA)** | **NOTICE OF ADMINISTRATIVE HEARING Docket Number 1882** **(Previous Orders entered under Docket Numbers 1651 and 1729)** |

**Petitioners,**

**v.**

**NORTH CAROLINA DEPARTMENT OF INSURANCE,**

**Respondent.**

TO: Kevin Henry
President and Chief Operating Officer
RMIC Companies, Inc.
Republic Mortgage Insurance Company
Republic Mortgage Guaranty Insurance Corporation
101 N. Cherry Street, Suite 101
Winston-Salem, NC 27101

M. Denise Stanford
Heather H. Freeman
Attorneys for the North Carolina Department of Insurance
North Carolina Department of Justice
P.O. Box 629
Raleigh, N.C. 27602-0629

## I. NOTICE

Pursuant to North Carolina General Statutes §§ 58-30-25, 58-30-60, 58-30-62 and 11 NCAC 1.0413 through 11 NCAC 1.0430 and any other applicable statutes and regulations, NOTICE IS HEREBY GIVEN that a public administrative hearing will be convened before the Commissioner of Insurance, or before a Hearing Officer duly designated by him, on November 2, 2017 at 10:00 a.m. in Room 131 of the Albemarle Building, Raleigh, Wake County, North Carolina. The hearing may be subsequently moved to a more suitable room in the building.

The purpose of this hearing is to consider allowing the payment of an appropriate rate of interest by Republic Mortgage Insurance Company ("RMIC") and Republic Mortgage Guaranty Insurance Corporation ("RMGIC"), formerly named Republic Mortgage Insurance Company of North Carolina, on the deferred payment obligations that arose prior to the entry of the Final Order Approving Amended and Restated Corrective Plan dated June 27, 2014. A copy of a Petition to Allow a Discretionary Payment of Investment Income to Policyholders in Regards to Previously Outstanding Deferred Payment Obligations submitted to the Supervisor by RMIC and RMGIC is attached hereto as Exhibit A.

## II. NOTICE TO POLICYHOLDERS

1. RMIC is hereby ordered to give notice to its policyholders of this administrative hearing, including providing copies to policyholders of this Notice of Hearing and of Exhibit A on or before October 19, 2017. The hearing shall be open to the policyholders and to members of the public.

2. Parties to this hearing are the Supervisor, RMIC, and RMGIC. Motions to intervene are governed by 11 NCAC 1.0425.

## III. HEARING PROCEDURE

1. At the hearing on November 2, 2017, RMIC and RMGIC, through their counsel, and the Supervisor will be given the opportunity to present evidence, to examine and cross-examine witnesses, and to present oral arguments. If the parties fail to do so, there will not be an opportunity to do so later.

2. RMIC, RMGIC, and any subsequently admitted parties are hereby notified that they are entitled to be represented by counsel at the hearing. A corporation must be represented by counsel pursuant to 11 NCAC 1.0427(e).

3. A continuance will only be granted for good cause shown as provided by 11 NCAC 1.0426.

4. Failure to appear at the hearing will not prevent the Commissioner from proceeding with the hearing and entering any order authorized by law.

This 7th day of October, 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 **NOTICE OF HEARING** by mailing a copy of the same via Certified U.S. mail, return receipt requested; via **First-class U.S. Mail** addressed as follows:

Cynthia Linville Lowe, Registered Agent
Republic Mortgage Insurance Company
Republic Mortgage Guaranty Insurance Corporation
101 N. Cherry Street, Suite 101
Winston-Salem, N.C. 27101

Kevin J. Henry
President and Chief Operating Officer
Republic Mortgage Insurance Company
Republic Mortgage Guaranty Insurance Corporation
101 N. Cherry Street
Winston-Salem, NC 27101-4013

This the 17th day of October, 2017.

