EXHIBIT 41

EXHIBIT A

REPORT ON EXAMINATION

OF THE

ATRIUM INSURANCE CORPORATION

AS OF

DECEMBER 31, 2001

DATE OF REPORT	FEBRUARY 1, 2003
EXAMINER	GREGG S. BEALUK, CFE

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

February 1, 2003

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21812 dated December 6, 2001 attached hereto, I have made an examination into the condition and affairs of Atrium Insurance Corporation as of December 31, 2001, and submit the following report thereon.

Wherever the designations "the Company" or "Atrium" appear herein without qualification, they should be understood to indicate Atrium Insurance Corporation.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The Company records, which are maintained in New York, were transferred to the Company's administrative offices located at 3000 Leadon Hall Road, Mt. Laurel, New Jersey 08054, for the purpose of this examination.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covered the five-year period from January 1, 1997 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Loss experience
Reinsurance
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Atrium Insurance Corporation was incorporated under the laws of the State of New York on June 15, 1994 and commenced business on November 9, 1995.

The Company began business with an authorized capital stock of $1,000,000 consisting of 1,000 shares of common stock of $1,000 par value per share. On July 17, 1995, the Company issued 1,000 shares of common stock to PHH Holdings Corporation for a consideration of $5,000,000, of which $1,000,000 was allocated to paid-in capital and $4,000,000 to gross paid-in and contributed surplus.

There were no changes in the paid-in capital during the examination period, nor were there any changes in the direct ownership of the Company. During the examination period, the Company received surplus contributions in the form of cash, as follows:

Year	Description		Amount
1996	Beginning gross paid in and contributed surplus		$4,000,000
1999	Surplus contribution- December 1999	$4,600,000	
2000	Surplus contribution- May 2000	17,000,000	
2001	Surplus contribution- June 2001	3,000,000	
	Total Surplus Contributions		24,600,000
2001	Ending gross paid in and contributed surplus		$28,600,000

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The shareholders of the Company are required to meet annually on the first Monday in May of each calendar year for the purpose of electing the directors of the Company. Immediately following the annual meeting of the

shareholders, the board is required to meet for the purpose of electing the officers of the Company. The examinations review of the minutes of the shareholders meetings indicates that the shareholders were electing the directors on an annual basis. However, as was also noted in the prior report on examination, the elections were not occurring in accordance with the charter or by-laws. It is again recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its shareholders for the election of its board of directors.

Further, the examiners' review of the minutes of the board of directors indicated that the board was electing the officers of the Company on an annual basis. However, as was also noted in the prior report on examination, the elections were not occurring in accordance with the charter or by-laws. It is again recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its board of directors for the purpose of electing the officers of the Company.

At December 31, 2001, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Eric J. Bock Hoboken, NJ	Executive Vice President, Law and Corporate Secretary, Cendant Corporation
William F. Brown Marlton, NJ	Vice President, Atrium Insurance Corporation
James E. Buckman New York, NY	Director, Vice Chairman, General Counsel, & Asst. Secretary, Cendant Corporation
Duncan H. Cocroft Hoboken, NJ	Executive Vice President and Treasurer, Cendant Corporation
Martin L. Edelman Rye, NY	Director, Cendant Corporation

Name and Residence	Principal Business Affiliation
Robert E. Groody Glassboro, NJ	Vice President & Treasurer, Atrium Insurance Corporation
Stephen P. Holmes Pompton Plains, NJ	Vice Chairman, Director, Chairman & Chief Executive Officer, Cendant Hospitality Services Division
Mark E. Johnson Maplewood, NJ	Vice President & Treasurer, Cendant Corporation
John T. McClain North Caldwell, NJ	Senior Vice President & Corporate Controller, Cendant Corporation
Henry R. Silverman New York, NY	Director, Chairman, President & Chief Executive Officer, Cendant Corporation
Richard A. Smith Bernardsville, NJ	Senior Executive Vice President & Chief Executive Officer, Cendant Real Estate Division
Joseph Suter Yardley, PA	Director, Atrium Insurance Corporation
Donna A Kolc-Van Osten Voorhees, NJ	Vice President, Atrium Insurance Corporation

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended.

The review of the minutes of the board of directors meetings showed that the securities were purchased without the formal approval of the Company's board. This was also noted in the prior report on examination. Section 1411(a) of the New York Insurance Law provides as follows:

> "No domestic insurer shall make any loan or investment…unless authorized or approved by its board of directors or a committee thereof…"

It is again recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law and have its board of directors approve all investment purchases.

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As of December 31, 2001, the principal officers of the Company were as follows:

Name	Title
Terry Edwards	President
Robert E. Groody	Vice President & Treasurer
Donna A. Kolc-Van Osten	Vice President
William F. Brown	Vice President

B. Territory and Plan of Operation

As of December 31, 2001, the Company was licensed to write business in the State of New York only. The Company is licensed pursuant to Article 65 of the New York Insurance Law, as a mortgage guaranty insurer, to transact only the business of mortgage guaranty insurance and reinsurance as described in paragraph 23 of Section 1113(a) of the New York Insurance Law.

The Company did not write any direct premiums in the State of New York or any other State during the period under examination. All of the Company's gross premiums written consisted of premiums assumed from two non-affiliated insurers that write mortgage guaranty insurance on a direct basis. The Company assumes mortgage guaranty premiums applicable only to mortgage loans originated by one or more of the Company's affiliates (Cendant Mortgage Corporation and its affiliates.). The Company maintains no agency system and does not solicit business on the open market (see "Reinsurance" below for additional details).

Based on the line of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 65 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $1,500,000.

C. Reinsurance

Assumed Agreements

In 2001, the Company's assumed premiums represented 100% of its total book of business. All of the Company's assumed premiums written were derived from two reinsurance agreements whereby Atrium assumed, on an excess of loss basis, mortgage guarantee insurance. All business assumed by the Company relates to mortgage guaranty insurance on loans originated by Cendant Mortgage Corporation and its affiliates. Atrium is a member of the Cendant Corporation Holding Company System.

The examinations review of the assumed reinsurance contracts in place as of the examination date showed that the contracts contained the required clauses, including the insolvency clauses, meeting the requirements of Section 1308 of the New York Insurance Law.

The two assumed reinsurance agreements are similar in nature. Under the terms of one agreement, the ceding company retains an amount up to a cumulative loss ratio of 75%. The reinsurance coverage provided by Atrium provides for 100% assumption when the cumulative loss ratio is over 75% up to a maximum 120%. Reinsurance coverage stops at a cumulative loss ratio of 120%. The reinsurance premium for 2001 was 15% of gross premiums written (on applicable business) with an 11.1% ceding commission on ceded premiums written. Assumed premiums under this agreement totaled $43,688,000 for calendar year 2001.

Under the terms of the other agreement, the ceding company retains up to 4% of the aggregate net losses (on applicable business). Reinsurance coverage provided by Atrium provides for 100% assumption of aggregate net losses in excess of 4% up to aggregate net losses of 14%. Reinsurance coverage stops at

aggregate net losses in excess of 14% of the applicable book of business. The reinsurance premium for 2001 was 45% of gross premiums written (on applicable business) with an 11.1% ceding commission on ceded premiums written. Assumed premiums under this agreement totaled $2,171,000 in 2001.

The Company's assumed reinsurance contracts contained coverage for extra-contractual liability obligations without having the necessary savings clause as required by an opinion issued by this Department's Office of General Counsel. It is recommended that the Company amend its assumed reinsurance contracts to include the necessary language to comply with the Department's Office of General Counsel.

Ceded

The Company did not cede any business during the examination period.

D. Holding Company System

The Company is a wholly-owned subsidiary of PHH Holding Corporation ("Parent"), which is ultimately owned by Cendant Corporation ("Cendant"), the ultimate parent.

The following is an abbreviated chart of the holding company system at December 31, 2001:

Cendant Corporation (DE)

- Cendant Finance Holding Corporation (DE)
  - PHH Corporation (MD)
    - PHH Holdings Corporation (TX)
      - Atrium Insurance Corporation (NY)

During the review of the Company's 2001 annual statement it was noted that the Company included an incomplete holding company chart in Schedule Y-Part 1.

It is recommended that the Company comply with the NAIC's Annual Statement Instructions with regards to the completion of Schedule Y- Part 1- Organizational Chart in all future annual statements.

The Company has entered into the following agreements with members of its holding company system:

1. Expense Allocation Agreement

In accordance with the terms of the expense allocation agreement, PHH has agreed to provide office space and furnishings suitable for the professional and support personnel of the Company. PHH has also agreed to provide such systems, personnel and equipment support as will be reasonably necessary for the operation of the Company's business. These services are provided on an actual cost basis.

2. Service Allocation Agreement

Under the terms of the service allocation agreement, PHH US Mortgage has agreed to provide accounting, information systems, bookkeeping, account analysis, bank reconciliation work and investment services to the Company.

3. Tax Sharing Agreement

In accordance with the terms of the tax sharing agreement, the Company shall be included in the consolidated federal income tax return of Cendant Corporation, but shall file separate state income tax returns. The tax charge or refund to the Company under the tax sharing represent an amount that would have been paid by or received if it had filed a separate return with the Internal Revenue Service. The

review of the intercompany transactions indicated that the Company is not settling its intercompany tax liability with Cendant as is required by New York Circular Letter No. 15(1975). It is recommended that the Company comply with Circular Letter No. 15(1975) and settle its intercompany tax liability within 90 days due.

4. Sublease Agreement

In order to comply with Section 325(a) of the New York Insurance Law, which requires that certain Company records and books of account be maintained within the State of New York, the Company has entered into a sublease agreement with Cendant Operations Inc. whereby Atrium subleases office space at Cendant's corporate headquarters in New York City for the purpose of maintaining its permanent records (by-laws, charter, etc.) and its books of account. Fees paid under this agreement are not material to the Company's surplus.

All of the above agreements were approved by the Department in accordance with Article 15 of the New York Insurance Law.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the Comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company did not file any abandoned property reports for the period of this examination. The prior report on examination noted similar non-compliance. It is again recommended that the Company

file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	1.4 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	86%
Premiums in course of collection to surplus as regards policyholders	46%*

The third ratio falls outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The upper limit of the benchmark range is 40%. The Company's result of 46% was caused by the Company's significant increase in assumed premiums written during 2001. The increase in premiums receivable is consistent with the Company's premium growth. The remaining two ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

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	Amounts	Ratios
Loss & loss adjustment expenses incurred	$11,576,824	9.55%
Other underwriting expenses incurred	21,263,729	17.54
Net underwriting gain	88,415,192	72.91
Premiums earned	$121,255,745	100.00%

G. Accounts and Records

i. Investments

In the course of this examination, a review was made of the investment portfolio of the Company. The Company invests solely in cash and short-term U.S. Government securities. Atrium is party to two custody and or trust agreements. The trust agreements are applicable to the two assumed reinsurance agreements described in Section 2C herein.

The trust agreement with UGI is between Atrium, UGI (the beneficiary) and Wachovia Bank (the trustee). The trust agreement with GEMICO is between Atrium, GEMICO (the beneficiary) and The Bank of New York (the trustee). The agreements are substantially similar in nature and wording. Per the agreements, Atrium is to deposit certain assets in accordance with the terms of the applicable reinsurance agreement into the respective trust account. The primary application of the trust accounts is for the payment of losses ceded to Atrium under the applicable reinsurance agreement. The beneficiaries may withdraw assets from the trust accounts without notification to Atrium. It is recommended that the Company amend its two existing trust agreements to require that the Company be notified, in writing, within 10 days with respect to any withdrawals from the trust accounts by the beneficiaries. Further, neither the trust/custody

agreement includes the NAIC's Indemnification Clause.

In addition, the assets that were pledged as part of the Company's assumed reinsurance agreements were not disclosed in Schedule E–Part 2 of the Company 2001 annual statement. It is recommended that the Company comply with NAIC Annual Statement Instructions and disclose these pledged assets in future filed annual statements.

ii. Minimum Capital Investments

Section 1402(a) of the New York Insurance Law requires that every domestic insurer, prior to investing in other funds must invest and maintain an amount equal to the greater of its minimum capital or minimum surplus to policyholders required to maintain by law. Additionally, Section 1402(a) requires that such amount :

"…shall at all times be maintained free and clear from any security interest…"

At the December 31, 2001 examination date, the Company had $788,887 in cash. The remainder of its invested assets were held in trust accounts with control of the assets placed with the beneficiaries as previously described in Section 2G herein. It is recommended that the Company comply with Section 1402(a) of the New York Insurance Law by maintaining an amount equal to the greater of minimum capital and surplus requirements.

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3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2001 and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Common stocks (stocks)	$6,063,114	$	$6,063,114
Cash and short-term investments	123,153,302		123,153,302
Premiums and agents' balances in course of collection	15,701,035		15,701,035
Interest, dividends and real estate income due and accrued	931,336	0	931,336
Total Assets	$145,848,787	$0	$145,848,787

Liabilities

Losses and loss adjustment expenses		$11,801,916
Commissions payable, contingent commissions and other similar charges		2,799,266
Other expenses (excluding taxes, licenses and fees)		61,997
Federal and foreign income taxes		35,396,315
Unearned premiums		622,277
Aggregate write-ins for liabilities		61,355,889
Total liabilities		$112,037,660
Surplus and Other Funds		
Common capital stock	$1,000,000	
Gross paid in and contributed surplus	28,600,000	
Unassigned funds (surplus)	4,211,127	
Surplus as regards policyholders		33,811,127
Total liabilities, surplus and other funds		$145,848,787

Note: The Internal Revenue Service has never audited the Company's federal income tax returns through the examination date. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

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B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $28,910,992 during the five-year examination period January 1, 1997 through December 31, 2001, detailed as follows:

Underwriting Income		
Premiums earned		$121,255,745
Deductions:		
Losses incurred	$11,576,824	
Loss adjustment expenses incurred		
Other underwriting expenses incurred	21,263,729	
Aggregate write-ins for underwriting deductions		
Total underwriting deductions		32,840,553
Net underwriting gain or (loss)		$88,415,192
Investment Income		
Net investment income earned	$10,806,734	
Net investment gain or (loss)		10,806,734
Net income after dividends to policyholders but before federal and foreign income taxes		$99,221,926
Federal and foreign income taxes incurred		34,322,588
Net Income		$64,899,338

C. Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 1996			$4,900,135
Net income	$64,899,338	$	
Change in non-admitted assets	42,944		
Surplus adjustments paid in	24,600,000		
Aggregate write-ins for gains and losses in surplus (Contingency Reserve)		60,631,290	
Total gains and losses	$89,542,282	$60,631,290	
Net increase (decrease) in surplus			28,910,992
Surplus as regards policyholders per report on examination as of December 31, 2001			$33,811,127

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $11,801,916 is the same as reported by the Company as of December 31, 2001. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

Based upon a review of the Company's reserving methods and a review of the Company's Actuarial Report and supporting documentation therein, it was concluded that the Company's reserves were adequate.

5. SUBSEQUENT EVENTS

In December 2002, the Company received a surplus contribution from its parent in the amount of $32.8 million. Also, in December 2002 the Company withdrew $17.5 million from its trust accounts. The primary purpose of the surplus contribution and the trust account withdrawals was to comply with this report on examination with regards to the settlement of Atrium's December 31, 2001 intercompany tax liability. The majority of the funds noted above ($32.4 million and $16.0 million, respectively) are being utilized for the settlement of Atrium's December 31, 2001 tax liability along with the subsequent tax liability that has arisen during the first three quarters of 2002.

One and a half million dollars of the remaining funds are being held separately by the Company in its money market demand account (excluded from the Trusteed Assets) in order to comply with the recommendation included within this report on examination pertaining to minimum capital and surplus

that must be held free and clear of security interest in accordance with Section 1402(a) of the New York Insurance Law (see Section G(ii) for additional details).

Section 1402 provides that:

"(b) Not less than sixty percent of the amount of the required minimum capital or surplus to policyholder investments shall consist of the types specified in paragraphs one and two hereof: (1) Obligations of the United States or of any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States. (2) Direct obligations of this state or of any county, district or municipality thereof. (3) Direct obligations of any state of the United States. (4) Obligations secured by first mortgage loans which meet the standards specified in paragraph four of subsection (a) of section one thousand four hundred four of this article on property located in this state."

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained six recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Management	
i.	It was recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its shareholders for the election of its board of directors. The Company has not complied with this recommendation. A similar comment is made in this report.	6
ii.	It is recommended that the Company comply with the provisions of its by-laws with regard to having an annual meeting of its board of directors to elect the officers of the Company, as well as to have regularly scheduled board meetings. The Company has not complied with this recommendation. A similar comment is made in this report.	7
iii.	It is recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law and have its board of directors approve all investment transactions.	7

ITEM		PAGE NO.
	The Company has not complied with this recommendation. A similar comment is made in this report.	
B.	Abandoned Property Law	
i.	It is recommended that the Company file an abandoned property report to the state. Insurance companies which neither hold nor own abandoned property are nevertheless required to file accordingly.	13
	The Company has not complied with this recommendation. A similar comment is made in this report.	
C.	Accounts & Records	
i.	It is recommended that the Company's board of director's members and officers fill out yearly updated conflict of interest statements.	13
	The Company has complied with this recommendation.	
D.	Investments	
i.	It is recommended that the Company secure a custodian agreement with Bankers Trust for the safeguard of its securities.	17
	The Company has complied with this recommendation in that they have secured a custodian agreement, however the agreement does not include the NAIC's indemnification clause. A recommendation has been made to address this issue within this Report.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
i.	It is again recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its shareholders for the election of its board of directors.	4
ii.	It is again recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its board of directors for the purpose of electing the officers of the Company.	4

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ITEM		PAGE NO.
iii.	It is again recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law and have its board of directors approve all investment purchases.	5
B.	Reinsurance	
	It is recommended that the Company amend its assumed reinsurance contracts to include the necessary language to comply with the Office of General Counsel's opinion dated February 26, 2002.	8
C.	Holding Company System	
i.	It is recommended that the Company comply with the NAIC's Annual Statement Instructions with regards to the completion of Schedule Y-Part 1- Organizational Chart in all future annual statements.	9
ii.	It is recommended that the Company comply with Circular Letter 15(1975) and settle its intercompany tax liability within 90 days due.	10
D.	Abandoned Property Law	
i.	It is again recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law.	10
E.	Accounts and Records	
i.	Investments	
	It is recommended that the Company amend its two existing trust agreements to require that the Company be notified, in writing, within 10 days with respect to any withdrawals from the trust accounts by the beneficiaries.	12
	In addition, the assets that were pledged as part of the Company's assumed contracts were not disclosed in Part 2E of the Company's 2001 annual statement. It is recommended that the Company comply with the NAIC Annual Statement Instructions and disclose these pledged assets in future filed annual statements.	13
ii.	Minimum Capital Investments	
	It is recommended that the Company comply with Section 1402(a) of the New York Insurance Law by maintaining an amount equal to the Company's minimum capital and surplus requirements held free and clear of any or all security interests.	13

Respectfully submitted,

Gregg S. Bealuk, CFE
Examiner-In-Charge

STATE OF PENNSYLVANIA)
)SS:
)
COUNTY OF BUCKS)

GREGG S. BEALUK, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

Gregg S. Bealuk

Subscribed and sworn to before me

this 15th day of April, 2006.

Appointment No. 21812

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Gregg Bealuk

as proper person to examine into the affairs of the

ATRIUM INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

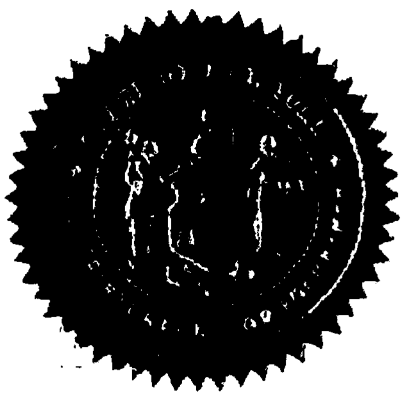
Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 6th day of December, 2001

GREGORY V. SERIO
Superintendent of Insurance



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CFPB-PHH-00094711

ATRUIM INSURANCE CORPORATION

WRITTEN CONSENT OF DIRECTORS IN LIEU OF SPECIAL MEETING

The undersigned being all of the Directors of ATRIUM INSURANCE CORPORATION (the "Company") do hereby consent, pursuant to Section 708(b) of the Business Corporation Law of the State of New York, to the adoption of the following resolutions:

RESOLVED, that KPMG Peat Marwick L.L.P. be, and hereby is, appointed as auditors to do an actuarial evaluation of the Company for the fiscal year ended December 31, 1996, to certify that such evaluation has been conducted in accordance with applicable standards, and to take such other actions and do such other things as are properly incidental to such audit and actuarial evaluation;

FURTHER RESOLVED, that the accounting and investment policies attached hereto as Exhibit A be, and hereby are, in all respects approved and adopted as the accounting and investment policies of the Company, as fully as if set forth herein;

FURTHER RESOLVED, that the officers of the Company be, and each of them hereby is, authorized, empowered and directed, acting jointly and severally, to make, sign acknowledge, deliver, file or record any and all instruments, certificates, papers and documents, and to do and perform all such acts and things, and to spend such monies, as may be necessary, convenient, advisable or appropriate to carry out the foregoing resolutions and the transactions contemplated thereby;

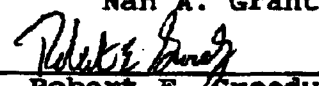
FURTHER RESOLVED, that the President, Secretary or any vice president or assistant secretary of the Company be, and hereby are, authorized and empowered to execute and deliver to any state, state agency or other governmental agency so requesting a certified copy of these resolutions, and that any such state, state agency or other governmental agency may rely upon the same until receipt by it of written notice of any change or revocation thereof.

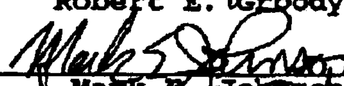
IN WITNESS WHEREOF, we have signed this instrument as of the date when these actions are taken, this twentieth day of December, 1996.

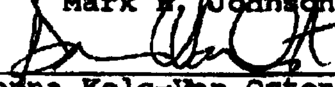
Carol B. Capell

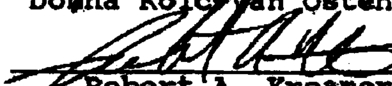
Tedd P. Craven

Nan A. Grant


Robert E. Groody


Mark E. Johnson


Donna Kolc-Van Osten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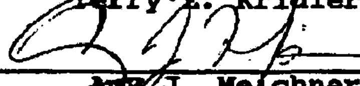
Terry E. Kridler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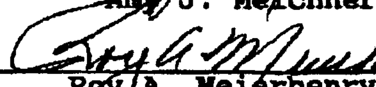

Roy A. Meierhenry

Anthony F. Muoio

Gordon W. Priest, Jr.

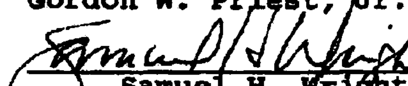

Samuel H. Wright

Exhibit A

ATRIUM INSURANCE CORPORATION
INVESTMENT POLICY

GOAL:
The investment portfolio of Atrium Insurance Corporation (Atrium) shall be managed tp maximize the total return over time in a manner that is consistent with sound investment management practices and in accordance with regulatory standards of the insurance industry. The designation of an investment as an asset held for sale, a trading security or a security held to maturity is made at the time pf purchase.

OBJECTIVES:
* To optimize Atrium's income.
* To comply with regulatory and statutory guidelines.
* To safeguard policyholders' surplus with prudent investment decisions.

POLICY/RESPONSIBILITY:
The Treasurer of Atrium is responsible for making all investment decisions. He is responsible for establishing overall policy and strategy. This includes long-range general paramenters, short term objectives and specific actions.

ACCEPTABLE AND/OR REQUIRED INVESTMENTS:
The requirements for minimum capital or surplus investments varies from those for income and additional paid in capital. Following is a delineation of the acceptable and/or required investments of each.

Minimum Capital or Surplus Investments:
Every domestic insurer shall invest an amount equal to the greater of the "minimum capital" (par value times number of shares outstanding or $1,000,000) or the "minimum surplus to policyholders" ($500,000) in investments which are not in default as to principal or interest.

Not less than 60% of the required minimum capital or surplus investments shall consist of:

* Obligations of the United States or any agency thereof guaranteed as to principal and interest by the United States.
* Direct obligations of New York or of any county, district or municipality thereof.

Income or Additional Paid in Capital Investments:

1) **GOVERNMENT OBLIGATIONS**-Obligations which are not in default as to principal or interest and are guaranteed or insured by:
(a) The US or any agency thereof,
(b) Any state of the US, or
(c) Any territory or possession of the US or any other governmental unit in the US.

2) **OBLIGATIONS OF AMERICAN INSTITUTIONS**- No investment, other than in an institution which issues mortgsge related securities and no investment in any one mortgage security shall be greater than 5% of admitted assets shown in the last statement on file with the Superintendent of Insurance (the Superintendent). Obligations issued, assumed or guaranteed by any solvent American institution which are not in default as to peincipal or interest and meet at least one of the requirements below are obligations of American institutions:

(a) Adequately secured by collateral security having a market value not less than the principal amount thereof and have investment characteristics that do not have predominant speculative elements.
(b) Are rated A or higher by a rating agency recognized by the Superintendent or if not rated, similar in material respects to other obligations of the same institution that is rated.
(c) Are insured by one or more authorized insurance companies (other than any insurance affiliated with Atrium) and rated Aaa by a rating agency recognized by the Superintendent.
(d) Rated highest quality by the Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC).

3) **PREFERRED OR GUARANTEED SHARES**-No investment shall exceed 2% of admitted assets as shown by its last statement on file with the Superintendent. Shares issues or guaranteed by a solvent American institution if:

(a) They are rated A or higher by a securities rating agency recognized by the Superintendent,
(b) Have been given the highest quality designation by the SVO of the NAIC.

4. **LOANS SECURED BY REAL PROPERTY**-if acquired or used for the following purposes and in the following manner:

(a) As the insurer's principal office.
(b) As the insurer's branch office.

NOTE: Real property acquired under items 1 and 2 shall be disposed of within 5 years after it ceases to be necessary for the convenient accomodation of the insurer. Further, total book value of real property acquired under items 1 and 2 cannot exceed 10% of insurer's admitted assets or for any building acquired, make any improvements which should be capitalized according to generally accepted accounting principles if the annual expenditures for such improvements will exceed 10% of Atrium's book value or 1/2% of Atrium's admitted assets. No real property shall be acquired by any insurer pursuant to items 1 and 2 without the Superintendent's approval.

(c) Acquired in total or partial satisfaction of mortgages, liens, judgements claims or indebtedness held by the insurer in the course of business.
(d) Acquired as an investment for the production of income or to be improved or developed for such investment purpose pursuant to an existing program. Investment limited to 1% of such admitted assets and when added to other investments in real estate, cannot exceed 12.5% of admitted assets. Further, the investment and any improvements must be written down annually at a rate of at least 2%.

5. **FOREIGN INVESTMENTS**-

(a) Investments in a foreign country or possession of the US which are substantially of the same kinds, classes and investment grades as those eligible for investment under other provisions of this section. The aggregate amount of such investments held at any time including cash in the currency of such country or possession shall not exceed the greater of 10% of the insurer's admitted assets.
(b) Investments in one possession of the US or in any one foreign country, other than Canada shall not exceed:
-In the case of any possession or country having the highest sovereign debt rating, as established by a securities rating agency, 3% of admitted assets, or
-In the case of any other possession or country, 1% of admitted assets.

6. DEVELOPMENT BANK OBLIGATIONS-Obligations issued or guaranteed by the international bank for reconstruction and development, the inter-American development bank, or the Asian development bank, the African development bank or the international finance corporation provided that the investment in each bank does not exceed 5% of admitted assets at year end, total investments under the section do not exceed 15% of admitted assets and obligations of such banks are rated AA or higher.

7. EQUITY INTERESTS-Investments in common shares or partnership interests of any solvent American institution if such equity shares of any institution except an insurance company are registered on a national securities exchange, price quotations are furnished through a nationwide automated quotations system approved the the National Association of Securities Dealers, Inc. provided that Atrium may not invest more than 1% of admitted assets as shown on its last statement on file with the Superintendent.

8. INVESTMENT COMPANIES-Securities of any investment company registered pursuant to the federal Investment Company Act of 1940 if such company:

(a) Invests at least 90% of its assets in the types of securities which qualify as a reserve investment under "Minimum Capital of Surplus Investments" or those that are determined by the Superintendent to be substantially similar. Investment is limited to 10% of Atrium's admitted assets as shown on its last statement on file with the Superintendent and the aggregate amount of investment in such qualifying investment companies shall not exceed 25% of Atrium's admitted assets.

(b) Invests at least 90% of its assets in the types of equity interests which qualify as a reserve investment under "Minimum Capital or Surplus Investments". Investments limited to 5% of Atrium's admitted assets as shown by its last statement on file with the Superintendent including the aggregate amount of investment in qualifying investment companies.

MATURITY GUIDELINES:

Recognizing the changing dynamics of the securities market, the domestic and international economies and the financial services industry in general, an overall policy relating to maturity limitations is impractical and such guidelines should be determined by the Treasurer on an ongoing basis with regard to "Income or Additional Paid in Capital Investment".

With regard to "Minimum Capital or Surplus Investments", the maturity of the obligation may vary as long as there is an automatic rollover feature for compliance with the 60% requirement.

ACCOUNTING TREATMENT:

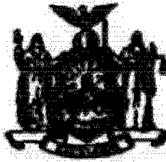
At acquisition, an investment may be classified into 1 of 3 categories-held to maturity, available for sale or trading. At each reporting date, the appropriateness of the classification shall be reassessed. The accounting treatment for each of the 3 categories is as follows:

(a) Held to maturity- carried at amortized cost if the insurer has the positive intent and ability to hold the investment to maturity.

(b) Trading securities-investments bought and held principally for the purpose of selling them in the near term should be carried at fair value with unrealized gains and losses included in earnings.

(c) Available for sale-investments not classified as trading or held to maturity shall be classified as available for sale and carried at fair value with unrealized gains and losses excluded from earnings and reported as a net amount in a separate component of shareholder's equity until realized.

EXHIBIT 42



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

April 18, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22727 dated December 27, 2007 attached hereto, I have made an examination into the condition and affairs of Atrium Insurance Corporation as of December 31, 2007, and submit the following report thereon.

Wherever the designations "the Company" or "Atrium" appear herein without qualification, they should be understood to indicate Atrium Insurance Corporation.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's administrative offices located at 3000 Leadenhall Road, Mt Laurel, New Jersey 08054.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the six-year period from January 1, 2002 through December 31, 2007. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The current examination was organized, planned, and conducted based upon the application of the risk surveillance approach in accordance with the guidelines and procedures established in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"). To the extent considered appropriate, work performed by the Company's independent public accountants and the Sarbanes Oxley documentation was considered. A review also made of the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

History of Company
Management and control
Corporate records
Territory and plan of operation
Business in force by states
Loss experience
Reinsurance
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Atrium Insurance Corporation was incorporated under the laws of the State of New York on June 15, 1994 and commenced business on November 9, 1995. The Company is a wholly-owned subsidiary of PHH Corporation ("PHH"). On January 31, 2005. PHH began operating as a separate publicly traded company subsequent to a spin-off from Cendant Corporation "(Cendant"). Cendant has no continuing ownership in PHH.

As of December 31, 2006, capital paid in was $1,000,000 consisting of 1,000 shares of common stock at $1,000 par value per share. Gross paid in and contributed surplus was $80,816,004. Gross paid in and contributed surplus increased by $52,216,004 during the examination period, as follows:

Year	Description		Amount
12/31/2001	Beginning gross paid in and contributed surplus		$28,600,000
2002	Surplus contribution	$17,500,000	
2005	Surplus contribution	34,716,004	
	Total surplus contributions		52,216,004
12/31/2007	Ending gross paid in and contributed surplus		$80,816,004

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. At December 31, 2007, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Spiro Bantis New York, NY	Attorney-at-law, London Fischer LLP
Richard J. Bradfield Mt. Laurel, NJ	Senior Vice President and Secretary of Marketing, PHH Mortgage Corporation
William F. Brown Mt. Laurel, NJ	Senior Vice President and General Counsel, PHH Corporation and PHH Mortgage Corporation
Mark R. Danahy Mt. Laurel, NJ	Senior Vice President and Chief Financial Officer, PHH Mortgage Corporation

Name and Residence	Principal Business Affiliation
Terence W. Edwards Mt. Laurel, NJ	President and Chief Executive Officer, PHH Corporation and PHH Mortgage Corporation
John J. Erdman Mt. Laurel, NJ	Vice President and Controller, PHH Mortgage Corporation
Mark E. Johnson Mt. Laurel, NJ	Vice President and Treasurer, PHH Corporation
George J. Kilroy Sparks, MD	President and Chief Executive Officer, PHH Vehicle Management Services, LLC
Henry Miller New York, NY	Vice President of Business Management. PHH Vehicle Management Services, LLC
Clair M. Raubenstine Mt. Laurel, NJ	Executive Vice President and Chief Financial Officer, PHH Corporation
Donna Van Osten Mt. Laurel, NJ	Senior Vice President PHH Mortgage Corporation
Joseph W. Weikel Sparks, MD	Senior Vice President and General Counsel, PHH Vehicle Management Services, LLC
Ronald O. Whitford Jr. Mt. Laurel, NJ	Vice President, PHH Corporation

Pursuant to Article I, Section 1 of the Company's by-laws, the shareholders of the Company are required to meet annually on the first Monday in May of each calendar year for the purpose of electing the directors of the Company. Immediately following the annual meeting of the shareholders, the board is required to meet for the purpose of electing the officers of the Company. It is noted that the board of directors never physically met during the examination period; all board business, including the election of Company officers, was conducted by unanimous written consent of directors in lieu of regular meetings. The Company's by-laws permit unanimous written consent of the directors in lieu of regular board of directors meetings; however, Article II, Section 8 of the by-laws restricts these meeting to those situations "where time is of the essence, but not in lieu of any regular or special scheduled meeting of the board of directors or any committee thereof . . ." It is recommended that the Company's board of directors hold at least one annual meeting and limit action

by unanimous written consent of directors without a meeting to emergency situations only, pursuant to the provisions of its by-laws.

As of December 31, 2007, the principal officers of the Company were as follows:

Name	Title
Terry Edwards	President
William F. Brown	Senior Vice President and Secretary
Mark Danahy	Senior Vice President and Chief Financial Officer
Mark E. Johnson	Vice President and Treasurer

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in the State of New York only.

The Company is licensed pursuant to Article 65 of the New York Insurance Law, as a mortgage guaranty insurer, to transact only the business of mortgage guaranty insurance as described in paragraph 23 of Section 1113(a) of the New York Insurance Law.

The Company did not write any direct premiums during the period under examination. All of the Company's gross premiums written consisted of premiums assumed from four non-affiliated insurers that write mortgage guaranty insurance on a direct basis. The Company assumes mortgage guaranty premiums applicable only to mortgage loans originated by one or more of the Company's affiliates (PHH Mortgage Corporation and its affiliates.). The Company maintains no agency system and does not solicit business on the open market (see "Reinsurance" below for additional details).

Based on the line of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 65 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $1,500,000.

C. Reinsurance

Assumed

Assumed reinsurance accounted for 100% of the Company's gross premiums written at December 31, 2007. The Company's assumed reinsurance business has decreased since the last examination. All of the Company's assumed premiums written were derived from four reinsurance agreements whereby Atrium assumed, on an excess of loss basis, mortgage guaranty insurance. All business assumed by the Company relates to mortgage guaranty insurance on loans originated by PHH Mortgage Corporation and its affiliates. Atrium is a member of the PHH Holding Company System The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

The examination review of the assumed reinsurance contracts in place as of the examination date showed that the contracts contained the required clauses, including the insolvency clauses, meeting the requirements of Section 1308 of the New York Insurance Law.

The four assumed reinsurance agreements are similar in nature. Under the terms of one agreement, for the policy year beginning before April 1 1997, the reinsurance coverage provided by Atrium provides for 100% assumption when the cumulative net losses produce a policy year paid claim ratio that is over 6.5% up to that portion of cumulative net losses that produce a policy year paid claim ratio of 12.5%. For the policy year beginning on or after April 1 1997, the reinsurance coverage provided by Atrium provides for 100% assumption when the cumulative net losses produce a policy year paid claim ratio that is over 4.0% up to that portion of cumulative net losses that produce a policy year paid claim ratio of 14.0%.

The Company assumes premiums under the agreement at a rate of 25% of gross written premiums less ceding commission of 19.0% for policies with effective dates of October 1993 through March 1997: a rate of 45% of gross written premiums less ceding commission of 19.0% for policies with effective dates from April 1997 through December 1999; a rate of 45% of gross written premium less a ceding commission of 11.1% for policies with effective dates of January 2000 and forward. Assumed premiums under this agreement totaled $19.688,000 for calendar year 2007.

Under the terms of the second agreement, the ceding company retains up to 4% of the aggregate net losses. Reinsurance coverage provided by Atrium provides for 100% assumption of

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aggregate net losses in excess of 4% up to aggregate net losses of 14%. Reinsurance coverage stops at aggregate net losses in excess of 14% of the applicable book of business.

The reinsurance premium was at a rate of 45% of gross premiums written with an 11.1% ceding commission for policies with effective dates of January 2000 and forward. Assumed premiums under this agreement totaled $10,786,000 in 2007.

Under the terms of the third agreement, the ceding company retains up to 4% of the cumulative underwriting year net losses. Reinsurance coverage provided by Atrium provides for 100% assumption of cumulative underwriting year net losses in excess of 4% up to cumulative underwriting year net losses of 14%.

The reinsurance premium was at a rate of 40% of gross premiums written with an 11.1% ceding commission for policies with effective dates of July 2004 and forward. Assumed premiums under this agreement totaled $893,000 in 2007.

Under the terms of the fourth agreement. the ceding company retains up to 2.25% of the cumulative underwriting year net losses. Reinsurance coverage provided by Atrium provides for 100% assumption of cumulative underwriting year net losses in excess of 2.25% up to cumulative underwriting year net losses of 6.25%.

The reinsurance premium was at a rate of 25% of gross premiums written for policies with effective dates of February 2006 and forward. Assumed premiums under this agreement totaled $1,077,000 in 2007.

<u>Ceded</u>

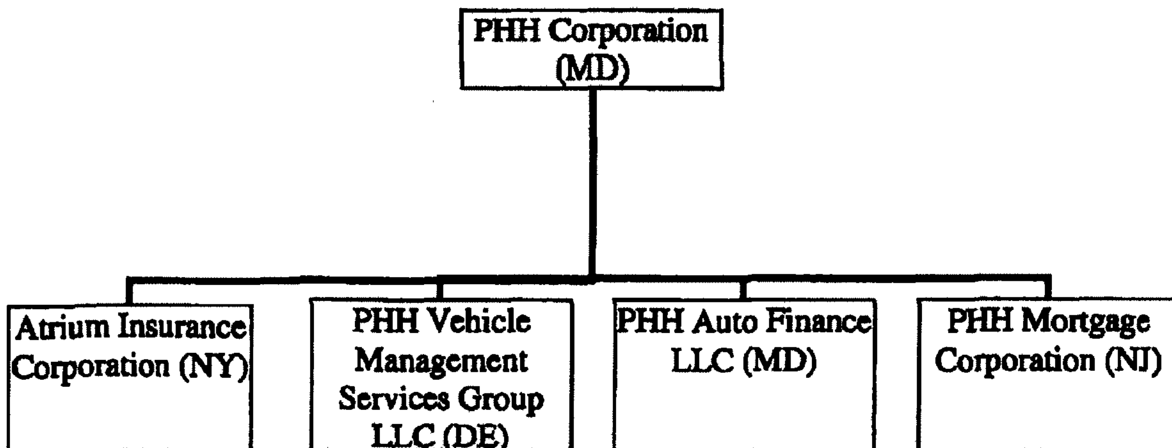
The Company did not cede any business during the examination period.

D. Holding Company System

The Company is a member of the PHH Corporation Holding Company System. The Company is a wholly-owned subsidiary of PHH Corporation, a Maryland corporation.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner.

The following is an abridged chart of the holding company system at December 31, 2007:



At December 31, 2007, the Company was party to the following agreements with other members of its holding company system:

Expense Allocation Agreement

In accordance with the terms of the expense allocation agreement, PHH has agreed to provide office space and furnishings suitable for the professional and support personnel of the Company. PHH has also agreed to provide such systems, personnel and equipment support as will be reasonably necessary for the operation of the Company's business. These services are provided on an actual cost basis. This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Service Allocation Agreement

Under the terms of the service allocation agreement, PHH US Mortgage has agreed to provide accounting, information systems, bookkeeping, account analysis, bank reconciliation work and investment services to the Company. This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Tax Allocation Agreement

Effective December 31, 2005, the Company is party to a tax allocation agreement with members of its holding company system. A review of the minutes of the board of directors meetings held during the examination period revealed that the board of directors did not approve the tax allocation agreement. Circular Letter No. 33 (1979) states:

> "Every domestic insurer which is a party to a consolidated federal income tax filing must have a definitive written agreement, approved by its board of directors, governing its participation therein."

It is recommended that the Company's board of directors approve the tax allocation agreement pursuant to the provisions of Department Circular Letter No. 33 (1979).

Additionally, it was noted that the Company did not file a copy of its tax allocation agreement with this Department. Circular Letter No. 33 (1979) states:

> "Every domestic insurer is directed to notify this Department within 60 days of this circular letter if it participates in a consolidated tax return and to submit a copy of its tax allocation agreement with such notification. Any domestic insurer which currently does not participate in a consolidated tax return shall file a copy of its tax allocation agreement with this Department within 30 days of electing to do so. Furthermore, notification to this Department should be given within 30 days of any amendment to or termination of a tax allocation agreement."

It is recommended that the Company file its tax allocation agreement with the Department pursuant to the provisions of Circular Letter 33 (1979).

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	39%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	75%
Premiums in course of collection to surplus as regards policyholders	13%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the six-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$ 20,478,324	8.52%
Other underwriting expenses incurred	30,512,083	12.69
Net underwriting loss	189,435,407	78.79
Premiums earned	$ 240,425,814	100.00%

F. Accounts and Records

Section 1411(a) of the New York Insurance Law provides that "no domestic insurer shall make any loan or investment ... unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan." The review of the minutes of the board of directors meetings indicated that securities were purchased without the formal approval of the Company's board of directors, in violation of Section 1411(a) of New York Insurance Law.

It is recommended that the board of directors approve the Company's investments pursuant to the provisions of Section 1411(a) of New York Insurance Law. It is noted that a similar recommendation was included in the prior report on examination.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

Assets	Examination		
	Assets	Assets Not Admitted	Net Admitted Assets
Common stocks	$ 64,893,359	$ 0	$ 64,893,359
Cash, cash equivalents and short-term investments	221,558,532	0	221,558,532
Investment income due and accrued	2,259,707	0	2,259,707
Uncollected premiums and agents' balances in the course of collection	10,626,767	0	10,626,767
Net deferred tax asset	956,964	915,842	41,122
Prepaid rent	7,172	0	7,172
Security Deposit	4,604	0	4,604
Total assets	$300,307,105	$915,842	$299,391,263

Liabilities, Surplus and Other Funds

Liabilities		
Losses		$ 32,280,240
Commissions payable, contingent commissions and other similar charges		1,122,097
Other expenses (excluding taxes, licenses and fees)		48,569
Current federal and foreign income taxes		4,167,611
Unearned premiums		587,452
Statutory contingency reserve		178,832,098
Total liabilities		$217,038,067
Surplus and Other Funds		
Common capital stock	$ 1,000,000	
Gross paid in and contributed surplus	80,816,004	
Unassigned funds (surplus)	537,194	
Surplus as regards policyholders		82,353,198
Total liabilities, surplus and other funds		$299,391,265

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2002. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2003 through 2005 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2006 and 2007. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

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B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $48,542,071 during the six-year examination period January 1, 2002 through December 31, 2007, detailed as follows:

Underwriting Income		
Premiums earned		$240,425,814
Deductions:		
Losses incurred	$20,478,324	
Other underwriting expenses incurred	30,512,083	
Total underwriting deductions		50,990,407
Net underwriting gain		$189,435,407
Investment Income		
Net investment income earned	$39,712,768	
Net investment gain		39,712,768
Other Income		
Aggregate write-ins for miscellaneous income	$113,081	
Total other income		113,081
Net income before federal and foreign income taxes		$229,261,256
Federal and foreign income taxes incurred		80,797,461
Net income		$148,463,795

C. Capital and Surplus Accounts

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2001			$33,811,127
Net income	$148,463,797		
Change in net deferred income tax		$ 245,679	
Change in nonadmitted assets		915,842	
Surplus adjustments paid in	52,216,004		
Dividends to stockholders		33,500,000	
Change in statutory contingency reserve		117,476,209	
Total gains and losses	$200,679,801	$152,137,730	
Net increase in surplus			48,542,071
Surplus as regards policyholders per report on examination as of December 31, 2007			$82,353,198

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $32,280,240 is the same as reported by the Company as of December 31, 2007. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained eight recommendations as follows (page numbers refer to the prior report):

ITEM			PAGE NO.
A.	Management		
	i.	It was recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its shareholders for the election of its board of directors. The Company has complied with this recommendation.	4
	ii.	It was recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its board of directors for the purpose of electing the officers of the Company. The Company has not complied with this recommendation. A similar comment is made in this report.	4
	iii.	It was recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law and have its board of directors approve all investment purchases. The Company has not complied with this recommendation. A similar comment is made in this report.	5
B.	Reinsurance		
		It was recommended that the Company amend its assumed reinsurance contracts to include the necessary language to comply with the Department Office of General Counsel's opinion dated February 26, 2002. The Company has complied with this recommendation.	8

ITEM		PAGE NO.
C.	Holding Company System	
i	It was recommended that the Company comply with the NAIC's Annual Statement Instructions with regards to the completion of Schedule Y-Part 1- Organizational Chart in all future annual statements. The Company has complied with this recommendation.	9
ii	It was recommended that the Company comply with Circular Letter No. 15 (1975) and settle its intercompany tax liability within 90 days due. The Company has complied with this recommendation.	10
D.	Abandoned Property	
	It was again recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law. This recommendation is no longer applicable.	10
E.	Accounts and Records	
	Minimum Capital Investments	
i.	It was recommended that the Company comply with Section 1402(a) of the New York Insurance Law by maintaining an amount equal to the Company's minimum capital and surplus requirements held free and clear of any or all security interests. The Company has complied with this recommendation.	13

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.	Management		
		It is recommended that the Company's board of directors hold at least one annual meeting and limit action by unanimous written consent of directors without a meeting to emergency situations only, pursuant to the provisions of its by-laws.	4
B.	Holding Company System		
	i.	It is recommended that the Company's board of directors approve the tax allocation agreement pursuant to the provisions of Department Circular Letter No. 33 (1979).	9
	ii.	It is recommended that the Company file its tax allocation agreement with the Department pursuant to the provisions of Circular Letter 33 (1979).	9
C.	Accounts and Records		
	i.	It is recommended that the board of directors approve the Company's investments pursuant to the provisions of Section 1411(a) of New York Insurance Law.	10

Respectfully submitted,

Lamin Jammeh
Senior Insurance Examiner

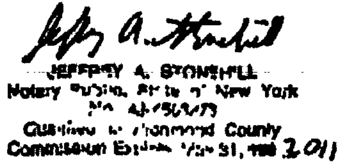
STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

LAMIN JAMMEH, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

Lamin Jammeh

Subscribed and sworn to before me

this 16th day of January, 2009.