Mary Faulkner

Mary Faulkner
Paralegal
N. C. Department of Insurance
1201 Mail Service Center
Raleigh, NC 27699-1201

## CERTIFICATE OF SERVICE

**I HEREBY CERTIFY** that I have this day served a copy of the foregoing **NOTICE OF ADMINISTRATIVE HEARING** by mailing a copy of the same via **First class U.S. mail** addressed as follows:

John R. Heitkamp, Jr.
Senior Vice President, General Counsel and Secretary
Old Republic International Corporation
307 North Michigan Avenue
Chicago, IL 60601

David Liggett
Ragsdale Liggett, PLLC
2840 Plaza Place, Suite 400
Raleigh, NC 27612

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

John N. Ellison
Timothy P. Law
Reed Smith, LLP
2500 One Liberty Place
1650 Market Street
Philadelphia, PA 19103-7301

John Nichols
Executive Vice President and Chief Risk Officer
Fannie Mae
3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

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

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

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

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

Johnny M. Loper
Womble Carlyle Sandridge & Rice, LLP
150 Fayetteville Street, Suite 2100
P.O. Box 831
Raleigh, NC 27602

This the 17th day of October, 2017.

Mary Faulkner

Mary Faulkner
Paralegal
N. C. Department of Insurance
1201 Mail Service Center
Raleigh, NC 27699-1201

## CERTIFICATE OF SERVICE

**I HEREBY CERTIFY** that I have this day served a copy of the foregoing **NOTICE OF ADMINISTRATIVE HEARING** via State Courier addressed as follows:

M. Denise Stanford
Heather H. Freeman
North Carolina Department of Justice-Insurance Section
P.O. Box 629
Raleigh, N.C. 27602-0629

This the 17th day of October, 2017.

Mary Faulkner

Mary Faulkner
Paralegal
N. C. Department of Insurance
1201 Mail Service Center
Raleigh, NC 27699-1201

**Exhibit A**

# Republic Mortgage Insurance Company

# Republic Mortgage Guaranty Insurance Corporation

*(Formerly known as Republic Mortgage Insurance Company of North Carolina)*

## Petition to Allow a Discretionary Payment of Investment Income to Policyholders in Regards to Previously Outstanding Deferred Payment Obligations

**Submitted to the North Carolina Department of Insurance**
**September 29, 2017**

*Submitted by Republic Mortgage Insurance Company & Republic Mortgage Guaranty Insurance Corporation*
*(Subsidiaries of RMIC Companies, Inc.)*

**Exhibit A**

## Preface:

This petition is submitted by Republic Mortgage Insurance Company and Republic Mortgage Guaranty Insurance Corporation ("RMIC", "RMGIC", or collectively, the "Companies") to the North Carolina Department of Insurance ("NCDOI") pursuant to the Final Order ("Order") Approving Amended and Restated Corrective Plan ("Amended Plan") dated June 27, 2014. More specifically, this petition responds to the section of the Order which states that *"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 hearing;".*

The Companies have successfully executed the Amended Plan and have accumulated sufficient capital resources to petition the Supervisor for approval of a proposed discretionary payment to policyholders of the aforementioned "interest" at the variable rates as set forth below. In this regard the Companies propose to pay an amount equaling the investment income earned by the Companies on the funds retained during the period in which Deferred Payment Obligations (as hereinafter defined) were outstanding. If, subsequent to a public hearing, the proposed payment is approved, it will be made within 30 days following the entry of an Order by the Hearing Officer allowing the payment. Such a payment would be viewed by the Companies as full and final settlement of all matters related to such DPOs.

The information contained herein summarizes the Companies' financial condition and sets forth our position as to the appropriateness of the earnings rate applied and the amount of investment earnings to be paid to Policyholders if this petition is approved.

## Background:

RMIC and RMGIC fell below North Carolina's minimum policyholders' position requirements in the third quarter of July 2010 and 2011, respectively. In October 2011 the Companies entered into Voluntary Settlement Agreements with the NCDOI in which they agreed to cease writing new business. Since then the Companies have been operating in run-off mode under close oversight by the Alternative Market Division of the NCDOI.