JEFFREY A. STONEHILL
Notary Public, State of New York
No. [illegible]
Qualified in Richmond County
Commission Expires [illegible] 31, 2011

Appointment No. ***22727***

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Lamin Jammeh

as proper person to examine into the affairs of the

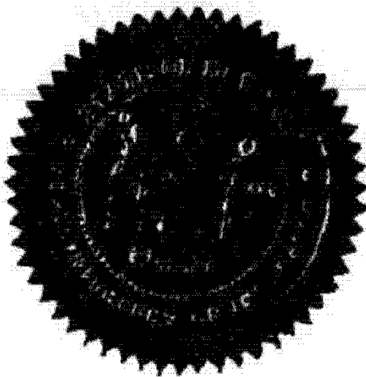
ATRIUM INSURANCE CORPORATION

and to make a report to me in writing of the condition of the said

Corporation

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,



this 27th *day of* December, 2007

ERIC R. DINALLO
Superintendent of Insurance

 EXHIBIT B

ATRUIM INSURANCE CORPORATION

WRITTEN CONSENT OF DIRECTORS IN LIEU OF SPECIAL MEETING

The undersigned being all of the Directors of ATRIUM INSURANCE CORPORATION (the "Company") do hereby consent, pursuant to Section 708(b) of the Business Corporation Law of the State of New York, to the adoption of the following resolutions:

RESOLVED, that KPMG Peat Marwick L.L.P. be, and hereby is, appointed as auditors to do an actuarial evaluation of the Company for the fiscal year ended December 31, 1996, to certify that such evaluation has been conducted in accordance with applicable standards, and to take such other actions and do such other things as are properly incidental to such audit and actuarial evaluation;

FURTHER RESOLVED, that the accounting and investment policies attached hereto as Exhibit A be, and hereby are, in all respects approved and adopted as the accounting and investment policies of the Company, as fully as if set forth herein;

FURTHER RESOLVED, that the officers of the Company be, and each of them hereby is, authorized, empowered and directed, acting jointly and severally, to make, sign acknowledge, deliver, file or record any and all instruments, certificates, papers and documents, and to do and perform all such acts and things, and to spend such monies, as may be necessary, convenient, advisable or appropriate to carry out the foregoing resolutions and the transactions contemplated thereby;

FURTHER RESOLVED, that the President, Secretary or any vice president or assistant secretary of the Company be, and hereby are, authorized and empowered to execute and deliver to any state, state agency or other governmental agency so requesting a certified copy of these resolutions, and that any such state, state agency or other governmental agency may rely upon the same until receipt by it of written notice of any change or revocation thereof.

IN WITNESS WHEREOF, we have signed this instrument as of the date when these actions are taken, this twentieth day of December, 1996.

Carol B. Capell

Todd P. Craven

Nan A. Grant

Robert E. Groody

Mark F. Johnson

Donna Kolc-Van Osten

Robert A. Kraemer

Terry E. Kridler

Jay J. Melchner

Roy A. Meierhenry

Anthony F. Muoio

Gordon W. Priest, Jr.

Samuel H. Wright

Exhibit A

ATRIUM INSURANCE CORPORATION

INVESTMENT POLICY

GOAL:

The investment portfolio of Atrium Insurance Corporation (Atrium) shall be managed tp maximize the total return over time in a manner that is consistent with sound investment management practices and in accordance with regulatory standards of the insurance industry. The designation of an investment as an asset held for sale, a trading security or a security held to maturity is made at the time pf purchase.

OBJECTIVES:

- To optimize Atrium's income.
- To comply with regulatory and statutory guidelines.
- To safeguard policyholders' surplus with prudent investment decisions.

POLICY/RESPONSIBILITY:

The Treasurer of Atrium is responsible for making all investment decisions. He is responsible for establishing overall policy and strategy. This includes long-range general parameters, short term objectives and specific actions.

ACCEPTABLE AND/OR REQUIRED INVESTMENTS:

The requirements for minimum capital or surplus investments varies from those for income and additional paid in capital. Following is a delineation of the acceptable and/or required investments of each.

Minimum Capital or Surplus Investments:

Every domestic insurer shall invest an amount equal to the greater of the "minimum capital" (par value times number of shares outstanding or $1,000,000) or the "minimum surplus to policyholders" ($500,000) in investments which are not in default as to principal or interest.

Not less than 60% of the required minimum capital or surplus investments shall consist of:

- Obligations of the United States or any agency thereof guaranteed as to principal and interest by the United States.
- Direct obligations of New York or of any county, district or municipality thereof.

Income or Additional Paid in Capital Investments:

1) **GOVERNMENT OBLIGATIONS**-Obligations which are not in default as to principal or interest and are guaranteed or insured by:

(a) The US or any agency thereof,
(b) Any state of the US, or
(c) Any territory or possession of the US or any other governmental unit in the US.

2) **OBLIGATIONS OF AMERICAN INSTITUTIONS**- No investment, other than in an institution which issues mortgage related securities and no investment in any one mortgage security shall be greater than 5% of admitted assets shown in the last statement on file with the Superintendent of Insurance (the Superintendent). Obligations issued, assumed or guaranteed by any solvent American institution which are not in default as to principal or interest and meet at least one of the requirements below are obligations of American institutions:

(a) Adequately secured by collateral security having a market value not less than the principal amount thereof and have investment characteristics that do not have predominant speculative elements
(b) Are rated A or higher by a rating agency recognized by the Superintendent or if not rated, similar in material respects to other obligations of the same institution that is rated.
(c) Are insured by one or more authorized insurance companies (other than any insurance affiliated with Atrium) and rated Aaa by a rating agency recognized by the Superintendent.
(d) Rated highest quality by the Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC).

3) **PREFERRED OR GUARANTEED SHARES**-No investment shall exceed 2% of admitted assets as shown by its last statement on file with the Superintendent. Shares issues or guaranteed by a solvent American institution if:

(a) They are rated A or higher by a securities rating agency recognized by the Superintendent,
(b) Have been given the highest quality designation by the SVO of the NAIC.

4. **LOANS SECURED BY REAL PROPERTY**-if acquired or used for the following purposes and in the following manner:

(a) As the insurer's principal office.
(b) As the insurer's branch office.

NOTE: Real property acquired under items 1 and 2 shall be disposed of within 5 years after it ceases to be necessary for the convenient accomodation of the insurer. Further, total book value of real property acquired under items 1 and 2 cannot exceed 10% of insurer's admitted assets or for any building acquired, make any improvements which should be capitalized according to generally accepted accounting principles if the annual expenditures for such improvements will exceed 10% of Atrium's book value or 1/2% of Atrium's admitted assets. No real property shall be acquired by any insurer pursuant to items 1 and 2 without the Superintendent's approval.

(c) Acquired in total or partial satisfaction of mortgages, liens, judgements claims or indebtedness held by the insurer in the course of business.
(d) Acquired as an investment for the production of income or to be improved or developed for such investment purpose pursuant to an existing program. Investment limited to 1% of such admitted assets and when added to other investments in real estate, cannot exceed 12.5% of admitted assets. Further, the investment and any improvements must be written down annually at a rate of at least 2%

5. **FOREIGN INVESTMENTS-**

(a) Investments in a foreign country or possession of the US which are substantially of the same kinds, classes and investment grades as those eligible for investment under other provisions of this section. The aggregate amount of such investments held at any time including cash in the currency of such country or possession shall not exceed the greater of 10% of the insurer's admitted assets.
(b) Investments in one possession of the US or in any one foreign country, other than Canada shall not exceed:
-In the case of any possession or country having the highest sovereign debt rating, as established by a securities rating agency, 3% of admitted assets, or
-In the case of any other possession or country, 1% of admitted assets.

6. **DEVELOPMENT BANK OBLIGATIONS**-Obligations issued or guaranteed by the international bank for reconstruction and development, the inter-American development bank, or the Asian development bank, the African development bank or the international finance corporation provided that the investment in each bank does not exceed 5% of admitted assets at year end, total investments under the section do not exceed 15% of admitted assets and obligations of such banks are rated AA or higher

7. **EQUITY INTERESTS**-Investments in common shares or partnership interests of any solvent American institution if such equity shares of any institution except an insurance company are registered on a national securities exchange, price quotations are furnished through a nationwide automated quotations system approved the the National Association of Securities Dealers, Inc. provided that Atrium may not invest more than 1% of admitted assets as shown on its last statement on file with the Superintendent.

8. **INVESTMENT COMPANIES**-Securities of any investment company registered pursuant to the federal Investment Company Act of 1940 if such company:

(a) Invests at least 90% of its assets in the types of securities which qualify as a reserve investment under "Minimum Capital of Surplus Investments" or those that are determined by the Superintendent to be substantially similar. Investment is limited to 10% of Atrium's admitted assets as shown on its last statement on file with the Superintendent and the aggregate amount of investment in such qualifying investment companies shall not exceed 25% of Atrium's admitted assets.

(b) Invests at least 90% of its assets in the types of equity interests which qualify as a reserve investment under "Minimum Capital or Surplus Investments". Investments limited to 5% of Atrium's admitted assets as shown by its last statement on file with the Superintendent including the aggregate amount of investment in qualifying investment companies.

MATURITY GUIDELINES:

Recognizing the changing dynamics of the securities market, the domestic and international economies and the financial services industry in general, an overall policy relating to maturity limitations is impractical and such guidelines should be determined by the Treasurer on an ongoing basis with regard to "Income or Additional Paid in Capital Investment".

With regard to "Minimum Capital or Surplus Investments", the maturity of the obligation may vary as long as there is an automatic rollover feature for compliance with the 60% requirement.

ACCOUNTING TREATMENT:

At acquisition, an investment may be classified into 1 of 3 categories-held to maturity, available for sale or trading. At each reporting date, the appropriateness of the classification shall be reassessed. The accounting treatment for each of the 3 categories is as follows:

(a) Held to maturity- carried at amortized cost if the insurer has the positive intent and ability to hold the investment to maturity.

(b) Trading securities-investments bought and held principally for the purpose of selling them in the near term should be carried at fair value with unrealized gains and losses included in earnings.

(c) Available for sale-investments not classified as trading or held to maturity shall be classified as available for sale and carried at fair value with unrealized gains and losses excluded from earnings and reported as a net amount in a separate component of shareholder's equity until realized.

EXHIBIT 43

AGREEMENT OF TERMINATION OF

REINSURANCE AGREEMENT (No. 3-38A)

BETWEEN

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY

AND

ATRIUM INSURANCE CORPORATION

THIS AGREEMENT, effective the 1st day of April, 1997, by and between United Guaranty Residential Insurance Company ("United Guaranty"), and Atrium Insurance Corporation ("Atrium").

RECITALS:

United Guaranty and Atrium are parties to a reinsurance agreement effective April 1, 1997, known as United Guaranty Reinsurance Agreement 3-38A (the "Reinsurance Agreement"). The parties have mutually agreed to terminate the Reinsurance Agreement ab initio, and replace the Reinsurance Agreement with a new Reinsurance Agreement No. 3-44, to be effective January 1, 1997.

NOW THEREFORE, in consideration of the mutual benefits to be received hereunder and the mutual covenants and agreements herein contained, United Guaranty and Atrium agree as follows:

1. Termination of Reinsurance Agreement. United Guaranty, as the Ceding Company, and Atrium, as the Reinsurer, agree that the Reinsurance Agreement shall terminate ab initio, and that no business shall be ceded under the Reinsurance Agreement.

2. Release of United Guaranty. Atrium hereby releases and forever discharges United Guaranty, its affiliates, officers, directors, agents, successors, and assigns from all adjustments, obligations, offsets, actions, causes of action, claims, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, agreements, promises, damages, judgment claims, and demands whatsoever, whether known, unknown or suspected, arising out of, or in any way connected with the Reinsurance Agreement.

3. Release of Atrium. United Guaranty hereby releases and forever discharges Atrium, its affiliates, officers, directors, agents, successors, and assigns from all adjustments, obligations, offsets, actions, causes of action, claims, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, agreements, promises, damages, judgment claims, and demands whatsoever, whether known, unknown or suspected, arising out of, or in any way connected with the Reinsurance Agreement.

4. Integration, Waiver and Partial Invalidity. This Agreement shall constitute the entire agreement between United Guaranty and Atrium pertaining to the termination of the Reinsurance Agreement, and supersedes any and all prior or contemporaneous understandings or agreements. No supplement, modification, waiver or termination hereof shall be binding or enforceable unless executed in writing by the party to be bound thereby. No waiver of any provision of this Agreement shall be deemed a waiver of any other terms or parts thereof, nor shall such waiver constitute a continuing waiver. If any term or provision of this Agreement is held void or unenforceable that shall not affect the remainder of this Agreement which shall continue in full force and effect.

5. Choice of Laws. This Agreement, including the construction and performance thereof, shall be governed by the local laws of the State of North Carolina. Regardless of which party drafted or caused the drafting of this Agreement or any provision hereof, this Agreement shall be interpreted consistent with the fair import of its terms and to achieve the intention of the parties as evidenced by the language of this Agreement and shall not be strictly construed against any party hereto.

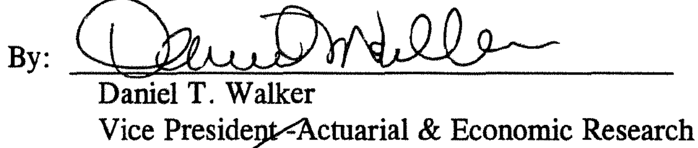
6. Representations and Warranties. United Guaranty and Atrium each represents and warrants to the other that it is authorized to enter into this Agreement and the signatories hereto represent and warrant that they are authorized to execute this Agreement on behalf of party for which they signed this Agreement.

CONFIDENTIAL-PHH-CFPB 002852

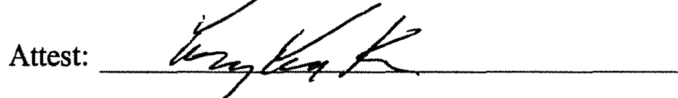
CFPB-PHH-00143068

IN WITNESS WHEREOF, this Agreement has been duly executed by the Parties hereto.

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY

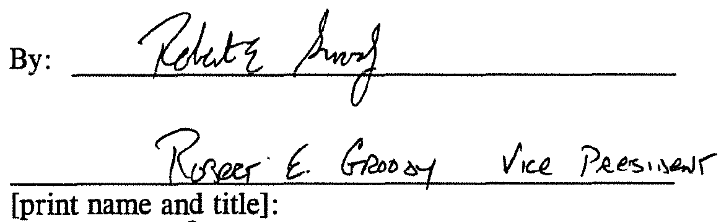
By: 

Daniel T. Walker
Vice President-Actuarial & Economic Research

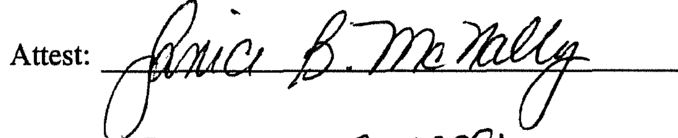
Attest: 

Dated: Jan 15 '98

ATRIUM INSURANCE CORPORATION

By: 

Robert E. Groody Vice President
[print name and title]:

Attest: 

Dated: March 2, 1998

CONFIDENTIAL-PHH-CFPB 002853

CFPB-PHH-00143069

EXHIBIT 44

Accounting Rule Guidance Statement of Financial Accounting Standards No. 113—Considerations in Risk Transfer Testing

CAS Valuation, Finance, and Investments Committee

Accounting Rule Guidance
Statement of Financial Accounting Standards No. 113

Considerations in Risk Transfer Testing

Valuation, Finance, and Investments Committee (VFIC).

Mike Belfatti, Paul Brehm, Karen Davies, Rick Gorvett, Aaron Halpert, Alex Krutov, Rasa McKean, Mike McCarter, Claus Metzner, Ken Quintilian, Don Rainey, Jason Russ, Manalur Sandilya, Dan Schlemmer, Chris Suchar, Chet Szczepanski, Gary Venter, Bob Wolf

1. Synopsis.

Genesis.
In an effort to provide some considerations to the CAS membership on risk transfer testing, the CAS Valuation, Finance, and Investment Committee (VFIC) conducted a research project. This paper is the culmination of VFIC's work.

The demonstration of risk transfer for a reinsurance contract is required by FAS 113 in order for the contract in question to receive reinsurance accounting treatment for GAAP purposes. However, there is little supporting literature from which to draw guidance on risk transfer testing methodology, risk metrics, or threshold values; hence this paper.

Approach
After a brief introduction, this paper begins with an overview of FAS 113 (§3) and other related risk transfer statements (§4). VFIC conducted a brief survey of risk transfer practices, which is presented in §5. Next, a series of examples are presented (§6) to illustrate the data requirements, methodology, and considerations involved in approaches commonly used today to demonstrate risk transfer in reinsurance contracts. The remaining sections of the paper (§7-8) are devoted to the discussion of other risk metrics that actuaries could use to characterize the level of risk present in a reinsurance contract.

Conclusions.
Methodology. FAS 113 states that risk transfer testing of reinsurance contracts must include 1) a thorough understanding of contract provisions, 2) a model of the incidence of cash flows between parties, 3) a single, appropriate discount rate, and 4) insurance risk only. By their absence, these requirements preclude consideration of income taxes, reinsurer expenses, brokerage, or credit risk in the determination of risk transfer. To meet the FAS 113 requirements we recommend that risk transfer analysis include a view of the distribution of expected contract losses, identification of an appropriate risk metric and threshold values, and duration-matched or immunized yields as the appropriate discount rates.

Risk Metric. Current practice tends to split risk transfer analysis into separate tests of probability (of an adverse result) and significance (magnitude of the result). A measure of loss at a given probability is called value at risk, or VaR.

While FAS 113 couches risk transfer in words like "*reasonable possibility*" and "*significant loss,*" the broader issue is whether a particular contract transfers risk. In this vein, a variety of other risk metrics were explored. VFIC analyzed expected deficit measures (such as expected policy holder deficit, or EPD), tail value at risk (TVaR), and distributional transforms such as the exponential and Wang transforms. Some of the positive and negative aspects of each of these are discussed in this paper.

Threshold or Critical Values. Over time, common practice seems to have concluded that a 10% chance represents a 'reasonable probability,' and a 10% loss represents a

'significant loss.' That is, the critical value for VaR is –10% at a probability of 10%. Thus we have what many term the 10-10 rule. In practice, other critical values are commonly used. It must be stressed that such rules-of-thumb are used in practice, but FAS 113 itself does not dictate critical values.

Our analysis of TVaR suggested that critical values in the range of –25% would represent minimal risk transfer. The discussion of distribution transforms proposes a critical value for the Wang transform of –10% that is wholly consistent with the 10-10 rule.

Regardless of the model employed or the risk metric used, judgment is still required as to where to establish the threshold or critical values for what constitutes risk transfer and what does not.

Intuitively, it seems natural to judge risk transfer for a reinsurance contract by analyzing whether the cedant has transferred (reduced) risk, not, as FAS 113 requires, by whether the reinsurer has assumed risk. While the answers to these two questions may be the same when focusing on a single transaction (as done in FAS113), on an enterprise-wide basis, they can be different. It should be noted that the recommendation on Index Securitization proposed the opposite to FAS 113: analysis is done from the cedant's perspective on an enterprise-wide basis. This could lead to different accounting treatments for reinsurance products and index securitizations, unless both tests are required for securitization and industry loss triggers.

2. Introduction.

The Valuation, Finance, and Investment Committee (VFIC), a CAS research committee, was asked by CAS membership to investigate and recommend considerations regarding risk transfer testing for reinsurance contracts due to the requirements set forth by FAS 113. This paper is the result of VFIC's research and discussions on the subject. The intent of this paper is to illustrate how risk transfer could be tested given the requirements set forth.

FAS 113 dictates the conditions, namely risk transfer, required for a reinsurance contract to be accounted for as reinsurance for GAAP purposes. Failing these conditions, the contract receives deposit accounting treatment. The statement itself does not provide specific guidelines for the quantification of risk transfer; FASB never intended to provide such specific guidance.

Numerical guidelines for measuring risk transfer—such as the well-known 10-10 rule – have become widely used. While often used in an audit context, auditors are not the only audience for risk transfer, however. Regulators, rating agencies and securities analysts all may want to evaluate whether or not a deal has enough risk transfer to meet FAS 113 requirements, and typical audit criteria may not suit their purposes.

The next section is a review of FAS 113 and related requirements. This is followed by a brief review of current practice. Examples of risk transfer testing are given, shedding light on key considerations. We then look more broadly at how risk transfer might be viewed by actuaries.

3. Overview of FAS 113

Statement. The stated purpose of FAS 113 is as follows.

> "This statement establishes the conditions required for a contract with a reinsurer to be accounted for as reinsurance and prescribes accounting and reporting standards for those contracts."

It is clear from the stated intent that FASB did not intend to make 113 a prescription of methodology.

The summary of FAS 113 goes on to portray the essence of risk transfer:

> "Contracts that do not result in the *reasonable possibility* that the reinsurer may realize a *significant loss* from the *insurance risk* assumed generally do not meet

> the conditions for reinsurance accounting and are to be accounted for as deposits." [emphasis added]

The phrases *reasonable possibility* and *significant loss* are clearly the key considerations in the analysis of risk transfer, but they are largely undefined. The terms *reasonable* and *significant* indicate that FASB is inviting the application of informed judgment. In the measurement methods discussed below, a line has to be drawn to define a cutoff between enough risk for 113 and not enough. It is not the primary intent of this paper to draw those lines, instead different methods of measuring risk that could provide a consistent framework for applying such judgment are emphasized.

Risk Transfer Tests. Property-casualty reinsurance contracts are covered by paragraphs 9 – 11 of FAS 113 – "Reinsurance of Short-Duration Contracts." Paragraph 9 of FAS 113 defines risk transfer conditions as follows.

> "Indemnification of the ceding enterprise against loss or liability relating to insurance risk in reinsurance of short duration contracts requires both of the following, unless the condition in paragraph 11 is met:
>
> > "a. The reinsurer assumes significant insurance risk under the reinsured portions of the underlying reinsurance contracts.
> > "b. It is reasonably possible that the reinsurer may realize a significant loss from the transaction."

Paragraph 9 is clear that risk due to "loss" refers only to insurance risk, i.e. (a) ultimate amount of net cash flows between the parties, **and** (b) the timing of the receipt of cash. Risk factors do not include recognition of reinsurer costs, investment risk, taxes, or credit risk to name a few.

The 'condition in paragraph 11' referred to above states, "(failing tests a and b) the ceding enterprise shall be considered indemnified against a loss or liability relating to insurance risk only if substantially all the insurance risk relating to the reinsured portions of the underlying insurance contracts has been assumed by the reinsurer." (For the sake of discussion, we will refer to this as test c.) The condition described in test c covers fronting arrangements, where a deal may appear highly lucrative, but the assuming party does, in fact, assume virtually the entire risk.

So, in essence, to answer the question of risk transfer affirmatively, the reinsurance contract must meet either test **c** or tests **a &**.

Except in the extreme case of **c**, where the cedant ends up with virtually no risk on the ceded portions, the criteria for risk transfer does not look at whether or not the ceding

insurer reduces its risk. Rather the test **a & b** is on whether on not the reinsurer assumes risk[1].

The closest FAS 113 comes to a definition of *significant insurance risk* is in footnote 4 to paragraph 11, which references FAS 97. Here, "*insignificant*" is defined as "having little or no importance; trivial." Presumably a failure to be insignificant would connote significance.

Neither does FAS 113 elaborate on what constitutes a *reasonable possibility*. The term *reasonably possible* is used in FASB Statement No. 5, "Accounting for Contingencies," to mean the scenario's "probability is more than remote." 'Remote' is not defined further in the statement. Based on FAS 5, it can be concluded that the test is applied to the scenario as a whole, not to the individual assumptions in a scenario. Thus, the entire set of assumptions must be reasonably possible.

Tests **a & b**: are discussed in paragraphs 9, 10 and 11 of FAS 113. In paragraph 9, test **a** is characterized by

> "A reinsurer shall not be considered to have assumed significant insurance risk under the reinsured contracts if the probability of a significant variation in either the *amount or timing* of payments by the reinsurer is *remote*. Contractual provisions that delay timely reimbursement to the ceding enterprise would prevent this condition from being met."[2]

This is the more clear-cut of the two tests, in that the reinsurer does not have to be able to lose money to meet it but just have uncertainty about both the timing and amount of payments. Again, "remote" is not defined further.

Paragraph 10 discusses test **b** in more detail. It appears that an examination of *reasonably possible outcomes* is anticipated in order to show that this test is met.

> "The ceding enterprise's evaluation of whether it is reasonably possible for a reinsurer to realize a significant loss from the transaction shall be based on the present value of all cash flows between the ceding and assuming enterprises under reasonably possible outcomes, without regard to how the individual cash flows are characterized. The same interest rate shall be used to compute the present value of the cash flows for each reasonably possible outcome tested."

---

[1] This is in contrast to the issue of securitization and reinsurance based on parametric triggers – for example when the insurer gets a pre-defined recovery if a force 4 hurricane hits Florida. The tests the NAIC is considering for statutory accounting in such cases are based on whether or not the cedant gets a reduction in underwriting risk from entering into such a contract. A number of tests of risk reduction have been proposed to test this. However these are not directly relevant to risk transfer under FAS 113, as the test here is on the reinsurer increasing risk, not on the insurer reducing risk.

[2] This clause was added to avoid contacts that cede losses but allow actual reimbursements according to a schedule in such a way that the reinsurer locks in a profit based on the float of funds.

A simulation of randomly generated outcomes would be one way to carry out test **b**. "Reasonably possible" would then be defined using the probability of observing a result equal to or worse than some critical value based on simulation output. This would be the likely basis of the "10% chance" measure widely used today.

For the set of outcomes examined, the evaluation of whether or not there is a significant loss is one where the present value of the payments to the cedant exceeds the present value of the payments to the reinsurer by a threshold amount. This is never stated so directly, however. This section creates the companion measure of "10% loss," i.e., the net present value of losses ceded is 10% greater than the net present value of the consideration paid. However, when payments are based on netting out of offsetting items, it can be difficult to distinguish the consideration paid from losses and expense credits. For instance, reinstatement premium is very similar to a loss participation.

Paragraph 10 does provide some explicit guidance on risk transfer testing. Namely, it is based on 1) the net present values of cash flows, 2) on cash flows between the parties (e.g., no taxes, no consideration of reinsurer expenses), 3) using a constant interest rate.

Paragraph 11 specifies that the test of significance of loss is relative to the amounts ceded to the reinsurer. Thus presumably the significance of a given loss amount, say $10,000, might be different given different ceded premiums, say $100,000 vs. $1 billion. Thus we put the two parts of the test together and have a "10% chance of a 10% loss," as opposed to a test in dollar terms.

It would be easier to interpret paragraphs 10 and 11 if they could be used to separate the test of a reasonable possibility of a significant loss into two independent steps: generate a lot of scenarios and first test each to see if it generates a significant loss. Then see how many did so, and test to see if enough did. You would need a test of significance to do the first step and a test of reasonable possibility to do the second step, and these could be independent.

However, the wording of these two sections keeps *reasonably possible* and *significant loss* intertwined. It seems completely consistent with these paragraphs to require a stricter standard for *reasonably possible* when *significant loss* is interpreted more broadly, and vice versa. Thus a 5% chance of a loss of 100% of premium might provide as much or more *reasonable possibility of significant loss* as a 10% chance of a loss of 25% of premium, for example.

In fact this kind of linkage might actually be implied by the lack of separation of the two phrases. Under this viewpoint one would still count loss scenarios as part of the test, but the test of reasonable possibility would not be independent of the test of significant loss.

Thus to sum up tests **a & b**:

- test **a** is met if the reinsurer has risk of variation in both timing and amount of payments, and payments must be timely to meet this criterion;

- test **b** requires an examination of possible outcomes. To meet this test, at least some of the outcomes have to produce a loss for the reinsurer, where a loss is determined using present values of all cash flows. The significance of losses is to be evaluated relative to the present value of payments to the reinsurer. The test is of reasonable possibility of significant loss, and it would be appropriate, though not required, to evaluate reasonability and significance conjointly.

Looking at test **c**, the reference to *reinsured portions* of the underlying insurance contracts is potentially ambiguous. It could mean *reinsured percentage*, as in a quota share contract, or *reinsured sections,* as in the liability portion of a homeowner's policy. These are actually both rather narrow interpretations of *portions* and probably are consistent with the intent of FAS 113. For example, if a company writes a very profitable book of auto collision insurance, so profitable that it virtually cannot have an underwriting loss, but reinsures some of this on a quota share basis in order to meet financial ratio tests, the reinsurer probably will not be able to meet test **b**. But test **c** would be satisfied so this deal would qualify for reinsurance accounting. Here the reinsurer and ceding insurer share the risk on an equal basis.

A broader interpretation of *portions* would allow a portion of a homeowner's book to constitute all losses on all policies in all events where the insurer's event loss is less than $100 million. If this qualifies as a portion, then there might be cases where a reinsurer could write a capped quota share in which it would be virtually guaranteed a profit even though the cedant could suffer a major loss on the retained book, and this would qualify for reinsurance accounting under test **c**. This broad a definition of *portion* could probably be stretched to fit in any reinsurance deal, and so would negate the need for tests **a & b**.

Thus a more narrow definition of *portions* is implied. Interpreting *reinsured portions* as *reinsured percentage* seems to be well within the intent of FAS 113. The same might apply to *reinsured sections,* particularly if there is a separately identifiable premium for the sections under consideration. Conditions that do not refer to individual policy provisions but rather the insurer's experience on a book of policies would seem to stretch the intend of *portions* beyond what FAS 113 seems to consider.

To sum up test **c**: a portion of policies has to be fully ceded, where *portion* probably is restricted to percentage or section, or something similar, and the only risk the cedant can retain on this portion must be trivial, having no importance. This situation describes fronting sorts of relationships and straight unrestricted quota share reinsurance.

4. Related statements.

Statutory Accounting. In statutory accounting, reinsurance is primarily addressed in Chapter 22 of the *NAIC Accounting Practices and Procedures Manuals for Property and Casualty Insurance Companies*. Amendments were made after the GAAP adoption of FAS 113. As a result, the statutory accounting principles established regarding risk transfer and reinsurance accounting are generally consistent with GAAP. Chapter 22 states:

> "Reinsurance Contracts Must Include Transfer of Risk
> The essential ingredient of a reinsurance contract is the shifting of risk. The essential element of every true reinsurance contract is the undertaking by the reinsurer to indemnify the ceding insurer (i.e., reinsured company), not only in form but in fact, against loss or liability by reason of the original insurance. Unless the so-called reinsurance contract contains this essential element of risk transfer, no credit whatsoever shall be allowed on account thereof in any accounting financial statement of the ceding insurer."

SSAP 62, as part of codification, provides the following guidance, drawing heavily on FAS 113:

> [§11] Determining whether an agreement with a reinsurer provides indemnification against loss or liability (transfer of risk) relating to insurance risk requires a complete understanding of that contract and other contracts or agreements between the ceding entity and related reinsurers. A complete understanding includes an evaluation of all contractual features that (a) limit the amount of insurance risk to which the reinsurer is subject (e.g., experience refunds, cancellation provisions, adjustable features, or additions of profitable lines of business to the reinsurance contract) or (b) delay the timely reimbursement of claims by the reinsurer...
>
> [§12] Indemnification of the entity company against loss or liability relating to insurance risk in reinsurance requires both of the following:
>
> a. The reinsurer assumes significant risk under the reinsured portions of the underlying insurance agreements; and
> b. It is reasonably possible that the reinsurer may realize a significant loss from the transaction.

IASB. The International Accounting Standards Board's (IASB) Insurance Steering Committee has drafted a statement of principles on accounting for insurance contracts. As the statement is not final, it may well be modified before being officially released to the public. With these caveats in mind, it is instructive to compare the IASB's views on risk transfer to FAS 113.

As currently construed, the IASB's Principle 1.2 defines an insurance contract. Reinsurance is simply treated as a sub-set of insurance contracts. Principle 1.3 defines the uncertainty required for a contract to qualify as an (re)insurance contract. This principle, then, is closely related to the risk transfer requirement in FAS 113. Principle 1.3 does introduce the word "*material*" in describing uncertainty or risk transfer, much like FAS 113 refers to "*significant*." Principle 1.3, however, does not distinguish between underwriting risk and timing risk as does FAS 113.

5. Current Practices.

As risk transfer tests are only defined in broad conceptual terms, practitioners of risk transfer testing are left to model insurance processes as they think best and define key terms such as "*remote*" and "*significant*" operationally. In practice, if the cedant's analysis passes muster with their auditor, reinsurance accounting is granted. Thus auditors, and sometimes the cedant's consultant, need to be able to recognize risk transfer when they see it.

VFIC conducted a brief, informal poll of actuaries at two major consulting firms and three major audit firms regarding their risk transfer testing. In particular, the practitioners were asked 1) does your firm have an official policy regarding risk transfer testing, 2) what threshold value do you use for determining *reasonably possible*, 3) how big of a loss is *significant*, and 4) what methods are used. A brief summary of the interviews follows.

	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5
Official Policy?	No	No	Yes	Don't know	Don't know
Probability	5% or 10%	10% or 20%	"Reasonable worst case chance"	20%	10%
Significance	5% or 10%	10% or 20%	10%	20%	10%
Method	Establish a probability distribution of expected losses, reflecting the timing thereof. Compare to the present value of premium.	Compare expected value of present value of losses to expected value of present value premiums by scenario	Scenario testing	NA	Net present value of all cash flows.

While there are certainly differences in practices indicated above, there are also some common themes. First, while probability threshold ("possibility") is rarely codified, 5%, 10%, and 20% are typical; 10% is in fact the most typical. The critical value defining significance is almost always the same as the probability threshold, i.e., 5%-5%, 10%-10%, 20%-20%. Again, 10% is the most typical, and thus we have what has become known as the "10-10 rule," whereby if the reinsurer has a 10% chance of suffering a 10% loss, then the contract is deemed to have transferred risk.

It must be emphasized that this 10-10 rule has become a *de facto* practice. FAS 113 makes no reference to it, nor does the statement define "*remote*" and "*significant*" thresholds with any numbers, let alone 10% and 10%. Furthermore, the 10-10 rule has not been officially propagated by anyone.

The 10-10 rule is a test utilizing value-at-risk (VaR) as the risk measure. That is to say, the ceding company must demonstrate a VaR of 10% at the 90th percentile of the distribution of the net present value of underwriting losses on the contract in question. And, in practice, a VaR test makes sense given the construct of FAS 113, i.e., the explicit reference to probability and significance gives rise to viewing risk in two parts – frequency and severity.

There are some other common practices, as well. First, the view is always prospective in nature. Second, "loss" as respects the reinsurer is always measured as the net present value of future cash flows. Finally practitioners interviewed are consistent in their view that reinsurer expenses, taxes, investment risk, and credit risk are not subject of the risk analysis.

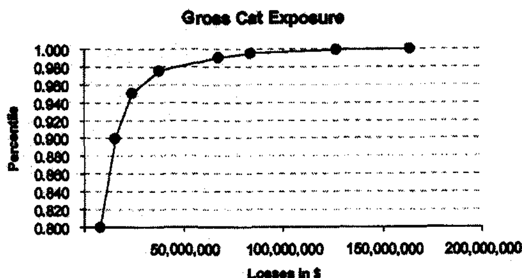
One problem with the 10-10 rule is that many standard reinsurance contracts, ones that everyone would acknowledge are highly risky, would not pass the test. Typical high layer property catastrophe treaties are but one example. Although these can be handled on an exception basis, it would be useful to have methods of measuring risk that agree with the assessments of experienced practitioners. The next section uses a series of examples to highlight this issue as well as to illuminate considerations required in traditional risk transfer testing.

6. Examples and considerations.

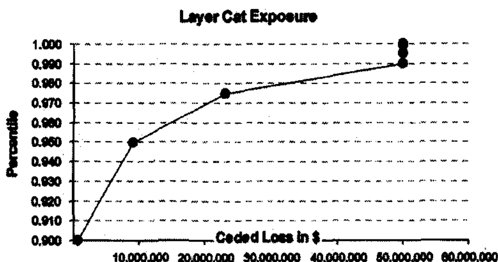
Given currently accepted practice, how could the practitioner prove that there is a less-than-remote-chance that their reinsurers could suffer a significant loss? Following are a series of numerical examples, designed to illustrate the basic data requirements and analysis of present day risk transfer testing. While such analysis presumably suffices for purposes of FAS 113, the examples will serve to show the inadequacies of a simple 10-10 rule (or VaR tests in general).

Example 1. Property Catastrophe Excess of Loss
An insurance company has exposure to southeastern U.S. hurricanes. Standard industry catastrophe models were applied, and the following catastrophe loss event cumulative distribution function was produced:

Probability	Loss
0.001	63
0.005	85
0.010	528
0.025	2,877
0.050	26,160
0.100	95,939
0.200	303,325
0.300	607,426
0.400	1,146,366
0.500	2,001,899
0.600	3,185,892
0.700	4,925,404
0.800	8,150,810
0.900	15,632,088
0.950	24,206,066
0.975	38,072,833
0.990	67,451,525
0.995	83,683,074
0.999	126,792,315
0.9999	163,627,870



Assume the company is content with a $15 million retention, roughly absorbing up to the one-in-ten-year event. Assume, too, that the company accepts a $50 million layer, thereby going through the top on a one-in-one-hundred-year event. Catastrophe losses were simulated according to the above distribution, and layer losses were calculated.



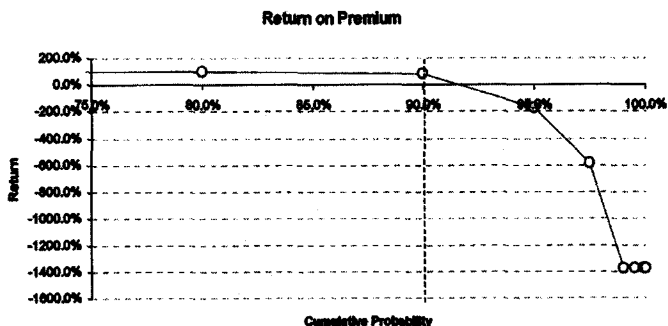
The above distributions produce an expected gross catastrophe loss of $6 million and an expected ceded loss of $1.625 million.

Assume for simplicity that the reinsurance market is pricing catastrophe covers to a 50% loss ratio (premium equals $3.25 million). For this purpose we will ignore reinstatements. Further assume that premiums are paid in full at the beginning of the year and losses are paid in full at the end of the year. As we are dealing with short duration losses, a discount rate of 4% was used.

Given the data and assumptions, the net present value of cash flows between the cedant and the reinsurer can be calculated (shown below as ROP – Return on Premium).

Probability	Gross Loss	Ceded Loss	Loss Ratio	Reinsurer NPV	ROP
0.001	63	-	0.0%	0.0%	100.0%
0.005	85	-	0.0%	0.0%	100.0%
0.010	528	-	0.0%	0.0%	100.0%
0.025	2,877	-	0.0%	0.0%	100.0%
0.050	26,160	-	0.0%	0.0%	100.0%
0.100	95,939	-	0.0%	0.0%	100.0%
0.200	302,299	-	0.0%	0.0%	100.0%
0.300	607,426	-	0.0%	0.0%	100.0%
0.400	1,146,366	-	0.0%	0.0%	100.0%
0.500	2,001,899	-	0.0%	0.0%	100.0%
0.600	3,185,892	-	0.0%	0.0%	100.0%
0.700	4,925,404	-	0.0%	0.0%	100.0%
0.800	8,150,810	-	0.0%	0.0%	100.0%
0.900	15,632,088	632,088	19.4%	18.7%	81.3%
0.950	24,206,066	9,206,066	282.9%	272.1%	-172.1%
0.975	38,072,833	23,072,833	709.1%	681.8%	-581.8%
0.990	67,451,525	50,000,000	1536.7%	1477.6%	-1377.6%
0.995	83,683,074	50,000,000	1536.7%	1477.6%	-1377.6%
0.999	126,792,315	50,000,000	1536.7%	1477.6%	-1377.6%
0.9999	163,627,870	50,000,000	1536.7%	1477.6%	-1377.6%

The reinsurer's "profit curve," the trace of the ROP versus the cumulative probability looks as follows.



A catastrophe example was deliberately chosen as the first example. No one would dispute the clear risk transfer that exists between cedant and reinsurer in a property catastrophe excess of loss program. Yet the above graph clearly demonstrates that the sample transaction fails the 10-10 rule. At the 90th percentile the reinsurer makes an 82% return on premium, thus it is not true that there is at least a 10% chance of at least a 10% loss. Perhaps this can be rectified by simply choosing a different probability to reflect the "*reasonable possibility*," for at the 95th percentile, the reinsurer suffers a 172% loss.

The first example illustrates a number of key points.

1. Key considerations in this analysis included:
   - A thorough understanding of the reinsurance contract,
   - A probability distribution of expected losses, as determined by the cedant,
   - Incidence or timing of cash flows between the parties,
   - A duration-appropriate discount rate.

2. Elements that were not and should not be considered include:
   - Reinsurer expenses,
   - Brokerage, and
   - Taxes

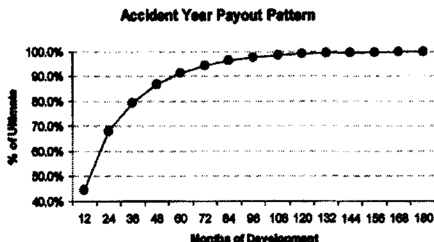
3. A VaR test may work, but risk transfer cannot be judged on a single, simple rule such as 10%-chance-of-a-10%-loss. The whole of the reinsurer's profit and loss curve is important to consider. In this case, while the reinsurer is still in a profit position at the 90th percentile, there is clearly a precipitous and deep drop shortly thereafter. In this situation, the reinsurer or reinsurers stand to lose a considerable amount of money relative to the premium revenue.

Example 2: Quota Share Reinsurance Example
In this example, an insurance company seeks a 50% quota share protection on its accident year results. Even though test **c** may apply, it may be interesting to see how tests **a** and **b** would view this type of contract under different risk measures.

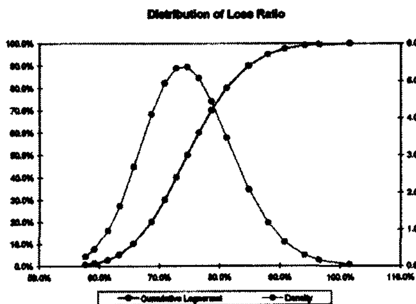
For the upcoming year, this company forecasts:

Written Premium	$1,000
Earned Premium	1,000
Accident Year Loss Ratio	75%
Expense Ratio	32%
Combined Ratio	107%

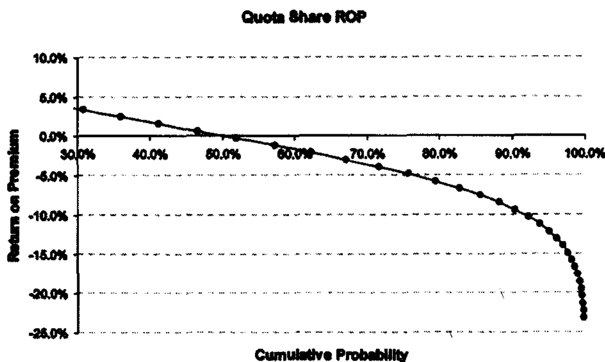
To complete this example, we assume that the insurance company in question is an industry-typical, all lines writer and has an accident year loss payout pattern that mirrors the industry total[3]:



The company has estimated the distribution of the upcoming accident year loss ratio as part of its normal forecasting process. We assume the loss ratio is distributed lognormally with a mean of 75% and a coefficient of variation of 10%.



The quota share treaty has a 30% ceding commission. Premiums and commissions are paid evenly through out the year. Under these assumptions, the reinsurer's profit/loss curve looks as follows.



At the 90.4th percentile, the reinsurer suffers a 9.5% of premium loss. It does not literally pass the 10-10 rule test. However, given the precipitous drop in profitability in the tail, and given the inherent uncertainties of the analysis itself, it should be evident that there are "*reasonable possibilities*" of "*significant losses*."

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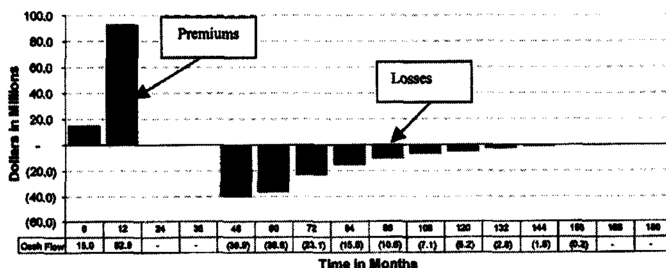
[3] Source: 1999 Industry total Schedule P, all lines paid triangle from A.M. Best's.

Example 3: Finite Reinsurance Example.
Finite reinsurances are often the principal source of risk transfer questions. In this example, all underlying numbers are the same as in the quota share example. This time, however, the cedant is seeking protection in excess of the planned loss ratio up to a 5%-point limit (i.e., the corridor from 75% to 80%).