On January 19, 2012 and on December 3, 2012, the North Carolina Commissioner of Insurance issued Summary Orders of Supervision ("Summary Orders") for RMIC and RMGIC, respectively, which *inter alia* placed the Companies under administrative supervision in accordance with the provisions of N.C. General Statute Section 58-30-60 et seq. and required them to submit Corrective plans. On November 28, 2012 the NCDOI issued its Final Order Approving Corrective Plan (the "2012 Plan") which, among other provisions, required that all claims subsequent to January 19, 2012 be settled with a partial payment of 60% in cash with the remaining balance established as deferred payment obligations ("DPOs"). The DPOs were to be paid at a future date as and when authorized by the NCDOI.

In April of 2014 the Companies submitted an Amended and Restated Corrective Plan to the Supervisor for approval. On June 27, 2014, subsequent to its review and to a public hearing, the NCDOI approved the Amended Plan which altered the 2012 Plan as follows:

1. In June 2014, RMIC received an additional contribution of capital totaling $125 million from its ultimate parent, Old Republic International Corporation ("ORI"), as detailed in the Amended Plan.
2. In July of 2014, RMIC and RMGIC paid, in full, the principal amount of all DPOs outstanding as of June 30, 2014.
3. Subsequent to June 30, 2014, all claims settled were paid in full with no further deferrals.

The Amended Plan left intact most other provisions of the 2012 Plan and the Companies have continued to operate under the administrative supervision of the NCDOI. The Final Order and the Amended Plan are available for review at www.rmic.com.

## Financial Summary:

Statutory financial reports as filed on a quarterly and annual basis for RMIC and RMGIC are available at www.rmic.com. The following tables summarize key financial statistics for RMIC and RMGIC:

*(All dollars in millions)*

**Republic Mortgage Insurance Company**

| Year End | Net Inc. (Loss) | Cash & Invested Assets: Non-affliate | Affiliate | T&L Bonds | Total | Capital & Surplus: PH Surplus | Cont. Reserve | DPO | Deferred I/C Reins. | Reported Capital | Less: Def. Tax - Cont. Reserve | Pro-forma Capital |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | $ (108.5) | $ 1,310.6 | $ 5.5 | $ 410.7 | $ 1,726.9 | $ 120.8 | $ 1,065.7 | $ - | $ - | $ 1,186.6 | $ (373.0) | $ 813.6 |
| 2008 | (429.0) | 1,548.2 | 5.5 | 345.6 | 1,899.3 | 97.7 | 655.9 | - | - | 753.7 | (229.6) | 524.1 |
| 2009 | (281.2) | 1,756.9 | 55.5 | 170.7 | 1,983.1 | 181.8 | 375.8 | - | - | 557.6 | (131.5) | 426.2 |
| 2010 | (162.5) | 1,461.3 | 56.0 | 101.2 | 1,618.6 | 224.6 | 172.3 | - | - | 396.9 | (60.2) | 336.7 |
| 2011 | (347.2) | 1,169.7 | 51.0 | - | 1,220.7 | 40.6 | - | - | - | 40.6 | - | 40.6 |
| 2012 | (214.7) | 1,309.6 | 50.9 | - | 1,360.5 | (173.8) | - | 301.3 | (14.0) | 113.5 | - | 113.5 |
| 2013 | 104.5 | 1,269.3 | 50.9 | - | 1,320.2 | (123.7) | 54.8 | 553.2 | (60.2) | 424.2 | (18.6) | 405.6 |
| 2014 | 109.8 | 617.2 | 100.9 | 40.3 | 758.3 | 32.5 | 135.3 | - | - | 167.8 | (47.2) | 120.6 |
| 2015 | 75.0 | 535.2 | 100.9 | 55.0 | 691.1 | 23.4 | 216.9 | - | - | 240.2 | (71.2) | 169.0 |
| 2016 | 87.0 | 453.7 | 100.8 | 71.2 | 625.8 | 51.2 | 281.3 | - | - | 332.6 | (98.5) | 234.1 |
| Q217 YTD | $ 31.0 | $ 404.4 | $ 100.8 | $ 98.5 | $ 603.7 | $ 57.6 | $ 306.6 | $ - | $ - | $ 364.2 | $ (107.3) | $ 256.9 |