Assume the reinsurer charges an up front premium (often called the deposit premium, minimum and deposit premium, the reinsurance premium, or the margin) of $15. As is typical in finite transactions, for every dollar of loss ceded, an additional premium (AP) is charged, in this case 65% of the ceded loss. Because additional premium is ceded, the net expense ratio will deteriorate with increasing cessions. To compensate for the expense ratio effect, losses are typically "over ceded" such that the net combined ratio (or underwriting result) is immunized. So, here ceded losses are grossed up by dividing by 1-AP. The ceding rule is:

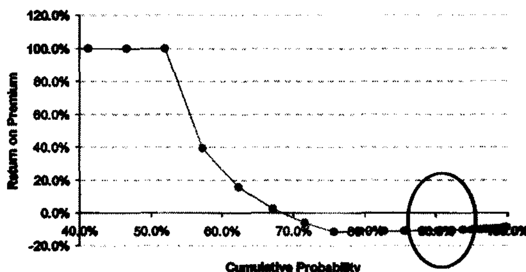
If the actual loss ratio is:	Cede:
<75%	0
>75%	(LR-75%)/(1-.65) subject to a maximum of the grossed up 5% limit – 5/(1-.65).

To compute the incidence of the cash flows, we assume that the deposit premium is paid at the beginning of the year, and that the AP is paid in full at the end of the year. A recoverable is established on the company's statutory and GAAP balance sheets immediately when the expected ultimate exceeds the retention. Loss recoveries are not made until the *paid loss ratio* exceeds the retention. For a loss ratio of 80%, the cash flows between the cedant and the reinsurer would look as follows.



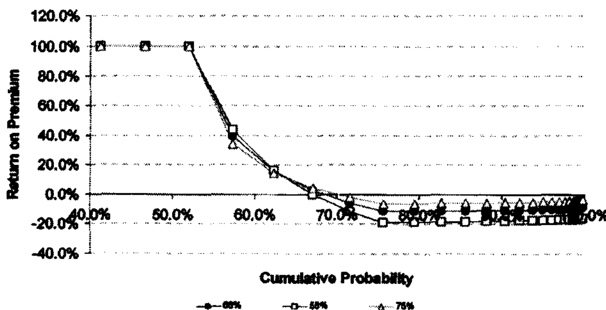
The cash flow graph above highlights the zeal behind using aggregate stop loss contracts, especially in a soft market. A ceded recoverable is established for the full, nominal dollar loss reserves above a certain loss ratio, but due to the time lag in receiving recoveries, the reinsurance price reflects a sizable discount. The difference between the discount and the nominal value of the reserves in question becomes income for statutory or GAAP purposes. Economically speaking, no value is really created nor destroyed beyond the reinsurer's margin.

Cash flows as shown above were produced for loss ratios ranging from 70% to 100%. For each loss ratio, the net present value of cash flows was calculated using a 5% discount rate. Net present values were graphed as a function of cumulative probability (of the loss ratio) to produce the reinsurer's profit/loss curve.



This finite example was produced to demonstrate the 10-10 rule almost exactly. Here there is a chance of a 10% loss or more at the 90.4th percentile, almost exactly satisfying the 10-10 rule.

This same graph was re-drawn for the above base case as well as cases with a 55% AP and a 75% AP:



In the above graph, the 75% AP program would presumably not pass risk transfer under a 10-10 rule test. The 55% program would pass. Even in the 65% example, however, consideration must be given to the entire profit/loss curve, not just the 90th percentile. How much profit is made on the upside? How bad is the downside?

Aggregate stop loss deals specifically and finite reinsurance in general can be considerably more complicated than this example. It is critically important here to have a thorough understanding of the contract terms. Some common variations include:

- Funds held arrangements[4],
- Commutation provisions,
- Capacity charges,
- Margin charges,
- Inclusion of expenses, and
- Caps on economic loss.

Summary of Considerations in Applying VaR tests.

Risk transfer testing requirements are prospective in nature. Thus the mean result (loss ratio, statutory underwriting result, GAAP underwriting result...) is a forecast of a future period. The actuary must account for pricing changes, loss trends, credibility, etc., i.e., all of the typical on-leveling adjustments ordinarily made to historic data.

Practitioners must go beyond the mean. The distribution associated with the mean result should be calculated in accordance with the model employed for the forecasting. Distributions can be estimated by methods applied to loss triangles, collective risk theory models, or variances estimated from time series of relevant results

A model of the incidence of cash flows is required. The model must distinguish between funds held and funds transferred between parties. Dependencies between cash flows and the magnitude of the loss must be accounted for, e.g., the effect of catastrophes on an assumed loss payout pattern. Cash flows should be discounted at the same, appropriate rate. A risk free rate is specified, preferably a pre tax, immunized yield

In the end, a discounted cash flow model, perhaps a dynamic model should suffice. Clearly a thorough understanding of the contract terms is required for a thorough analysis.

"Remote" results can be judged on the basis of closed form distributions of results, simulations, or through scenario testing. Significance is defined by the magnitude of the net present value of cash flows between parties as a percent of revenues.

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[4] Funds held arrangements, wherein the cedant holds the loss fund and earns the associated investment income. Here the actuary must consider what constitutes the basis for measuring the 10% loss. Is premium the appropriate base? On one hand, it would seem not, as it is not cash between the parties. On the other hand, FAS 113 states, "Payments and receipts under a reinsurance contract may be settled net. The ceding enterprise may withhold funds...Determining the amounts paid or deemed to have been paid (hereafter referred to as "amounts paid") for reinsurance requires and understanding of all contract provisions."

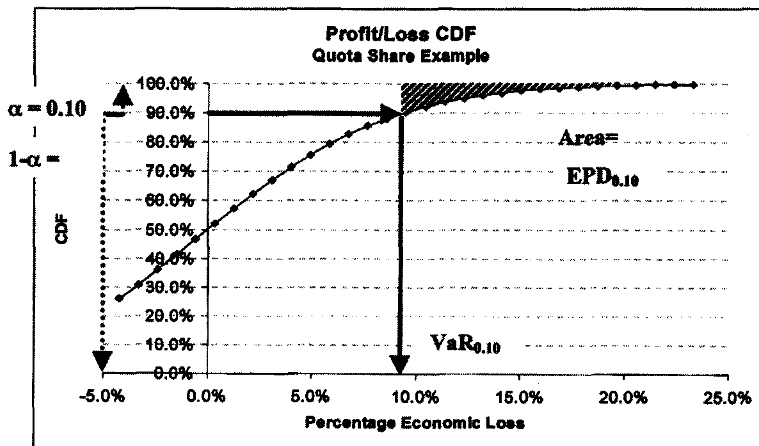
7. Beyond VaR Tests.

FAS 113 does not prescribe a specific method to test for risk transfer. Furthermore, given a model, FAS 113 does not precisely define whether the model output would imply that the contract in question passed or failed. While we must meet the considerations of FAS 113, actuaries needn't demonstrate risk transfer using the 10-10 rule or VaR test more generally.

Expected Deficit Methods.
The examples presented above suggest that a single point of *remote probability* and a single critical value for *significance* maybe inadequate, e.g., 10-10. Instead risk/reward is perhaps better viewed across the entire spectrum of profit and loss (consider the property catastrophe example). That is, there is a trade-off between probability and significance.

The 10-10 rule is used as a rule of thumb, for simplicity or as a starting point. Assume for the moment that a 10% chance of a 10% loss is, in fact, evidence of risk. It is simply not an exclusive evidence of risk. What if risk was defined by the trace of a line – almost akin to an efficient frontier – of those points that, by their combination of probability and magnitude, define risk transfer: 10-10, 5-20, 1-100, 0.1-1000? From such a set of points, one coordinate measuring probability, one measuring the magnitude of the loss, we can construct a single risk measure: the expected policyholder deficit (or in this case, the expected reinsurer's deficit).

The graph below compares the 10-10 rule ($VaR_{\alpha=10}$) with EPD. This graph was drawn using the data from the quota share example provided above.



In the continuous case, expected reinsurer's deficit (ERD) is defined as

$$\int_{NPV(loss)>NPV(premium)}^{\infty}[NPV(premium)-NPV(loss)]f(x)dx$$

In the discrete case, the expected reinsurer's deficit is

$$\sum_{NPV(loss)>NPV(premium)}^{\infty}[NPV(premium)-NPV(loss)]\Pr(x)$$

That is, the expected reinsurer's deficit is the average, or expected, deficit over all values where a deficit exists. If the NPV's above are divided by premiums (or cash to the reinsurer) the expected deficit is per unit of revenue. Using the pairs of numbers above, assuming these were our only loss scenarios, the ERD = (.10*-.10) + (.05*-.20) + (.01*-1.0) + (.001*-10) = -.04 or -4%. For comparison, the ERD's calculated for the three examples previously are as follows.

- Property Catastrophe = -40%
- Quota Share = -3%
- Finite = -3%

This metric has some appeal in that it is well grounded in actuarial theory concerning the measurement of risk. It also overcomes the 10-10 rule weakness (or VaR rules in general) of relying on a singular point to define risk transfer. We still have the problem of critical values, however: in this instance, what ERD defines risk transfer? In the above examples, property catastrophe has a –40% ERD, a number significant enough to likely be granted worthy of risk transfer (even though it didn't pass the 10-10 rule test). The quota share and finite examples have –3% ERDs. Here it is less clear that there is meaningful risk transfer.

Tail Value at Risk.
More recently, VaR and EPD measures have come under criticism in actuarial and finance circles because they are not coherent measures of risk. Given random losses X and Y, a risk measure, ρ, is considered coherent if it conforms to the following properties[5].

1. Sub-additivity: For variables X and Y, $\rho(X+Y) \leq \rho(X)+\rho(Y)$
2. Monotonicity: If $X \leq Y$, $\rho(X) \leq \rho(Y)$
3. Positive Homogeneity: for $\lambda \geq 0$, $\rho(\lambda X)=\lambda\rho(X)$
4. Translation Invariance: $\rho(X+a) = \rho(X)+a$

The sub-additivity property simply requires that the combination of two risk factors does not create additional risk; in fact, risk is the same or less. Value at Risk, despite its popularity, violates this axiom.

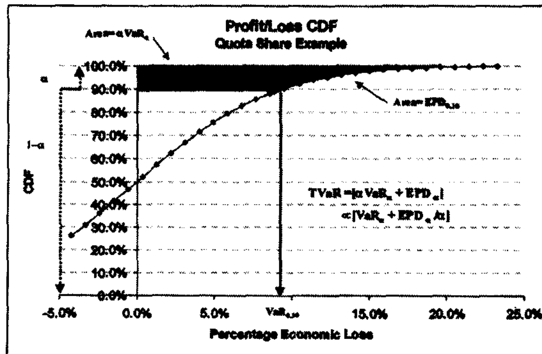
In the alternative, Tail Value at Risk, or TVaR, is a coherent risk measure. TVaR is equal to the expected value of a loss variable, say X, given that X exceeds the critical value VaR_α, i.e.,

$$TVaR_\alpha = E[X \mid x > VaR_\alpha]$$

If α is the probability of default, then VaR_α is the total assets, and TVaR may be expressed as:

$$TVaR_\alpha = \alpha * \text{assets} + EPD, \text{ or } TVaR \propto \text{assets} + EPD_\alpha/\alpha$$

As in the EPD case, above, TVaR can be represented graphically as follows.



5 See the discussion in Meyers [2]

TVaR's were calculated for each of the three examples above at the 90th percentile.

- Property Catastrophe = -319%
- Quota Share = -42%
- Finite = -23%

Recall from the previous section that the "ERD" did not discriminate between the quota share contract and the finite contract. TVaR does, and indicates that the quota share contract has more risk.

We do not have enough research, or perhaps even the prerogative, to suggest a threshold TVaR that implies a contract passes risk transfer. However, in the examples presented here, a finite contract, that by all accounts only marginally passes more traditional, 10-10 test and has no meaningful downside beyond the 10% loss, has a TVaR of -23%. Perhaps this suggests a threshold value in the 20-25% range or less would reflect minimal risk transfer.

Other Coherent Risk Measures

Coherent risk measures are characterized statistically as expected values of outcomes under adjusted probability distributions. For instance, TVaR, is expressed as:

$$E[X \mid x > VaR_{\alpha}]$$

This could equally well be expressed as the adjusted expected value of X under transformed probabilities, where the transformed probability is zero for $X < VaR_{\alpha}$ and is the actual probability adjusted to sum to unity otherwise.

This particular measure has been criticized on at least two grounds (e.g., see Wang (2001) *A Risk Measure that Goes Beyond Coherence*, Institute of Insurance and Pension Research, Research Report No. 18, University of Waterloo). First, it ignores all results below VaR_{α}. Second, it just measures losses above VaR_{α} on an expected basis, which is an under-weighting compared to moment-based measures, which use higher powers to represent the extreme risks of extreme events.

An alternative probability adjustment, which produces an alternative coherent risk measure that addresses these concerns, is provided by the Wang transform. This transform adjusts each scenario probability u by first calculating the normal-distribution percentile of u, then applying a functional transform to that percentile, and finally taking the normal probability of the transformed percentile. In mathematical notation:

Let $\Phi(x)$ be the standard normal cumulative distribution function, and $\Phi^{-1}(u)$ be its inverse, the percentile function, which applied to a probability u gives the corresponding percentile. Let h(x) be the percentile distortion function. Then the probability transform

applied to a cumulative loss probability u is $v = g(u) = \Phi[h(\Phi^{-1}(u))]$. A simple example is to take h(x) linear, such as bx+a, or even an additive constant, such as x+a.

One use of risk measures is to calculate the market price of risk transfer. Wang has shown that prices of risk in a number of markets, including catastrophe bonds, corporate bonds, and stock options can be approximated fairly closely by choosing the appropriate h function for each market. (Risk pricing may vary across markets in part due to the degree of hedging and liquidity available, as well as to the degree to which financial results are subject to sudden large drops.) The key issue to getting the right h function is applying enough probability distortion in the tails of the distributions to capture the market reaction to tail events. However, even a linear h function provides a non-linear price effect in the tails, and thus can be used for benchmarking.

Quantifying the market price of the risk inherent in a given transaction could be an alternative method for determining if there is enough risk transfer to satisfy the requirements of FAS 113. Even if a contract is priced above the market value of the risk it has, it still might meet the FAS requirements for risk transfer. However, as *significant loss* is to be interpreted relative to ceded premium, a deal could fail risk transfer, but pass if the premium is reduced. Thus there is a pricing continuum from weak pricing to strong pricing to excessive pricing to not enough risk transfer for 113 to no risk at all.

As an example of the application of the Wang transform to risk transfer, let $h(x) = 0.7x - 1.3$. This gives prices quite a bit above market standards, but might be in the area between excessive pricing and no risk transfer. To apply this to risk transfer testing, a number of scenarios can be simulated showing the present-value profitability to the reinsurer for each scenario, and resorted into a cumulative probability distribution. The expected value of the profit should be positive under this distribution, or the reinsurer would not be interested. But if you distort the probabilities with the Wang transform to give more weight to the adverse scenarios, the transformed expected value could be negative. If it is negative with the target h function selected, then risk transfer would be deemed to be established.

With the linear h assumed, the 50 excess 15 catastrophe cover in Example 1 would pass risk transfer, with a transformed mean of –440%, and would still barely pass (with a mean of –2%) with the premium increased to as much as \$25M., which gives a 1% probability of a 92% loss. This premium is well above typical market standards, but may be in the gray area between no risk transfer and excessive pricing. Setting the h function would be the judgment part of this approach. With these values, the quota share from Example 2 easily passes risk transfer with a transformed mean return of –19%.

Premium for the catastrophe cover much above \$25M would fail risk transfer by this standard. It might seem unusual to find a catastrophe cover not meeting risk transfer, but grossly overpriced catastrophe covers could be used as payback or to add the appearance of risk to basically cosmetic deals. An actuarial risk-measurement procedure should be able to identify them.

Exponential Transform
Oakley Van Slyke and Rodney Kreps, in an unpublished manuscript [2], suggest another possible approach to testing risk transfer through measuring the capital cost inherent in a reinsurance transaction. This is based on the work of Karl Borch, 1962 on quantifying risk costs. Borch shows that under certain assumptions the only risk-reflecting pricing transform that properly measures risk cost is an exponential transform. His assumptions - as discussed in Giuseppe Russo and Oakley E. Van Slyke [4] are essentially:

- There are no arbitrage opportunities. That is, the cedant would never pay more to cede a loss than the amount of the loss. In turn, no one would be able to sell insurance for a premium greater than the amount of the exposure.

- The evaluation of an alternative is robust with respect to the input data. That is, a small change in an input parameter should not lead to a large change in the evaluation of an alternative.

- The evaluation of an alternative is robust with respect to the analytical process one is using. For example, making small refinements to a particular scenario should not drastically change the evaluation of a particular alternative.
- The evaluation of an alternative is robust to changes in the time scale. For example, changing the time intervals of the analysis from quarterly to monthly should not have a significant change in the evaluation of an alternative.

- If there is no risk, one can determine the present value of a stream of future cash flows by discount factors derived from the term structure of interest rates.

These assumptions lead to establishing an equivalent constant risk-adjusted value (RAV) of a risky deal, subject to the risk capacity c that is carried. First let X represent the random loss from the deal, prior to any premium payments Then the Risk Adjusted Value of liabilities for risk-carrying capacity $c > 0$ is:

$$RAV(c) = c \ln \left\{ E\left[e^{X/c} \right] \right\}$$

this emphasizes large losses, more so as c is small and less so as c is large.

The risk load to take on these liabilities = RAV(c) – E[X], is then expressed as:

$$\pi = c\ln\left\{E\left[e^{X/c}\right]\right\} - E[X]$$

Van Slyke and Kreps then impose the condition that the capacity available is a multiple of the risk load:

$$c = \pi/s \Rightarrow \pi = \pi/s \ln\left\{E\left[e^{sX/\pi}\right]\right\} - E[X]$$

If you subtract a constant premium p from X and then evaluate the risk in the deal, E[X] and the RAV also decrease by p. Thus the risk load to package and resell the whole deal is the same as that for the losses alone. Then taking the financial scale as multiples of p would make X the negative of the return on premium. Taking Y = –X as the return on premium gives:

$$\pi = E[Y] + (\pi/s) \ln E[e^{-sY/\pi}]$$

as the equation for the risk load as a percent of premium for reselling the entire deal. If the market s is known, this equation can be solved numerically for π, which then can be used to compute the risk adjusted value of the deal. If the RAV is positive, the price is below market levels. If RAV is slightly negative, the deal is priced above the market, but still could be fairly risky. As with the Wang transform, however, when the RAV is too negative, the pricing eventually crosses the line between excessive pricing and no risk transfer.

Van Slyke did some other research that suggests that s = 0.4 would fairly represent pricing in a number of financial markets. This value will be assumed in the discussion which follows.

Taking the RAV cutoff point for return on premium as RAV = –70% would be similar to the Wang transform values illustrated above. For Example 1, the RAV would be about positive 75%, which would suggest that the postulated pricing is light in terms of market risk pricing. With the premium increased to $25M, the RAV drops to – 67.2%, so barely passes risk transfer by this standard. For the quota share Example 2, the RAV is about 25%, which suggests there is considerable risk remaining in this deal.

The Borch approach is based on somewhat different market assumptions than the transformed distribution approach. Although these are consistent for independent risks, there could be inconsistencies for correlated risks. For example, see G.G. Venter, *Premium Calculation Implications of Reinsurance without Arbitrage*, ASTIN Bulletin 21, #2, November 1991, where it is shown that arbitrage-free pricing for both correlated and independent risks can be done only with expected values from transformed distributions. This was one of the precursors of Wang's work. However by just focusing on the ending

distribution and ignoring intermediate changes in value, distribution transforms fail to account for the sudden drops in value that are modeled in stochastic financial pricing methods. The potential for discontinuous price drops seems to require more risk premium, possibly because dynamic hedging strategies are less effective. Thus although probability transforms on ending distributions can produce good benchmarking rules, they are not as fundamental as the financial stochastic process models, and have to be calibrated separately to each market studied.

Transformed 10 – 10 Rule

If the 10 – 10 rule is accepted for normal distributions, then a transformation can provide an equivalent standard for skewed distributions.

To see this, let X represent the ROP (return on premium) of the contract to the reinsurer, when this is negative and zero otherwise. *For this variable X with distribution F, define a new risk-measure as follows:*

1. *For a pre-selected security level* α=10%, *let* $\lambda = \Phi^{-1}(\alpha) = -1.282$, which is the α-th percentile of the standard normal distribution.
2. *Apply the Wang Transform*: $F^*(x) = \Phi[\Phi^{-1}(F(x)) - \lambda]$.
3. *Calculate the expected value under* F^*: $WT(\alpha) = E^*[X]$.
4. If $WT(\alpha) < -10\%$, it passes the test, otherwise it fails the test.

When X has a Normal(μ,σ^2) distribution, WT(α) is identical to the 100α-th percentile. This serves as a base or benchmark for 10-10-rule. For distributions that are non-normal, WT(α) may correspond to a percentile higher or lower than α, depending on the shape of the distribution.

For Example 1, the catastrophe layer, these values of the transform are a little less strict than the tests evaluated above, with premium as high as $34M for the layer meeting the test. For Example 2, the quota share, $WT(0.10) = -14.39\% < -10\%$, so it passes the transformed 10-10-rule.

In conclusion, at its core, FAS 113 requires only that risk transfer be present to gain reinsurance accounting treatment. FAS 113 does not require a 10-10 rule in gauging the risk transfer. The preceding sections offered some alternative measures such as TVaR, the Wang Transform, and the exponential transform for judging the degree of risk.

8. Beyond FAS 113.

Insights from the Securitization Task Force.
As configured, FAS 113 requires that the cedant establish that the reinsurer has assumed some amount of risk. If one were to consider the evaluation of risk transfer beyond that which is described in FAS 113, it would seem preferable that the cedant demonstrate a complementary concept: that they have, in fact, ceded risk. Thus, risk transfer would not be defined based on cash flows between parties, but rather the changed risk of the cedant – before and after application of the contract in question. This is essentially the logic the Index Securitization Task Force has used in proposing methods and metrics for companies to justify whether or not a hedge should qualify for reinsurance accounting.

The Index Securitization Task Force, in its paper [1], *Evaluating the Effectiveness of Index-Based Derivative in Hedging Property/Casualty Insurance Transactions*, describes potential quantitative measures of hedge effectiveness. These include change in Expected Policyholder Deficit, change in Value at Risk, change in Standard Deviation, coverage ratio and correlation. Of these, the first three examine the reduction of risk attributable to the hedge. At the request of the task force, VFIC narrowed this list to two measures that best demonstrated a reduction in exposure to loss, thus enabling a hedge to receive underwriting accounting treatment versus investment accounting treatment. These measures are: reduction in Tail Value at Risk and reduction in Standard Deviation.

As discussed above, Tail Value at Risk is defined as the average of all loss scenarios over the 100^p th percentile, where p is a selected probability level, such as .90. One can consider this measure a melding of the expected policyholder deficit and value at risk measures. The tail value at risk measure captures both the probability and magnitude of large under-recoveries. Based on empirical studies, the committee found that tail value at risk produced more consistent results than value at risk when the probability levels were varied.

The other measure the committee recommended, reduction in standard deviation, distinguishes between true hedges and speculative investments since it is sensitive to both upside deviation and downside risk.

With respect to the degree of risk reduction, one may consider that risk has been transferred if both or either of these measures demonstrates that their value is less following the application of the hedge or reinsurance contract. A more conservative view would set specific thresholds by some predefined amount.