**Republic Mortgage Guaranty Insurance Corporation**

| Year End | Net Inc. (Loss) | Cash & Invested Assets: Non-affliate | Affiliate | T&L Bonds | Total | Capital & Surplus: PH Surplus | Cont. Reserve | DPO | Deferred I/C Reins. | Reported Capital | Less: Def. Tax - Cont. Reserve | Pro-forma Capital |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | $ 10.1 | $ 455.2 | $ - | $ 117.2 | $ 572.4 | $ 106.0 | $ 338.1 | $ - | $ - | $ 444.0 | $ (120.2) | $ 323.8 |
| 2008 | (159.8) | 498.6 | - | 109.7 | 608.3 | 91.9 | 187.9 | - | - | 279.8 | (65.8) | 214.0 |
| 2009 | (188.9) | 614.3 | - | 49.4 | 663.7 | 142.1 | 1.3 | - | - | 143.4 | (0.5) | 143.0 |
| 2010 | (32.2) | 471.2 | - | - | 471.2 | 110.0 | - | - | - | 110.0 | - | 110.0 |
| 2011 | (68.5) | 380.9 | - | - | 380.9 | 66.2 | - | - | - | 66.2 | - | 66.2 |
| 2012 | (63.8) | 333.3 | - | - | 333.3 | 2.4 | - | 14.2 | (1.9) | 14.7 | - | 14.7 |
| 2013 | 20.5 | 303.9 | - | - | 303.9 | 9.8 | 13.1 | 62.3 | (3.9) | 81.3 | (1.3) | 80.0 |
| 2014 | 17.7 | 198.5 | - | 4.8 | 203.3 | 14.6 | 26.2 | - | - | 40.9 | (5.6) | 35.3 |
| 2015 | 15.0 | 159.8 | - | 7.4 | 167.2 | 14.2 | 41.3 | - | - | 55.4 | (10.2) | 45.3 |
| 2016 | 13.4 | 139.5 | - | 10.2 | 149.6 | 19.5 | 51.5 | - | - | 71.0 | (14.4) | 56.6 |
| Q217 YTD | $ 5.5 | $ 125.4 | $ - | $ 14.4 | $ 139.8 | $ 20.7 | $ 56.0 | $ - | $ - | $ 76.7 | $ (16.1) | $ 60.6 |

As of June 30, 2017 risk to capital ratios were 9.5:1 and 9.6:1, respectively for RMIC and RMGIC.

**Cash and Invested Assets:**

The Companies' non-affiliate cash & invested assets are comprised primarily of publicly traded investment grade fixed maturity securities and common equity securities.

Investments in affiliates are primarily long-term notes issued by the Old Republic General Insurance Group ("ORGIG"), a subsidiary of Old Republic International Corporation. Interest on the notes is paid to the Companies quarterly at a variable interest rate indexed to monthly LIBOR plus 450 basis points. As such, interest income from these long-term notes has contributed materially to the Companies' overall investment yield during the supervision.

Investments in mortgage guaranty tax and Loss ("T&L") Bonds are non-interest bearing and are required to the extent the Companies elect to deduct additions to the statutory contingency from currently taxable income. As such, these T&L bonds essentially represent prepaid federal income taxes.

**Capital and Surplus / Pro-forma Capital:**

Total reported capital is represented by the sum of Policyholders' Surplus ("PH Surplus") and the statutory contingency reserve. During the period the Companies operated under the 2012 Plan total capital also included the DPOs outstanding (net of deferred amounts on inter-company reinsurance balances).

In accordance with the Final Order approving the Amended and Restated Plan, RMIC's Policyholders' Surplus account includes a surplus note issued in June of 2014 in exchange for $75 million in cash and $50 million in the aforementioned debt securities issued by ORGIG. Any payment of principal or interest is subject to certain financial thresholds as well as the prior written approval of the NCDOI. Since the inception of the note there have been no interest or principal payments and none are being requested in this petition.

The pro-forma capital balances incorporate the effect of unrecognized deferred tax liabilities related to contingency reserve deductions which, unlike under generally accepted accounting principles, are not required to be recorded under statutory accounting rules. These tax liabilities will be recognized for statutory purposes in periods in which contingency reserves are released back into surplus.

## Forecasts:

Updated financial forecasts for the period 2017 - 2022, inclusive of the proposed payment of investment earnings to Policyholders, have, as requested, been submitted confidentially to the NCDOI. These forecasts indicate that current and projected capital levels through 2022 will be sufficient to permit the discretionary payment of investment earnings to Policyholders in 2017 and still allow the Companies to meet all of their obligations during the remainder of the run-off period.

In developing these forecasts, the Companies utilize a proprietary model to evaluate the potential long-term performance of their books of business. Of necessity, the model takes into account actual premium and claim experience of prior periods, as well as a number of assumptions and judgments about future outcomes that are highly sensitive to a wide range of estimates. Many of these relate to matters over which the Companies have no control, including:

- The conflicted interests, as well as the mortgage servicing and foreclosure practices, of a large number of insured lending institutions.
- General economic and industry specific trends and events.
- The evolving or future social and economic policies of the U.S. Government vis-a- vis such critical sectors as the banking, mortgage lending, and housing industries.

In general, the model utilizes observed premium persistency and paid loss development patterns to forecast future premiums and paid losses, on both a direct and net of reinsurance basis. Historical loss ratio trends are then considered when estimating the timing of future incurred losses. The Companies' books of business are analyzed on a consolidated basis and then, for purposes of company-level forecasting, are subjected to the terms of existing intercompany reinsurance contracts.

Beyond the premium and loss forecasts, operating expenses are based solely on the costs necessary to implement and manage the run-off plan for the existing portfolio of insurance in force. The forecasted expense ratios for the Companies are expected to rise over the remaining course of the run-off as the reduction in premium revenue becomes more pronounced.

Earnings on the invested asset base are assumed to remain roughly constant at an assumed long-term portfolio yield of 2.5%. Forecasts do not contemplate any realized investment gains or losses from securities trades.

Actual results for RMIC and RMGIC through the second quarter of 2017 compare favorably with the forecasts provided in connection with the Amended Plan.

## Rate & Amount of Investment Earnings to be paid to Policyholders:

As noted previously, the Companies propose a 2017 payment to Policyholders derived from the investment income actually earned by RMIC on funds retained during the period in which the DPOs were outstanding. Such earnings have been calculated at a variable rate equivalent to RMIC's average quarterly yield on invested assets between January of 2012 and July 2014 (i.e., during the period in which the DPOs were outstanding). The following table summarizes the inputs and the resulting average quarterly yields for RMIC.

# Exhibit A

**Republic Mortgage Insurance Company (RMIC)**

Page and line references are to the quarterly statutory reports filed with insurance regulators

(dollars are in thousands)