Given this application of risk measurement for gauging the effectiveness of a hedge for reinsurance accounting treatment, it is not inconceivable that the same sort of standard be utilized to gauge risk transfer in reinsurance contracts. In fact, in the absence of consistent treatment, there is the potential for different standards and approaches to be applied when evaluating a reinsurance contract for risk transfer versus evaluating hedge effectiveness for index-based securitization.

9. Conclusions.

In order to garner reinsurance accounting treatment for GAAP accounting purposes, a reinsurance contract must meet the requirements set forth in FAS 113. FAS 113 requires that a reinsurance contract transfer risk. There is little supporting literature to find guidance in what constitutes an acceptable demonstration of the existence of risk in a reinsurance contract. In an effort to provide some guidance to the CAS membership on risk transfer testing, VFIC conducted a research project on risk transfer. Based on this research and analysis, VFIC concludes:

1. **Statement.** FAS 113 requires the reinsurer to be exposed to a "*reasonable possibility*" of a "*significant loss*" from the "*insurance risk,*" but it stops short of prescribing methodology for testing, metrics for measuring, or specific thresholds to judge risk transfer against. This is appropriate given the diversity and complexity of reinsurance transactions.

2. **Methodology.** Regarding methodology, FAS 113 articulates that risk transfer testing include:
   - A thorough understanding of contract provisions,
   - A model of the incidence of cash flows between parties,
   - Cash flows should be discounted at the same, appropriate rate, and
   - Incorporating insurance risk only

   These requirements preclude consideration of income taxes, reinsurer expenses, brokerage, or credit risk in the determination of risk transfer.

   To meet the FAS 113 requirements, we recommend that risk transfer analysis include:
   - *"Reasonable possibility"* requires a view of the distribution of expected contract losses,
   - Identification of threshold values for "*reasonable possibility*" of a "*significant loss*" based on the loss distribution, and
   - Duration-matched or immunized yields as the appropriate discount rates,

3. **Metrics.** Current practice, born out of the phrases "*reasonable possibility*" of a "*significant loss,*" splits risk transfer analysis into separate tests of probability and significance. Using a singular loss metric for a given probability is a metric known as Value at Risk, or VaR. This paper offered examples of three types of reinsurance contracts and calculated a VaR for each using 10% as the "*reasonable possibility.*"

   One weakness of VaR is that it does consider only a single point on the loss distribution. While FAS 113 literally speaks to the existence of a "*reasonable possibility*" of a "*significant loss,*" the broader issue involved with FAS 113 is whether a particular contract transfers risk. In this vein, VFIC explored risk

metrics other than VaR. First among these was expected policyholder deficit (EPD). Expected deficit methods were able to illustrate risk transfer for a property catastrophe example where the standard VaR measure (with α=10%) was not.

Both VaR and EPD measures have been criticized as risk measures because they are not coherent. Tail Value at Risk (TVaR) is a coherent risk measure. TVaR was analyzed, as well, and was found in simple examples to discriminate risk levels between contract types where EPD and VaR did not. Even TVaR has been criticized as a risk measure in that it ignores losses below VaR_α and loss above VaR_α are treated on an expected basis only.

Distributional transforms were researched as alternatives to traditional risk measures. Transforms are coherent and address the shortcomings of TVaR noted above. The exponential and Wang transforms provide risk transfer metrics founded in the risk load required for a market-based transaction to transfer the risk.

4. **Thresholds or Critical Values.** Over time, common practice seems to have concluded that a 10% chance represents a reasonable probability, and a 10% loss represented a significant loss. Thus we have what many term the 10-10 rule. This rule-of-thumb is really just a statement of the critical values associated with a VaR risk measure. There are clearly exceptions to this "rule," as other critical values are frequently used in practice.

   A sample finite reinsurance contract, designed to have minimal risk transfer, generated a TVaR of -23%. While this represents limited research, it may suggest a minimal threshold value for demonstrating risk transfer with this measure.

   Section 7 proposes a transformed 10-10 rule for the Wang transform, suggesting a critical value of –10% from the mean of the transformed distribution as an adequate demonstration of risk transfer.

   Regardless of the model employed or the risk metric used, judgment is still required as to where to establish the threshold values for probability (frequency) and significance (severity) for VaR tests or for pass/fail more generally for other risk measures. .

5. Intuitively, it seems natural to judge risk transfer for a reinsurance contract by analyzing whether the cedant has transferred (reduced) risk, not, as FAS 113 requires, by whether the reinsurer has assumed risk. On an enterprise-wide basis, the two can be different. On a single transaction, as FAS 113 addresses, the two perspectives may be the same. However, it should be noted that the recommendation on Index Securitization proposed the opposite: analysis is done from the cedant's perspective on an enterprise-wide basis. This could lead to

different accounting treatments for reinsurance products and index securitizations, unless both tests are required for securitization and industry loss triggers.

10. Bibliography.

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EXHIBIT 45

Copy to
Fred Kinkle
- S. Rosenthal
- M. Bogansky
- M. Dandy

AIG United Guaranty

United Guaranty
Residential Insurance Company
United Guaranty
Mortgage Indemnity Company
230 N. Elm Street/27401
P.O. Box 21367
Greensboro, NC 27420-1367
336.373.0232
800.334.8966
336.333.0585 Fax

March 10, 2006

Rich Bradfield
Cendent Mortgage Services
Accountant/Financial Reporting
3000 Leadenhall Road
Mt. Laurel, NJ 08054

Dear Captive Partner:

AIG United Guaranty would like to inform you about two recent state regulatory developments pertaining to captive reinsurance and our direct premium rates. Because these regulators have the power to regulate how AIG United Guaranty conducts the business of insurance, we are taking both developments very seriously and will be cooperating fully with both regulators.

On February 3, 2006, the Insurance Department of the State of New York issued a letter to United Guaranty Residential Insurance Company. We understand that the department issued similar letters to all MI companies licensed in New York. An image of that letter is provided as an enclosure.

The Minnesota Department of Commerce, which regulates insurance in that state, has issued a subpoena to several MI companies that requests information about their reinsurance captive programs. No AIG United Guaranty affiliate has been subpoenaed at this time, but we have met with the department to discuss our captive programs.

AIG United Guaranty considers captive reinsurance arrangements to be an important part of its risk management strategy. Because reinsurance has a long history of regulation, and our captive arrangements have been clearly reported on our statutory financial statements for many years, we believe captive reinsurance agreements are more appropriate and conform better to existing regulations than other risk-sharing arrangements between insurers and lenders.

You may recall that the New York Insurance Department issued a circular letter on February 1, 1999, that states captive reinsurance programs were permissible under New York law. The letter also states that captive programs are the only permitted form of risk-sharing between MI companies and their lending customers. Unfortunately, the Insurance Department did not follow through in developing specific regulations regarding captives.

Should any definitive regulatory outcomes become apparent, we will set up meetings with you to discuss how it may impact your risk management partnership with AIG United Guaranty.

Sincerely,

Daniel T. Walker
Senior Vice President–Structured Products

Enclosure

cc: Joe Suter, Cendant Mortgage Services
Nick Nicholes, Vice President-National Accounts
Chris Clement, Senior Vice President-National Accounts

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UNITED GUARANTY
LAW DEPARTMENT

STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

George E. Pataki
Governor

Howard Mills
Superintendent

February 3, 2006

Mr. William Nutt, Jr.
President and CEO
United Guaranty Residential Insurance Company
230 North Elm Street
Greensboro, NC27401

Re: Captive Mortgage Guaranty Reinsurance

Dear Mr. Nutt, Jr.:

Based upon the New York Insurance Department's continuing review of captive mortgage guaranty reinsurance, we are requiring the following information and documentation:

1. Pursuant to the provisions of Section 6504(a) of the New York Insurance Law ("NYIL"), please review the premium rates currently being used in New York State, and file adjusted rates based upon recent years' experience. If it is your contention that the recent years experience would not alter the rates being charged, provide us with a detailed explanation, in addition to an actuarial opinion, as to the assumption(s) underlying such position.

2. The provisions of Section 6504(b) of the NYIL prohibit the payment of consideration, directly or indirectly, by the insurer to the insured as an inducement or compensation for placement of the business. With respect to cessions to reinsurers owned by banks, it is clear that premiums paid to the reinsurer are consideration for the reinsurance agreement. Please provide documentation and a description of the due diligence the company used in the selection of the reinsurer that one could use to deflect any assertion that the payment was used as inducement or compensation for the placement of the primary business by the originating bank and/or bolster any claim that it is difficult or impossible to obtain mortgage reinsurance from non-captive reinsurers.

Please respond to this request by March 31st. Upon receipt of your responses to the above, further information/documentation may be requested.

Very truly yours,

Paul DeRobertis
Supervising Examiner
Property Bureau

EXHIBIT 46

BEAR STEARNS

Equity Research

Mortgage Finance

The Trouble with Captive Reinsurance
An Analysis of Excess of Loss Structures

- **CAPTIVES ARE BECOMING A BIGGER FACTOR FOR MORTGAGE INSURANCE (MI) COMPANIES.** Captive reinsurance arrangements, which are increasingly excess of loss structures, have become more common. The effect is to shift revenues from mortgage insurers to their lender partners in increasing amounts.

- **DEEP-CEDE CAPTIVES WILL INCREASINGLY IMPACT MI PROFITABILITY.** The wider use of deep-cede, excess of loss structures should lead to lower returns for MIs as business subject to captive arrangements and revenue sharing account for an increasing share of total business. We estimate that the four publicly traded MIs may cede close to $2.5 billion of revenue and $1.5 billion of earnings over the next five years.

- **MGIC'S MOVE TO HALT DEEP-CEDE BUSINESS COULD SIGNAL IMPROVEMENT IN ECONOMICS.** While MGIC (rated Peer Perform) is likely to lose some market share in the short run, as a result of its decision to stop writing low return, deep-cede captive business, other MIs may eventually follow its lead and reduce their writings in deep-cede captive arrangements.

- **MI STOCKS ATTRACTIVE AT CURRENT VALUATIONS.** Despite our expectations that returns on equity will decline over next several years, the shares of mortgage insurance companies appear attractive given already very depressed valuations. We rate the mortgage finance sector (which also consists of mortgage originators and mortgage investors) Market Weight.

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Please read the important disclosure information on the last three pages of this report.

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All pricing is as of the market close on March 4, 2003, unless otherwise indicated.

BEAR STEARNS

Summary and Recommendation

Over the past several years, private mortgage insurance companies (MIs) have generated very strong returns on equity (ROEs), which are even more impressive when one considers that risk-to-capital ratios have declined. This is in sharp contrast to the margin pressure experienced by lenders. So originators, in an effort to participate in this attractive business, have been setting up companies that seek to reinsure the default risk on the mortgage loans their operations produce.

While most MIs would prefer not to cede premiums to lenders' *captive reinsurance* operations, the MIs are not well positioned to fight this trend. Lenders act as referral sources for borrowers that require mortgage insurance, so they have considerable control over the allocation of insurance among providers. As a result of the lenders' power and influence, to gain their favor, MI companies have been increasingly willing to write insurance that is subject to captive arrangements. Currently, we estimate that between 40% and 50% of the policies the industry writes are subject to captives and a sharing of premiums.

Initially, the MIs ceded 15% of the premiums generated by policies, subject to captives, to lenders. But, recently, lenders have been asking for more. The largest originators are increasingly seeking "deep-cede" excess of loss arrangements, some of which require that the primary insurance provider parts with as much as 40% of a policy's written premium. The growing popularity of captives, combined with the movement toward deeper cessions means that the MIs are giving up larger and larger portions of their revenues. We estimate that companies are now ceding between 10% and 20% of the gross premiums they write.

In *theory*, the incremental revenues that lenders derive from captives are not without risk (in return for receiving premium income, lenders agree to take on some credit risk); though, in *practice*, there may not be much risk. Some of the captive arrangements that exist today have been structured so the lender is only at risk if claim rates end up being higher than "normal." To the extent mortgage insurers price their policies to earn mid-teens ROEs in "normal" environments, business written in deep-cede excess of loss captive arrangements are likely to generate returns (we estimate ROEs of 6%-9%) that are well below this hurdle rate.

These lower returns are not yet apparent in the MIs' financial results, as deep-cede captive structures have only recently become common and many of the policies that they affect have not yet seasoned or reached peak claim levels. In addition, some of the MIs have been able to offset the impact of captives by diversifying. Still, we believe that as the percentage of the industry's insurance in force subject to captives increases, and as policies season, the negative impact that captives have on returns will become more evident.

We estimate that captives could cost the four publicly traded mortgage insurers — MGIC Investment Corp. (MTG-$37.55; rated Peer Perform), Radian Group (RDN-$33.46; rated Outperform), PMI Group (PMI-$26.17; rated Outperform), and Triad Guaranty (TGIC-$33.54; Not Rated) — between $2.4 billion and $2.8 billion in revenues and between $1.4 billion and $1.6 billion in earnings over the next five

years. The low end of the range reflects a scenario in which the MIs have captive relationships with the ten largest U.S. mortgage originators, while the high end of the range reflects captive arrangements with the 25 largest originators.

In October 2002, MGIC Investment Corporation announced that as of April 1, 2003, it will no longer participate in excess of loss risk-sharing arrangements with premium cessions above 25%, a decision that may cost it market share in the short run but one that also reaffirms its focus on returns. MGIC's competitors appear ready to capitalize on this move, having indicated that they are not prepared to say "no" to their lender-customers. While this is likely to have a negative short-term effect on MGIC's market share and earnings, we expect longer-term benefits as returns are enhanced.

Even if MGIC were to lose three points of market share this year, we estimate that the company will still earn $5.85 per share in 2003 and $6.45 in 2004, in which case MTG shares are trading at about 1.0x our 2003 book value forecast and 0.8x our 2004 book value forecast. As a multiple of projected 2003 and 2004 EPS, the shares are equally depressed (6.4x and 5.8x, respectively).

We are troubled by other companies' plans to sacrifice long-term profitability for short-term market share gains. Radian and PMI may experience more rapid EPS growth over the next few years; but as deep-cede captive business accounts for an increasing share of their portfolios, and as overall returns decline, earnings growth will likely slow considerably. However, even with an expected decline in profitability, the current very low valuations still make PMI and RDN shares attractive investments, in our view (see charts in Appendix I).

The PMI Group trades at just 0.9x and 0.8x our 2003 and 2004 book value estimates, respectively. On a P/E basis, PMI shares trade at only 6.5x and 5.8x our 2003 and 2004 earnings per share estimates, respectively. Similarly, Radian Group, trades at just 1.0x and 0.9x our 2003 and 2004 book value estimates, respectively. On a P/E basis, RDN shares trade at only 7.1x and 6.2x our 2003 and 2004 EPS estimates, respectively. Our 2004 estimates could be low, depending on the extent to which these companies gain share from MGIC.

TARGET PRICES, VALUATION METHODOLOGY, AND RISKS

Our price targets for PMI and Radian are $45 and $55, respectively, and are derived using a residual income model (like economic value added [EVA]), which discounts the present value of the difference between the company's future expected earnings and cost of capital. Potential risks include 1) a significant increase in the unemployment rate and a downturn in home prices nationally, which could lead to higher credit-related expenses, and 2) extremely low interest rates and high levels of refinancing activity, which could continue to limit top-line growth and result in higher-than-normal operating expenses.

Captive Reinsurance Defined

PROVIDING REINSURANCE REQUIRES A LONG-TERM COMMITMENT

Lenders are clearly attracted to captives by the prospect generating billions of dollars of additional revenues; but, there are also some risks, at least in theory, and there is a long-term commitment that setting up a captive subsidiary entails. In addition to establishing subsidiaries that are licensed to reinsure primary MI companies, lenders must allocate capital to the captives in order to support the risk inherent in the coverage they plan to provide. Because mortgages typically have long risk tails, the capital requirements are significant, and are often similar to the loss, unearned premium, and contingency reserves that the primary MIs are required to hold under state insurance law.

State regulators require mortgage insurance companies to establish contingency reserves of $0.50 for each dollar of premium earned, which must be held for ten years regardless of how long the insured risk exists. To ensure the performance of captive reinsurers, primary MIs also require them to establish trust accounts. Reinsurance premiums are deposited directly into the trust accounts, and the captives may make withdrawals only if trust balances exceed certain predetermined reserve and risk-to-capital levels. The primary MIs may require express written consent for withdrawals. Both Fannie Mae and Freddie Mac also have eligibility criteria that require primary MIs to impose capital or rating requirements on captive reinsurers that reinsure more than 25% of risk written. Freddie Mac currently allows as much as 50% of the gross premiums written by a primary MI to be ceded to a captive.

Despite the fact that the capital requirements to operate captives are significant and reinsurers may initially have limited access to the cash generated by these businesses (given the ten-year contingency reserve mandate), premium income is reflected in GAAP financial statements as it is earned. As a result, most large lenders are eager to participate in captive programs. The favorable (for lenders) risk/reward characteristics of recent captive structures have been amplified by a still relatively benign credit environment for residential real estate, further increasing the appeal.

COMMON CAPTIVE STRUCTURES

Captive structures can take a variety of forms; but, generally, a lender originates loans, has them insured by a primary MI, and if a captive reinsurance agreement exists, the lender assumes a portion of the premium income generated by the policies in force. Although the primary mortgage insurer gives up some of its revenue through such profit-sharing arrangements, there are benefits. In theory, the main trade-off is that some of the claims are paid by the reinsurer.

Traditionally, there have been two types of captive arrangements: quota share and excess of loss.

Quota Share

Under a quota share arrangement, the reinsurer (the lender) assumes a proportion of the premiums written and losses paid, based on a fixed percentage. Lender participation begins with the first dollar of premiums and claims. For example, under a 25% quota share structure, the lender assumes 25% of the premiums but also accepts 25% of the claims expenses. Quota share arrangements have been known to be as high as 50%.

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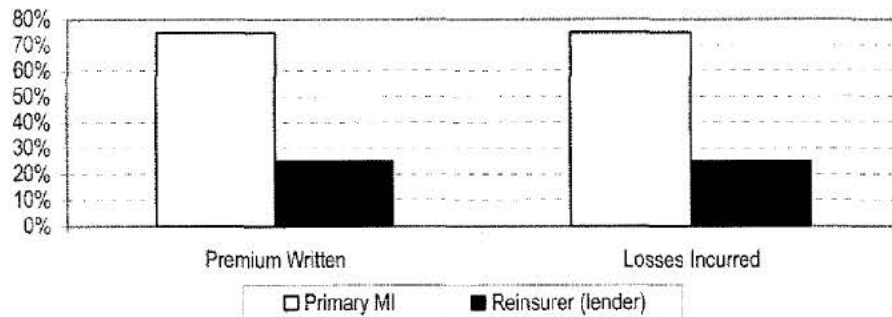
Exhibit 1. Quota Share Arrangement Assuming 25% Premium Cede and 25% Loss Cede

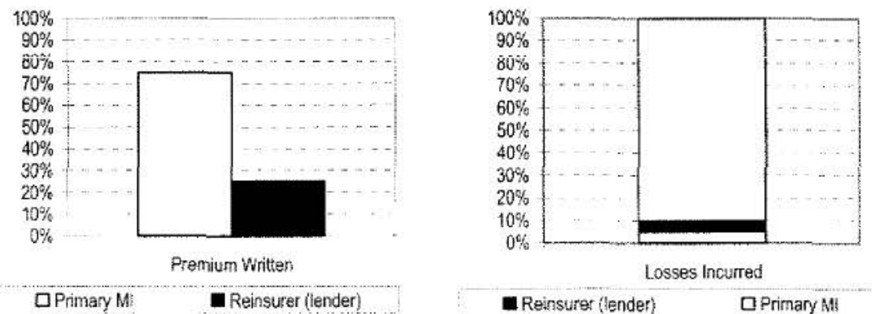


Source: Bear, Stearns & Co. Inc.

Excess of Loss

The balance of this report focuses on excess of loss captive structures and the impact they may have on the profitability of mortgage insurance companies. Recently, the excess of loss structures have been more popular with lenders. The MI and the lender that set up the captive negotiate the amount of premium that will be ceded. While the captive reinsurer is entitled to a participation in premiums written from day one, it is not responsible for any of the claims until a specified "attachment point" is reached. If claim development is in excess of the attachment point, the reinsurer begins to digest the credit losses until a policy limit is reached, at which time the primary insurer is again responsible for paying claims. The threshold that must be reached before the reinsurer begins to pay claims is usually defined by the *number* of claims that are incurred. For example, in a typical 25% excess of loss structure (where 25% of each premium dollar written in a captive is ceded to the lender), the primary mortgage insurer assumes the losses incurred on the first 5% of the captive policies that go to claim. The reinsurer covers the next 5% of captive policies that go to claim, and the primary MI takes on the catastrophic risk. Claim development is measured by the year in which policies are originated. For example, a captive's attachment point would be penetrated if more than 5% of the policies originated in it *in 2002* went to claim.

Exhibit 2. Excess of Loss Arrangement: 25% Premium Cede and 5% Loss Attachment Point



Source: Bear, Stearns & Co. Inc.

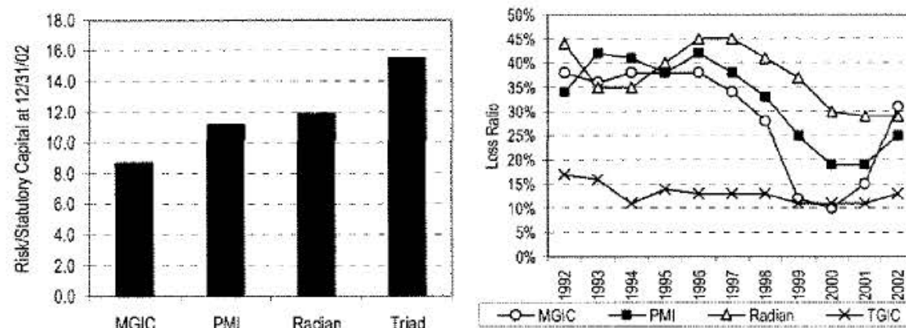
Because the credit environment has been excellent over the past several years, most captive attachment points have not been breached. Therefore, under excess of loss agreements, lenders have been able to share in the premiums of the mortgage

insurance industry but not incur any meaningful levels of loss. Despite the fact that the economics of these structures have been unfavorable for the MIs, lenders have been able to pressure the industry into ceding very high percentages of premium recently while maintaining relatively high attachment points.

Reasons Primary Insurers Use Reinsurance

Reinsurance, such as that provided by captives, has traditionally been procured by primary insurers that seek capital relief or are concerned about exposure to a particular asset class or geographic area. However, as the accompanying exhibits indicate, private mortgage insurers do not have to be concerned about capital levels (they are very well capitalized) or geographic concentrations (their portfolios are well diversified), and claims expenses seem likely to remain at fairly low levels. Clearly, loss mitigation has not been the catalyst behind the increased use of captive reinsurance over the past several years. Instead, it appears driven primarily by lenders finding their principal businesses of originating and servicing mortgages under pressure. These lenders see participation in mortgage insurance as an appealing way to supplement earnings from their core business.

Exhibit 3. Statutory Capital Ratios and Loss Ratios



Source: Company data; Bear, Stearns & Co. Inc. estimates.