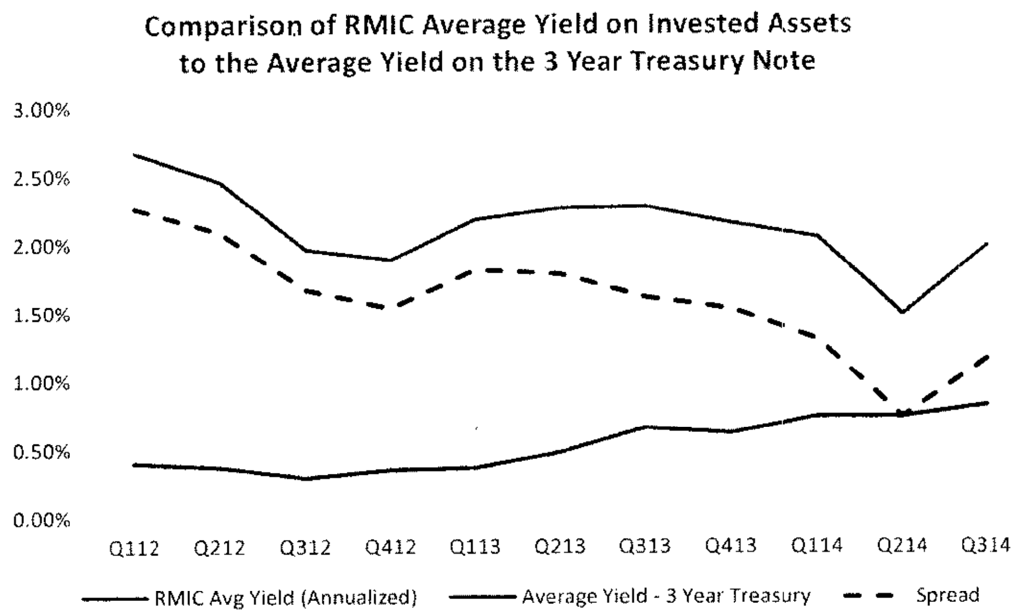
| | Pg 4. Line 20 | Pg 2.Line 1 | Pg 2.Line 2.2 | Pg 2.Line 5 | Pg 2.Line 12 | Less | Adjusted | | Pg 4.Line 9 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Inc (loss) | Bonds | Common Stock | Cash & Short-term | Cash & Inv. Assets | Tax & Loss Bonds | Cash & Inv. Assets | Average Balance | Investment Income | Average Yield Quarter | Average Yield Annualized |
| Q112 | $ (39,438) | $ 1,028,932 | $ 1,004 | $ 185,689 | $ 1,215,625 | $ - | $ 1,215,625 | $ 1,218,184 | $ 8,133 | 0.67% | 2.67% |
| Q212 | (47,486) | 933,100 | 1,004 | 315,021 | 1,249,124 | - | 1,249,124 | 1,232,374 | 7,581 | 0.62% | 2.46% |
| Q312 | (66,608) | 952,236 | 1,004 | 451,064 | 1,404,304 | - | 1,404,304 | 1,326,714 | 6,509 | 0.49% | 1.96% |
| Q412 | (61,139) | 1,109,476 | 905 | 250,119 | 1,360,499 | - | 1,360,499 | 1,382,401 | 6,526 | 0.47% | 1.89% |
| Q113 | 832 | 1,167,818 | 905 | 198,378 | 1,367,101 | - | 1,367,101 | 1,363,800 | 7,445 | 0.55% | 2.18% |
| Q213 | 41,819 | 1,174,925 | 905 | 181,708 | 1,357,539 | - | 1,357,539 | 1,362,320 | 7,725 | 0.57% | 2.27% |
| Q313 | 19,653 | 1,070,669 | 905 | 256,694 | 1,328,268 | - | 1,328,268 | 1,342,903 | 7,645 | 0.57% | 2.28% |
| Q413 | 42,220 | 1,046,989 | 898 | 272,313 | 1,320,199 | - | 1,320,199 | 1,324,233 | 7,138 | 0.54% | 2.16% |
| Q114 | 36,810 | 761,962 | 898 | 578,981 | 1,341,841 | 18,550 | 1,323,291 | 1,321,745 | 6,784 | 0.51% | 2.05% |
| Q214 | 31,344 | 804,116 | 898 | 639,654 | 1,444,668 | 27,650 | 1,417,018 | 1,370,154 | 5,098 | 0.37% | 1.49% |
| Q314 | 19,258 | 741,252 | 898 | 53,983 | 796,133 | 34,475 | 761,658 | 1,089,338 | 5,422 | 0.50% | 1.99% |
| | | | | | | ***Weighted Average*** | | | | 0.53% | 2.12% |

The average yield calculation includes investment earnings from all non-affiliated and affiliated investments but excludes non-interest bearing mortgage guaranty tax and loss bonds.

The quarterly yields shown above will be applied to each outstanding DPO from the date of issuance (i.e., the claim settlement date) through the date of final DPO payment (July 18, 2014) to determine the amount to be paid, with allocated earnings calculated on a daily basis. Each policyholder will receive with their payment a bordereau listing the claims settled that were subject to the DPO requirement and the amount of investment earnings attributable to each.

We believe the proposed approach and resulting payments will provide a fair and equitable response to the Order's provision regarding payment of interest on the DPOs. More specifically:

1. This approach is uniform and consistent across all policyholders. It provides policyholders with a payment equivalent to the investment income actually earned by the Companies on the DPOs while they were outstanding.
2. As illustrated in the chart below, the average yield on RMIC's invested assets carries a meaningful spread to the average yield on 3 Year US Treasury Note over the period the DPOs were outstanding, thus providing the policyholder with a reasonable rate of return.




3. The approach leaves the Companies in essentially the same position financially as they would have been in had the claims been settled without any deferrals; and
4. Given the additional capital contribution from ORI in 2014 and the positive, albeit declining, operating results, the payment of the investment earnings to policyholders in 2017 does not create any significant uncertainty in regard to the Companies' ability to honor remaining claim obligations that arise over the remaining term of the run-off.

## Risks & Uncertainties Remaining Through the Run-off Period:

While current forecasts indicate that all of the Companies' claim and reinsurance obligations can be paid in full, inherent uncertainties continue to exist with respect to premium and loss development and in regard to the economic and legal climate in which the Companies operate. More specifically, these risks and uncertainties include the following:

***Risks associated with declines in premium persistency:*** Premium projections are based on currently observed persistency patterns. Such patterns are subject to change during the remainder of the run-off period. Should persistency levels decline from currently observed levels, the amount of premium revenue earned in the future would likely be lower than the forecast.

Persistency is generally affected by the level of interest rates and availability of mortgage credit. However, in recent years persistency has also been affected by the significant increase in delinquent loans and claim settlements, and by government and other refinance and modification programs which could enable borrowers to refinance existing loans. Changes in home price trends, mortgage interest rates, availability of mortgage credit or introduction of new mortgage finance programs by mortgage lenders or by government agencies, would likely have an impact on realized persistency over the course of the run-off period.

***Risk associated with changes in claim development patterns:*** Future incurred losses have been projected on the basis of observed trends in paid loss development. In recent years, delays in foreclosure activity resulting from the unprecedented level of seriously delinquent loans, the various refinancing and loan modification programs that many of delinquent loans have been subjected to, the moratoriums that have been placed voluntarily or involuntarily on servicers of delinquent loans and delays inherent in jurisdictions where foreclosure cannot proceed without judicial intervention have extended the time frame in which loans proceed to claim. Development patterns have also been affected by the levels of coverage rescissions and claim denials. These factors, among others, have had a significant effect on historical claim development patterns. The risk exists that currently observed claim development patterns may not be indicative of ultimate loss development and therefore forecasted paid losses could be understated.

***Risk of inadequate loss reserves:*** The Companies establish reserves for loss and loss adjustment expenses based upon mortgage loans reported to be in default as well as estimates of those in default but not yet reported. Of necessity, the reserves are best estimates by management, taking into consideration its judgments and assumptions regarding the housing and mortgage markets, unemployment rates and economic trends in general. During the recent widespread, sustained economic downturn, loss reserve estimates became subject to greater uncertainty and volatility. The rate and severity of actual losses could prove to be greater than expected and require the Companies to effect material increases in their loss reserves. Depending on the magnitude, such increases could have a materially adverse impact on the Companies' forecasts.

***Risk related to arbitration and litigation:*** A few policyholders or beneficiaries of the coverage have instituted or threatened to institute litigation or arbitration proceedings challenging RMIC's position on coverage rescissions and claim denials. It is possible that there may be further litigation or arbitral challenges to the Companies' rescissions of coverage. If any of the challenges are successful, they could have a materially adverse effect on the Companies' projections. Even if such challenges are unsuccessful, the costs of addressing them may not be inconsequential.