Exhibit 4. Geographic Distribution of Risk in Force at 12/31/01

MGIC	% of RIF	PMI	% of RIF	Radian	% of RIF	Triad	% of RIF
California	12.0%	California	12.5%	California	16.4%	California	14.9%
Texas	6.2%	Florida	8.5%	Florida	7.4%	Florida	7.5%
Illinois	5.2%	Texas	6.8%	New York	6.4%	Texas	7.3%
Michigan	5.3%	Virginia	2.9%	Texas	5.2%	Illinois	6.7%
Ohio	4.6%	Washington	4.4%	Georgia	4.4%	Georgia	6.2%
New York	4.2%	Massachussetts	2.5%	Pennsylvania	3.5%	North Carolina	5.7%
Florida	6.3%	New York	4.7%	New Jersey	3.8%	Pennsylvania	4.0%
Pennsylvania	4.0%	Pennsylvania	3.6%	Arizona	4.0%	Colorado	3.6%
Georgia	3.2%	Georgia	3.8%	Illinois	3.6%	Arizona	3.4%
New Jersey	2.8%	Illinois	4.9%	Colorado	2.8%	Virginia	3.3%
Top 10	53.8%	Top 10	54.6%	Top 10	57.6%	Top 10	62.6%

Source: Company data.

Buying (Protecting) Market Share with Captives

Mortgage insurers have succumbed to the pressures that lenders have placed on them to "share" profits, and captive reinsurance arrangements are facilitating this practice. The phenomenon, whereby mortgage insurers are being forced to give away business, even though they don't need risk relief, is a reflection of a unique industry structure. Generally, *borrowers*, who make down payments of 20% or less when purchasing a home, are required to obtain and pay for mortgage insurance, but *lenders* determine which company will provide the coverage.

Because mortgage insurance is a commodity with consistent pricing (i.e., the characteristics of the policies written and the premium rates charged by the primary MIs are virtually identical), a lender is able to select the mortgage insurer *it* wants as there is virtually no difference to the consumer between offerings. This creates an environment in which lenders, because of their roles as referral sources, are well positioned to seek a portion of mortgage insurers' growing income streams.

Under the Real Estate Settlement Procedures Act (RESPA), lenders are not permitted to receive fees or compensation for referring business; but, MIs provide a variety of products and services to lenders to garner favor. These include captive reinsurance arrangements, which were initially developed as reasonable risk-sharing structures but have been taken to extremes in our view. We believe many recent structures have unfavorable return characteristics for the primary MIs.

Under the terms of the Baynham settlement, a class action suit that alleged RESPA violations, some MIs are now required to obtain a written opinion from an independent actuary indicating that the net ceded premiums under each captive agreement are "commensurate or reasonably related to the risk transferred." Despite the existence of actuaries' opinions, we believe that in many captive structures there may not be a proportionate transfer of risk; and we find it difficult to understand how some of these arrangements conform with the RESPA.

Hypothetical Return Analysis of Excess of Loss Captives

NEW CAPTIVE DEALS TRANSFER SIGNIFICANT PREMIUM AND LITTLE RISK

While the earliest captive structures transferred a portion of risk to lenders that was equivalent to the percentage of premiums ceded (i.e., quota share), many current structures cede a substantial percentage of earned premium while the risk transferred may be significantly lower or predicated on a very high number of claims (i.e., excess of loss). Excess of loss captives have quickly evolved from structures where 16% of premiums written were ceded to the reinsurer, with the primary insurer taking the first 4% of the claims (number of claims) and the lender/reinsurer taking the next 4%, to structures (known as 5-5-25s) where 25% of the premiums written were ceded to the reinsurer, with the primary MI agreeing to take the first 5% of claims and the lender/reinsurer taking the next 5%. Today, some captives are being structured so that 40% of premiums written are ceded to the lender/reinsurer, the primary MI takes the first 4% of claims, and the lender/reinsurer takes the next 10% of claims (known as 4-10-40s). Excess of loss captives that cede more than 25% of premiums are called "deep-cede" captives.

CLAIM RELIEF THAT IS TOO LITTLE, TOO LATE

In an environment in which claim development is substantial, captives should protect primary MIs from incurring significant losses. However, absent a significant economic downturn or decline in home prices, we believe it is unlikely that that claims will rise enough to deeply penetrate the lender attachment points specified in most captive arrangements. In fact, Countrywide Financial, a large lender with a captive reinsurance unit (Balboa), recently indicated that its models suggest there is only a 30% probability that Balboa will have pay claims on books of business that have attachment points of 5%.

Because the MIs do not provide vintage cumulative claim rate (the cumulative *number* of policies that have gone to claim in a given year as a percentage of total policies written in a given year) data, it is difficult to assess the likelihood that captive attachment points will be pierced. There is some information we have been able to collect that together enables us to do a reasonable job of estimating how many claims to expect from a book of business in a "normal" operating environment.

At a recent investor conference, Radian's CEO, Frank Fillips, indicated that a seasoned claim rate of 3% for prime loans is typical in a normal operating environment. And at PMI's annual investor meeting, management indicated that its 1989 book of business (which seasoned during a recession!) has only experienced a claim rate to date of about 4.5%. We suspect most MIs model their business for a claim rate that is somewhere in between these two figures.

Investors are used to evaluating the claim experience of companies by monitoring loss ratios (i.e., the dollar amount of claims as a percentage of the dollar amount of premiums earned) rather than claim rates, so we've attempted to equate the two metrics. The 4.5% cumulative claim rate on PMI's 1989 book of business translates to a roughly 53% cumulative loss ratio, based on disclosures in the company's 2001 10K. We know that most of Countrywide's reinsurance arrangements with MIs specify attachment points of 4% or 5%. And Countrywide has indicated that the 5% claim rate equates to a 50% loss ratio.

The following exhibit illustrates our contention that captive attachment points at claim rates of 4% or 5% are similar to loss ratios of 39% and 49%, respectively. This finding is consistent with the empirical data collected from PMI and Countrywide.

Exhibit 5. Comparing Claim Rates and Loss Ratios

Insurance in Force	$100,000,000,000	$100,000,000,000
Average Coverage	25%	25%
Risk in Force	25,000,000,000	25,000,000,000
Average Loan Size	$130,000	$130,000
Number of Policies in Force	769,231	769,231
Loss Attachment Point (number of claims/total policies in force)	4.0%	5.0%
Cumulative No. of Claims at Attachment Point	30,769	38,462
Average Claim Amount	$25,000	$25,000
Cumulative $ Claims at Attachment Point	$769,230,769	$961,538,462
Estimated Cumulative Premium Earned (1)	$1,982,000,000	$1,982,000,000
Cumulative $ Claims at Attachment Point	$769,230,769	$961,538,462
Cumulative Loss Ratio at Attachment Point	39%	49%

(1) Based on analysis shown in Appendix II.

Source: Bear, Stearns & Co. Inc. estimates.

We believe that most of the MIs price their business to meet a 15% return on equity objective, assuming a seasoned loss ratio of 35%-40%. These loss assumptions seem consistent with seasoned claim rates of 3.5%-4.0%, which are also common attachment points for many excess of loss captive arrangements. Because the primary MIs do not price captive policies differently than non-captive business, this means that by the time they start getting paid by reinsurers under excess of loss captive arrangements, it is too late, and their returns have already been negatively affected by large premium cessions. In our view, deep-cede excess of loss captives do not meet companies' return hurdles, and they only provide "reasonable" returns for the primary MIs if the credit environment is very good (as in the late 1990s). Even then, under ideal conditions, the ROEs on business written in a 40% excess of loss captive structure likely won't exceed the low teens.

DEEP-CEDE CAPTIVES GENERATE VERY LOW RETURNS

We reached this conclusion by modeling the profitability of a hypothetical book of insurance over a ten-year period assuming a 75% annual persistency rate (by year ten, about 95% of the risk in force had paid down or charged off). This translates into a weighted average book life of about three years.

We modeled a variety of return scenarios using different combinations of cumulative loss ratios and percentages of premiums ceded to captives. The matrix in Exhibit 6, shows the outcomes of the various combinations. Return calculations are based on a 15:1 risk-to-equity ratio, which is maintained over the life of policies in force. This effectively assumes that capital is successfully redeployed as the "risk" in force (i.e., the book of business) runs off over the ten years.

Two ROEs in the exhibit below are highlighted: 15% and 7%. Both scenarios assume a 35% cumulative loss ratio over the roughly ten-year life of the insurance book. The difference in the levels of profitability reflect the fact that in the 15% ROE scenario, the book of business is not part of a captive arrangement, while in the 7% ROE scenario, the book of business was written in a 40% excess of loss captive

structure (for the full model used to calculate the return data in the following exhibit, please see Appendix II).

Exhibit 6 clearly shows that deep-cede captives generate low returns under "normal" (35% loss ratio) business conditions.

Exhibit 6. Return on Equity of a Book of Business: Not Written in Captives vs. Written in Captives

		Cumulative Loss Ratio (ten years)									
		-20%	-25%	-30%	-35%	-40%	-45%	-50%	-55%	-60%	-65%
Premium Ceded	0%	20%	18%	17%	15%	14%	12%	11%	9%	8%	6%
	15%	18%	16%	14%	13%	13%	12%	12%	12%	12%	12%
	20%	17%	15%	13%	12%	12%	11%	11%	11%	11%	11%
	25%	16%	14%	12%	11%	10%	10%	10%	10%	10%	10%
	30%	15%	13%	11%	9%	9%	9%	9%	9%	9%	9%
	35%	14%	12%	10%	8%	8%	8%	8%	7%	7%	7%
	40%	13%	11%	9%	7%	6%	6%	6%	6%	6%	6%

Note: Assumes excess capital is redeployed and that a 15:1 risk-to-equity ratio (GAAP) is maintained over the life of the insurance book.

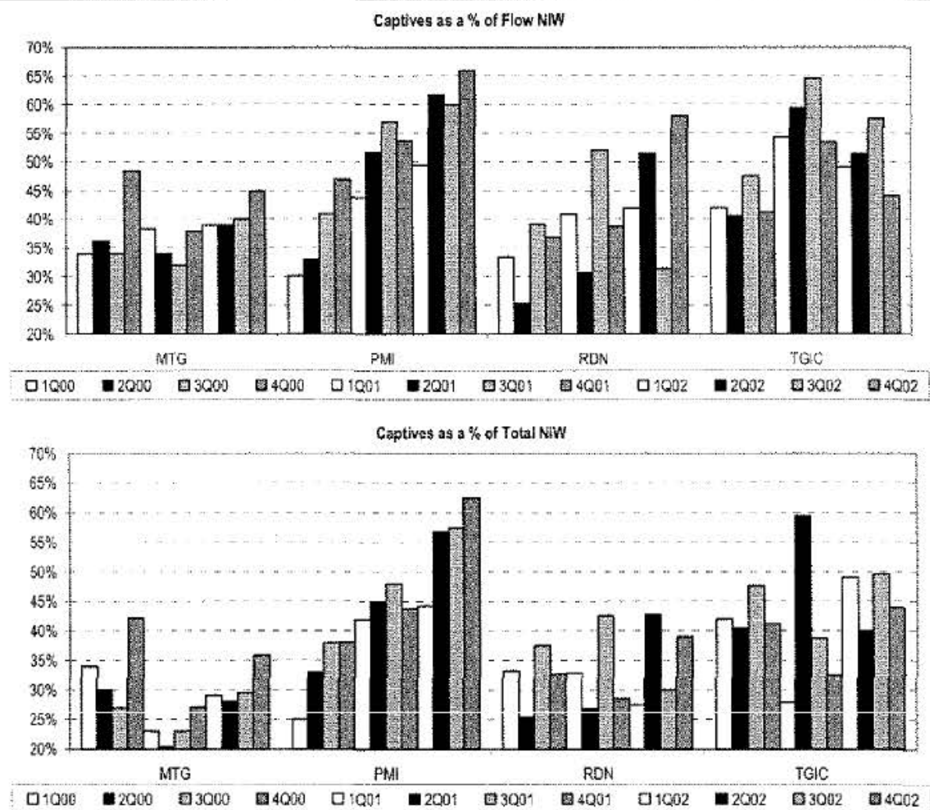
Source: Bear, Stearns & Co. Inc. estimates.

Empirical Impact of Excess of Loss Captives

EXCESS OF LOSS CAPTIVE PENETRATION HAS INCREASED

Over the last several years, all of the MI companies have written more of their business in captives, reflecting the pressures put on them by their lender "customers," who have set up reinsurance subsidiaries. The increasing popularity of captives is reflected by the charts in Exhibit 7. The percentage of *flow* new insurance written (NIW) that was subject to captives in the first quarter of 2000 was 34% for MGIC, 30% for PMI, 33% for Radian, and 42% for Triad, whereas in the fourth quarter of 2002, the amount of *flow* NIW subject to captives was 46% for MGIC, 66% for PMI, 58% for Radian, and 44% for Triad (note that there are quarterly fluctuations in the percentage of business written in captives at individual companies). The bulk insurance that the MIs write is not eligible for captives, so the percentage of *total* NIW subject to captives is lower than the percentage of *flow* NIW subject to captives.

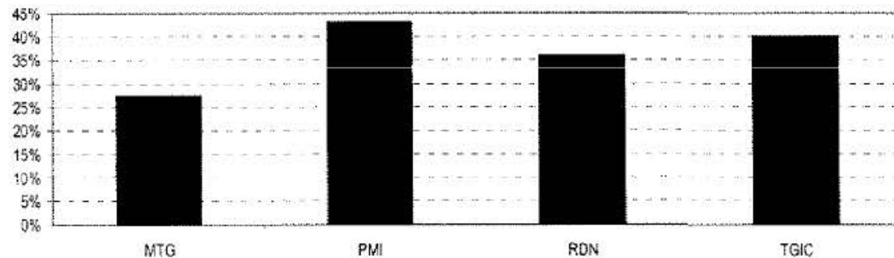
Exhibit 7. Percentage of New Insurance Written Subject to Captives



Source: Company data; Bear, Stearns & Co. Inc. estimates.

Because PMI and Triad have written more business in captives over the past couple of years, a greater percentage of their *insurance in force* is currently subject to captives compared to Radian and MGIC (though penetration is rising at these companies, too).

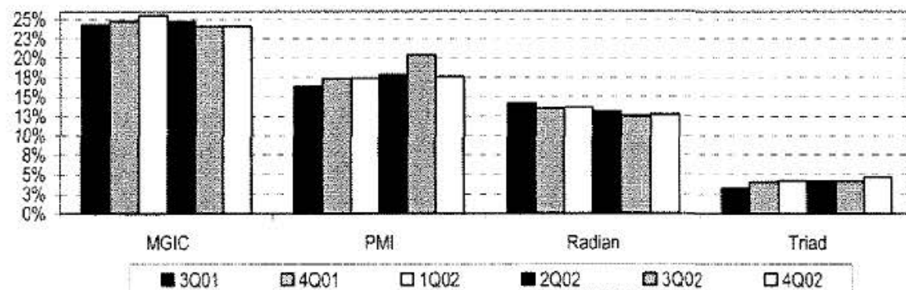
Exhibit 8. Percentage of Flow Insurance in Force Subject to Captives



Source: Company reports; Bear, Stearns & Co. Inc. estimates.

The fact that PMI and Triad appear to have written more business in captives over the past couple of years than the other companies, combined with our belief that they have entered into a significant number of deep-cede captive arrangements with large lenders (for example, PMI has indicated that it has deep-cede arrangements with 11 large lenders), may account for some of the market share gains that they have achieved recently.

Exhibit 9. Market Share Trends (Traditional, Flow Business Only)



Source: MICA; Bear, Stearns & Co. Inc. estimates.

PREMIUM CEDE RATES HAVE RISEN, TOO

These factors have also resulted in PMI and Triad ceding a greater percentage of their total gross written premiums than MGIC or Radian. Exhibit 10 below shows that in the fourth quarter of 2002, MGIC, Radian, PMI, and Triad ceded about 8%, 11%, 15%, and 17%, respectively, of their *total* written premiums. These values do not fully reflect the percentage of premiums that are being forfeited to captives, however, because they include premiums associated with bulk policies that are not subject to captives. Excluding written premium generated by bulk policies, we estimate that in the fourth quarter of 2002, MGIC, Radian, PMI, and Triad ceded about 11%, 15%, 17%, and 20%, respectively, of the gross written premiums generated by their *traditional, flow* books of business.

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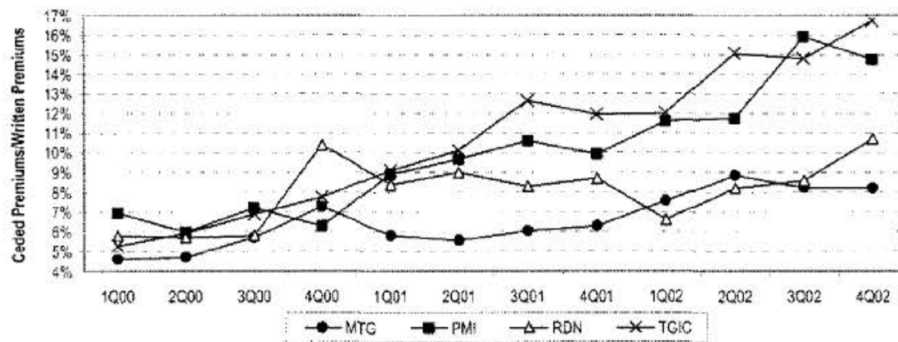
Exhibit 10. Reported Premium Cede Rate Trends



Source: Company data; Bear, Stearns & Co. Inc. estimates.

For most of the MIs, the percentage of insurance in force subject to captives is still considerably less than the percentage of new insurance written subject to captives (see Exhibit 11 and the columns that are boxed). Over time, as companies write more insurance in captives and as older policies that are not subject to captives run off, the percentages of new insurance written and insurance in force subject to captives should converge. The current refinance boom is accelerating that convergence to some extent. Until that happens, the percentage of premiums ceded relative to total premiums written or flow premiums written should continue to rise.

Exhibit 11. Summary of Current Captive Penetration and Premium Cede Rates (4Q02)

Company	% Total NIW in Captives	% Total IIF in Captives	Premiums Ceded/Total Premium Written	% Flow NIW in Captives	% Flow IIF in Captives	Premiums Ceded/Flow Premium Written	Estimated Average Premium Cede per Captive Agreement
MTG	36%	27%	8%	46%	34%	11%	30%
PMI	63%	43%	15%	66%	47%	17%	34%
RDN	39%	36%	11%	58%	44%	15%	33%
TGIC	44%	40%	17%	44%	45%	20%	40%

Source: Company data; Bear, Stearns & Co. Inc. estimates.

Unless there is a change in strategy, the percentage of flow insurance in force in captives will eventually rise to between 50% and 60%. The ten largest mortgage originators in the U.S. control a roughly 55% share of the market. If all of these lenders have captives, 55% of all *flow* new insurance written by the MIs would be subject to them. We estimate that the MIs willing to write 4-10-40 excess of loss business with these companies will end up ceding away approximately 22% of the *flow* premiums they write. To the extent that the MIs are also engaged in captives with other lenders, in addition to the top ten (e.g., 66% of PMI's flow NIW was written in captives in the fourth quarter of 2002), the eventual premium cede rate could be even higher.

PERCENTAGE OF PREMIUMS CEDED SHOULD CONTINUE TO RISE

Exhibit 12 shows estimates of where premium cede rates would eventually settle if the ten largest lenders (55% of the origination market), or if the 25 largest lenders (70% of the origination market), have captives. In this example, we assume that PMI and Radian have 40% excess of loss arrangements with the ten largest lenders and that MGIC has 25% excess of loss arrangements with those companies. We assume that the average amount of premium that PMI and Radian cede to the 25 largest lenders is 35% and that MGIC cedes 25%.

The fact that MGIC will no longer write deep-cede excess of loss business as of April 1, 2003, accounts for the lower amount of premiums we expect it to cede as a percentage of its *flow* and *total* premiums written.

Exhibit 12. Premium Cede Rates Based on Captive Penetration of NIW

If Have Captives with Ten Largest Lenders	MGIC	PMI	Radian	Average
Average Ceded Amount in Captive Arrangement	25%	40%	40%	35%
% of Flow IIF Written in Captives	55%	55%	55%	55%
Premiums Ceded as a % of Flow Premium Earned	14%	22%	22%	19%
% of Total IIF Written in Captives	41%	47%	44%	44%
Premiums Ceded as a % of Total MI Premium Earned	10%	19%	18%	16%

If Have Captives with 25 Largest Lenders	MGIC	PMI	Radian	Average
Average Ceded Amount in Captive Arrangement	25%	35%	35%	32%
% of Flow IIF Written in Captives	70%	70%	70%	70%
Premiums Ceded as a % of Flow Premium Earned	18%	25%	25%	22%
% of Total IIF Written in Captives	53%	60%	56%	56%
Premiums Ceded as a % of Total MI Premium Earned	13%	21%	20%	18%

Source: Company data; Bear, Stearns & Co. Inc. estimates.

Captives Are Eroding Book Values and Market Values

Exhibits 13-15 below are summaries of the estimated effect of captives on MGIC's, PMI's and Radian's EPS (no share repurchases assumed), book values, and stock market valuations. They estimate how much income the companies are foregoing because they cede revenues to lenders.

To reach the conclusions shown in the following exhibits, we assume that the percentage of insurance in force subject to captives at the beginning of 2003 is consistent with data reported by each company in the fourth quarter of 2002 (see Exhibit 8 on page 15). We further assume that over time, as each company's book of business grows and turns over, the percentage of insurance in force subject to captives reaches parity with the percentage of new insurance written subject to captives. We estimate this will take approximately four years, meaning the percentage of new insurance written and insurance in force subject to captives will be the same by the end of 2006. If the ten largest lenders have captives, this penetration rate is 55%. If the 25 largest lenders have captives, this penetration rate is 70%. The average amount of premium ceded per captive arrangement varies from mortgage insurer to mortgage insurer and is indicated in the footnotes to the exhibits.

Based on the current penetration rates of captives on individual companies' insurance portfolios, and the assumption that those penetration rates will reach 55% over the next four years, we estimate that captives will negatively affect MGIC's, PMI's, and Radian's 2003 EPS by $0.64, $0.73, and $0.58, respectively. And by 2007, we estimate MGIC's, PMI's, and Radian's EPS will be negatively affected by $1.12, $1.24, and $1.12, respectively.

A scenario whereby the 25 largest lenders have captives with each mortgage insurer is also documented in Exhibit 13 below.

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Exhibit 13. EPS Lost to Captives, 2003E-07E

Assuming Ten Largest Lenders Have Captives	2003E	2004E	2005E	2006E	2007E
MGIC Investment Corp. (1)	$0.64	$0.76	$0.89	$1.04	$1.12
PMI Group (2)	$0.73	$0.85	$0.99	$1.14	$1.24
Radian Group (2)	$0.58	$0.71	$0.87	$1.04	$1.12
Assuming 25 Largest Lenders Have Captives	**2003E**	**2004E**	**2005E**	**2006E**	**2007E**
MGIC Investment Corp. (1)	$0.70	$0.88	$1.09	$1.33	$1.43
PMI Group (3)	$0.75	$0.90	$1.08	$1.27	$1.38
Radian Group (3)	$0.60	$0.76	$0.95	$1.15	$1.25

(1) Average excess of loss arrangement is 25%.
(2) Average excess of loss arrangement is 40%.
(3) Average excess of loss arrangement is 35%.

Source: Bear, Stearns & Co. Inc. estimates.

Over the next five years, assuming the percentage of insurance in force subject to captives reaches 55%, we estimate that captives will have a cumulative negative effect of $4.46, $4.94, and $4.31 on MGIC's, PMI's, and Radian's book values per share, respectively. These are very material impacts on net worth, when considering the fact that these companies book values per share at the end of 2002 were $33.87, $24.42, and $29.42, respectively. The effect is greater if the 25 largest lenders have captives with each mortgage insurer and is also shown in Exhibit 14 below.

Exhibit 14. Cumulative Book Value per Share Lost to Captives, 2003E-07E

Assuming Ten Largest Lenders Have Captives	2003E	2004E	2005E	2006E	2007E
MGIC Investment Corp. (1)	$0.64	$1.40	$2.29	$3.33	$4.46
PMI Group (2)	$0.73	$1.57	$2.56	$3.71	$4.94
Radian Group (2)	$0.58	$1.29	$2.16	$3.20	$4.31
Assuming 25 Largest Lenders Have Captives	**2003E**	**2004E**	**2005E**	**2006E**	**2007E**
MGIC Investment Corp. (1)	$0.70	$1.58	$2.66	$3.99	$5.42
PMI Group (3)	$0.75	$1.66	$2.73	$4.01	$5.38
Radian Group (3)	$0.60	$1.37	$2.32	$3.47	$4.71

(1) Average excess of loss arrangement is 25%.
(2) Average excess of loss arrangement is 40%.
(3) Average excess of loss arrangement is 35%.

Source: Bear, Stearns & Co. Inc. estimates.

In our view, the negative impact of captives on earnings should have a negative effect on the stock market values of the private mortgage insurance companies. For example, assuming the ten largest lenders have deep cede excess of loss captives, we estimate that by the end of 2003, MGIC's stock price will be roughly $5 lower, PMI's stock price will be roughly $6 lower, and Radian's stock price will be $5 lower than they would otherwise be if these companies weren't ceding any revenues to lenders. This assumes the shares of MI companies will trade at forward P/E ratios of 8x (which we think is conservative). Our estimates of the effect on stock market value if the 25 largest lenders have excess of loss captives with each mortgage insurer is also indicated in Exhibit 15 below.

Exhibit 15. Estimated Market Value per Share Lost to Captives, 2003E-07E

Assuming Ten Largest Lenders Have Captives	2003E	2004E	2005E	2006E	2007E
MGIC Investment Corp. [1]	$5.12	$6.06	$7.13	$8.33	$9.00
PMI Group [2]	$5.80	$6.79	$7.90	$9.15	$9.88
Radian Group [2]	$4.64	$5.71	$6.92	$8.29	$8.95
Assuming 25 Largest Lenders Have Captives	***2003E***	***2004E***	***2005E***	***2006E***	***2007E***
MGIC Investment Corp. [1]	$5.57	$7.04	$8.71	$10.60	$11.45
PMI Group [3]	$6.01	$7.24	$8.63	$10.19	$11.00
Radian Group [3]	$4.83	$6.12	$7.57	$9.23	$9.97

(1) Average excess of loss arrangement is 25%.
(2) Average excess of loss arrangement is 40%.
(3) Average excess of loss arrangement is 35%.

Source: Bear, Stearns & Co. Inc. estimates.

Managements Have Taken Different Positions on Captives

DO DEEP-CEDE CAPTIVES EVER MAKE SENSE?

Writing business in deep-cede captives *might* make sense for companies that a) would lose the business if they weren't willing to cede the premium, *and* b) are overcapitalized, *and* c) are unable to effectively return the excess capital to shareholders, *and* d) can be certain that returns on the deep-cede business will exceed the returns that could be generated if the capital was invested in low-risk fixed-income investments instead.

In Exhibit 6 on page 13, we've assumed that captive reinsurers begin to pay all claims when the cumulative loss ratio for a book of business exceeds 35%. At this point, even if losses continue to increase, the primary MI's business that was written in excess of loss captive structures no longer experiences declining returns. The ROE for a 4-10-40 structure, for example, would trough at about 6%, a higher return than companies can likely earn on fixed-income investments in the current interest rate environment. This *might* justify writing business in deep-cede captives rather than having capital sit idle. But, it is important to recognize that we have only estimated that reinsurers begin to pay claims when the loss ratio exceeds 35%. It is possible that the threshold is higher (or perhaps lower in some cases). If the attachment point is too high, and the captive arrangements have been structured poorly, the floor ROE could be closer to 0% in some circumstances. Unfortunately, there is no way to tell.

MGIC, which has excess capital, can't redeploy it or return it to shareholders to the extent that it would like to, and recognizes the risks (to its market share) of not writing deep-cede captive business, has already told lenders that it will stop doing so at the end of the first quarter of 2003. This decision reflects management's view that the company will be unable to generate adequate returns on deep-cede captive business under normal credit conditions, an assessment we agree with.

PMI (and other companies) appears willing to continue to write policies in deep-cede captive structures. At the company's recent investor conference, management indicated that it can tolerate the lower returns generated by deep cedes because it has other sources of revenue (such as non-U.S. mortgage insurance), which it believes provide an offset. We're not convinced that this strategy makes sense longer term, unless PMI's business mix shifts more quickly from the current 80%-85% accounted for by U.S. mortgage insurance.

Exhibit 16 below shows that over the past several years, MGIC has generally had one of the lowest reported combined ratios among the private MIs. Recently, however, its combined ratio has risen above those of its peers, which seems to now put MGIC at a modest disadvantage when pricing captives. Still, as we see it, even in very good operating environments, most of the private MIs have combined ratios of *more than* 45%. To the extent these ratios revert back to the higher levels experienced in more normal operating environments, we don't believe MIs can continue to produce double-digit returns on equity on books of business that are written in deep-cede captives.

Exhibit 16. Combined Ratios of Private Mortgage Insurance Companies

Combined Ratio	MGIC	PMI	Radian	TGIC	RMIC	UGC
1992	91%	67%	77%	75%	NA	NA
1993	80%	73%	81%	65%	NA	NA
1994	72%	72%	74%	60%	NA	NA
1995	65%	62%	71%	59%	NA	NA
1996	62%	60%	72%	55%	NA	NA
1997	56%	59%	70%	50%	61%	NA
1998	53%	58%	70%	48%	60%	60%
1999	37%	55%	71%	45%	56%	43%
2000	31%	45%	51%	45%	45%	41%
2001	38%	44%	54%	46%	44%	37%
2002	54%	45%	56%	48%	NA	NA

Note: RMIC, or Republic Mortgage Insurance Company, is a subsidiary of Old Republic International. UGI, or United Guaranty Corporation, is a subsidiary of American International Group, Inc.

Source: Company data; Bear, Steams & Co. Inc. estimates.

MGIC Likely to Lose Market Share

MGIC's decision to stop writing deep-cede, excess of loss insurance is significant. If the other MIs follow MGIC's lead, they would all presumably benefit from better pricing without experiencing meaningful market share shifts. Unfortunately, it appears that, for now, competitors will continue to write insurance through modestly profitable captive structures. PMI and Radian have suggested that they plan to "wait and see" how lenders react to MGIC's announcement, with hopes of gaining market share at MGIC's expense apparently influencing their thinking. Triad also seems unlikely to follow MGIC, as it has been an innovator in captive solutions over the past several years and has gained market share as a result.

MGIC may turn out to be a short-term loser if the other primary mortgage insurers don't stop writing business in deep-cede captives. Eleven of MGIC's largest customers either have or want a 40% excess of loss captive arrangement with the company. So far, MGIC's discussions with lenders are apparently progressing well, and some lenders appear willing to consider alternatives to 40% deep-cede captives. Management is optimistic that it will still be able to salvage many of those relationships.

We believe that the same lenders that have or want deep-cede captive arrangements are also the ten largest customers of most of the private mortgage insurers. MGIC's ten largest customers sent it nearly 40% of its business in 2001. We estimate that they account for approximately ten points of the company's 25% market share.

Exhibit 17. Market Share from Top Ten Customers

	NIW from Top Ten Customers - 2001	Traditional (Flow) Market Share - YTD 2002	Estimated Flow Market Share from Top Ten Customers
MGIC	38%	25%	10%
PMI	38%	19%	7%
RDN	43%	13%	6%

Source: Company reports; Bear, Steams & Co. Inc. estimates.

Even if lenders decide to punish MGIC for not writing policies in deep-cede captive structures, we doubt they will pull all of their business away from the company for the following reasons:

- **Strong Relationships and Valuable Products.** MGIC has established strong relationships with its lenders over the years, and it continues to provide them with valuable products and services in addition to captives (e.g., Defender, eMagic, EQUIX Financial Services, and Lender Landscape).

- **Brokers and Correspondents Play a Role in the Decision Process.** Large lenders may not be able to completely control which mortgage insurers are used by the brokers and correspondents they source business from. In a recent survey of brokers, conducted by Campbell Communications and sponsored by *Inside Mortgage Finance*, when asked about their relationships with the top ten lenders, 55% of them said they were dissatisfied and were considering switching wholesale lenders due to poor service. About 40% of brokers cited slow underwriting as the primary reason for their dissatisfaction. The study also indicated that one way brokers did save time was to use remote contract underwriting services provided by mortgage insurance companies. To the extent that MGIC has strong relationships with, and provides value (including fast contract underwriting) to, brokers and correspondents, it may be able to preserve most of the market share that it derives through the wholesale origination channel. *Countrywide has indicated that it has full control over the placement of* mortgage insurance at the broker level, but that correspondents make their own decisions. Nearly 47% of Countrywide's mortgage production was originated by correspondents in 2002. Even if most large lenders make the mortgage insurance decision for broker originated loans, 30%-35% of the mortgage production in the U.S. is originated through the correspondent channel. This suggests that of the ten percentage points of MGIC's market share potentially at risk, at least three to four percentage points are relatively secure even if lenders with captives choose to reallocate business away from MGIC.

- **Quota Share or 25% Excess of Loss Captives May Be Sufficient.** Some of the lenders in question may choose to continue to do business with MGIC in quota share arrangements instead of excess or loss arrangements. MGIC is willing to write 40% quota share business because there is real risk sharing. Some lenders have apparently expressed a willingness to consider 5-5-25 structures as well as quota share arrangements.

Exhibit 18 seeks to quantify the impact of various levels of market share loss on MGIC's EPS and growth of insurance in force in 2003 and in 2004, assuming the company does stop writing business in deep-cede captives on April 1, 2003. We've assumed that there is an impact on market share beginning in the second quarter of 2003. While we varied the amount of new insurance that the company will write over the next two years, we kept all of the other variables (i.e., other income, operating and credit expenses, persistency) in our earnings model constant. In reality, it seems possible that if MGIC loses market share and writes less new business, it would incur slightly lower underwriting expenses than we have assumed (and companies that gain market share would incur slightly higher underwriting expenses). In the short run, seeking market share gains at the expense of writing

business that doesn't meet corporate return hurdles may have a positive impact on the earnings and book growth of MGIC's competitors (see Exhibits 19-20) and a negative impact on the earnings and book growth of MGIC (Exhibit 18). Longer term, an increase in share as a result of writing more deep-cede captive business may result in lower profitability for the companies that gain share from MGIC.

Exhibit 18. Impact of Loss of Market Share on MGIC's EPS and Insurance in Force Growth

Market Share of NIW	2003 EPS	2003 IIF Growth	2004 EPS	2004 IIF Growth
25.0%	$5.95	5.4%	$6.87	11.3%
24.5%	$5.93	5.0%	$6.80	10.8%
24.0%	$5.91	4.5%	$6.73	10.4%
23.5%	$5.90	4.0%	$6.66	9.9%
23.0%	$5.88	3.5%	$6.59	9.4%
22.5%	$5.86	3.1%	$6.52	9.0%
22.0%	$5.85	2.6%	$6.45	8.5%
21.5%	$5.83	2.1%	$6.38	8.0%
21.0%	$5.81	1.7%	$6.31	7.5%
20.5%	$5.79	1.2%	$6.24	7.0%
20.0%	$5.78	0.7%	$6.17	6.5%
19.5%	$5.76	0.2%	$6.10	6.0%
19.0%	$5.74	-0.2%	$6.03	5.5%
18.5%	$5.73	-0.7%	$5.96	5.0%
18.0%	$5.71	-1.2%	$5.89	4.5%
17.5%	$5.69	-1.6%	$5.82	4.0%
17.0%	$5.67	-2.1%	$5.75	3.4%
16.5%	$5.66	-2.6%	$5.68	2.9%
16.0%	$5.64	-3.0%	$5.61	2.4%
15.5%	$5.62	-3.5%	$5.55	1.8%
15.0%	$5.61	-4.0%	$5.48	1.3%

Note: Row that is boxed reflects the current Bear Stearns estimates. A 22% share of new insurance written implies that that *MGIC will lose three points of market share due to its decision to no longer write business in deep-cede captive arrangements.*

Source: Bear, Stearns & Co. Inc. estimates.

Exhibit 19. Impact of Change in Market Share on PMI's EPS and Insurance in Force Growth

Market Share of NIW	2003 EPS	2003 IIF Growth	2004 EPS	2004 IIF Growth
27.0%	$4.30	23.4%	$5.68	27.2%
26.5%	$4.29	22.6%	$5.62	26.6%
26.0%	$4.27	21.8%	$5.56	26.1%
25.5%	$4.26	21.0%	$5.50	25.5%
25.0%	$4.24	20.2%	$5.44	24.9%
24.5%	$4.23	19.4%	$5.38	24.3%
24.0%	$4.21	18.6%	$5.32	23.7%
23.5%	$4.20	17.8%	$5.26	23.1%
23.0%	$4.18	17.0%	$5.20	22.5%
22.5%	$4.17	16.1%	$5.14	21.8%
22.0%	$4.15	15.3%	$5.08	21.2%
21.5%	$4.14	14.5%	$5.02	20.5%
21.0%	$4.12	13.7%	$4.96	19.9%
20.5%	$4.11	12.9%	$4.91	19.2%
20.0%	$4.09	12.1%	$4.85	18.5%
19.5%	$4.08	11.3%	$4.79	17.9%
19.0%	$4.06	10.5%	$4.73	17.2%
18.5%	$4.05	9.7%	$4.67	16.5%
18.0%	$4.03	8.9%	$4.61	15.7%
17.5%	$4.01	8.1%	$4.55	15.0%
17.0%	$4.00	7.3%	$4.49	14.3%

Note: Row that is boxed reflects the current Bear Stearns estimates. We have not built any market share gain (at the expense of MGIC) into our insurance in force or EPS estimates for PMI yet.

Source: Bear, Stearns & Co. Inc. estimates.

Exhibit 20. Impact of Change in Market Share on Radian's EPS and Insurance in Force Growth

Market Share of NIW	2003 EPS	2003 IIF Growth	2004 EPS	2004 IIF Growth
24.0%	$5.02	22.6%	$6.67	25.7%
23.5%	$5.01	21.7%	$6.61	25.1%
23.0%	$4.99	20.9%	$6.54	24.5%
22.5%	$4.97	20.0%	$6.47	23.8%
22.0%	$4.95	19.2%	$6.41	23.2%
21.5%	$4.94	18.4%	$6.34	22.6%
21.0%	$4.92	17.5%	$6.27	21.9%
20.5%	$4.90	16.7%	$6.20	21.3%
20.0%	$4.89	15.8%	$6.14	20.6%
19.5%	$4.87	15.0%	$6.07	19.9%
19.0%	$4.85	14.1%	$6.00	19.2%
18.5%	$4.84	13.3%	$5.94	18.5%
18.0%	$4.82	12.5%	$5.87	17.8%
17.5%	$4.80	11.6%	$5.80	17.1%
17.0%	$4.78	10.8%	$5.74	16.4%
16.5%	$4.77	9.9%	$5.67	15.6%
16.0%	$4.75	9.1%	$5.60	14.9%
15.5%	$4.73	8.3%	$5.54	14.1%
15.0%	$4.72	7.4%	$5.47	13.3%
14.5%	$4.70	6.6%	$5.40	12.5%
14.0%	$4.68	5.7%	$5.33	11.7%

Note: Row that is boxed reflects the current Bear Steams estimates. We have not built any market share gain (at the expense of MGIC) into our insurance in force or EPS estimates for Radian yet.

Source: Bear, Steams & Co. Inc. estimates.

ALTERNATIVE PROFIT-SHARING ARRANGEMENTS

There are ways other than captives that enable MI companies to share profits and build strong relationships with lenders. MGIC recently established its Advantage program, which is similar to GE's Preferred Partner program. Advantage is a pay-for-performance program, whereby the primary MI compensates the lender based on the quality of the business the lender delivers to it. This potentially increases returns for both the primary MI and the lender, rather than reducing the returns of the primary MI, as is the case with most excess of loss captives.

Because lenders are compensated under the Advantage programs based on borrower risk scores generated by MGIC's underwriting system, it is critical that they understand the characteristics that produce the highest score and, accordingly, the largest fee. There are a variety of variables that are critical (see Exhibit 21 below).

Exhibit 21. Variables Affecting MGIC's Risk Score

Loan-to-Value Ratio	Mortgage Term
Debt-to-Income Ratios	Mortgage Instrument Type
Type of Documentation from Borrower	MGIC Coverage Percentage
Market in Which Property Is Located	Occupancy Status
FICO or Other Credit Score	Property Type
Loan Purpose	

Source: MGIC.

The credit scores generated by MGIC's system are associated with expected levels of profitability. According to MGIC, a score of 60 is the baseline level of profitability that it is willing to accept. To the extent that scores are higher than the baseline requirement, it is willing to make a payment to the lender. That payment is less than the incremental profit benefit it expects given the higher-than-average quality of the loans that that the lender has asked MGIC to insure. Exhibit 22 shows various MGIC

mortgage scores and how they correspond to expected profits and the fee that MGIC will pay the lender for sending the business.

Exhibit 22. MGIC's Profitability from Levels of MGIC's Score

MGIC Mortgage Score	Average Expected Gross Margin	MGIC's Average Margin Above Base Margin	Payment to Lender for Quality Services
Under 70	Under 70 bps	Under 10 bps	0 bps
70.0 - 79.9	75	15	10
80.0 - 89.9	85	25	20
90.0 - 99.9	95	35	30
100.0 - 109.9	105	45	35
Above 109.9	Over 100	Over 50	40

Source: MGIC.

Under the Advantage program, lenders are also required to perform certain services, which benefit MGIC from a credit and operating perspective. These include providing loan counseling for borrowers, educating them about homeownership and mortgage loans in order to reduce delinquency, and providing them with information about the benefits of private mortgage insurance. Lenders are also encouraged to communicate and deliver information electronically.

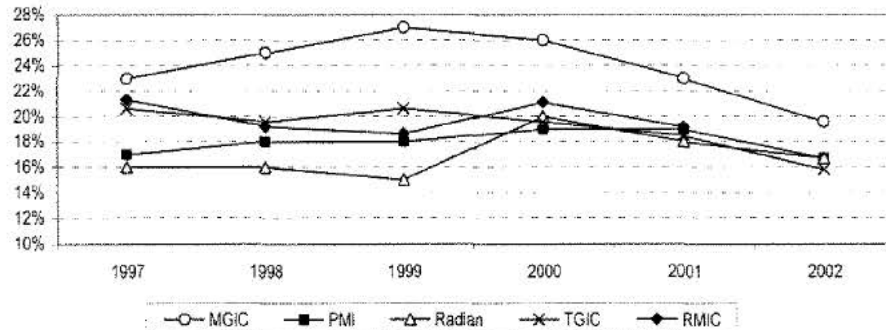
There are some drawbacks. For one, this program is primarily targeted to smaller lenders, and it may not be perceived by larger originators as an adequate replacement for deep-cede captives. Also, if other mortgage insurers develop similar programs, this might also take away from its effectiveness. In essence, lenders could continue to distribute business to the various MI companies as they did prior to the introduction of pay-per-performance programs, yet now they would receive compensation for a portion of the loans that are insured. Some states, including California, have rejected these programs because the are seen to violate insurance regulations that prohibit rebates.

Returns for the MI Industry Likely to Decline

RETURNS WERE *HIGHER THAN* NORMAL IN THE LATE 1990S

Exhibit 23 indicates that over the past several years returns on equity have generally been very high for the private mortgage insurance industry. In most cases, they've exceeded the 15% hurdle rate that we believe most companies target.

Exhibit 23. Return on Equity Trends



Note: ROEs for PMI and Radian include businesses other than mortgage insurance, but we do not believe that these have artificially inflated consolidated returns.

Source: Company data; Bear, Stearns & Co. Inc. estimates.

This strong performance can be attributed to several factors:

- **Low Penetration of Captives.** Until recently, excess of loss captives only represented a fraction of the MI industry's insurance in force. As a result, the lower returns that we believe characterize business written in captive arrangements have not yet had a significant effect on overall profitability.

- **Better-than-Expected Credit Experience.** Over the last five years, credit performance has been excellent. As a result, loss ratios have been lower than the levels that most MIs assumed when they set pricing to achieve mid-teens ROEs.

- **Shorter Policy Lives.** There have been several refinance booms over the past five years, which have resulted in a high level of runoff (only some of which returned to industry in the form of new policies). This limited the aging of MI companies' insurance portfolios. Losses are typically very low (and, accordingly, returns are very high) in the first few years of an insurance policy's life, and usually peak (and returns trough) in years three through five. If a book of business refinances after two years, then the impact of losses on a company's returns is considerably less than if the loans seasoned while the MI still had exposure to the credit risk.

- **Higher Premium Rates on Some Business.** The MIs began to write bulk business over the past several years, which has proven to be an excellent source of new growth. Generally, that business carries very high premium rates and should therefore have produced higher-than-average returns before seasoning. This has helped mask the lower returns of captive policies even as they have accounted for a rising portion of companies' insurance.

RETURNS LIKELY TO DECLINE

Some of the factors that contributed to higher-than-normal returns over the past several years seem likely to diminish over the next few years:

- **Captive Penetration Increasing and Cedes Are Deeper.** Business written in captives may only yield premium income that is 60%-75% of that produced by non-captive business; and to the extent that captive penetration, and in particular deep-cede captive penetration, of insurance in force is increasing, there will be a negative effect on companies' returns.

- **Credit Quality Deteriorating.** Credit quality is deteriorating as a result of higher unemployment and due to the fact that underwriting standards were loosened over the past few. In addition, as the government-sponsored enterprises (GSEs) have broadened their offerings to serve more new borrowers, the MIs have written insurance on higher-risk loans. These mortgages are now beginning to season.

- **Books of Business May Stay in Force Longer.** Newer books of business will likely remain in force for a longer period of time, and probably through the period of peak losses. This reflects lower rates on new loans and therefore a lower propensity to refinance.

- **Bulk Loans Are Seasoning.** As losses rise, returns will better reflect the longer-term performance of bulk business, as opposed to the very high returns reported prior to any loss development.

The following chart reflects our estimates of mortgage insurers' long-run returns on equity under two scenarios: companies have excess of loss captive relationships with the ten largest lenders and with the 25 largest lenders. We've assumed that MGIC does not write any business in captives that require premium cedes of more than 25%. While we estimate that the returns on MGIC's core MI business are higher than its peers (because of its decision to avoid deep-cede captives), the differential is less significant when analyzing companies' consolidated returns. This is because PMI and Radian have diversified to some extent over the past few years.

Exhibit 24. Estimated Long-Run Returns on Equity of Mortgage Insurance Companies

	Captives with 10 Largest Lenders			Captives with 25 Largest Lenders		
	MTG	RDN	PMI	MTG	RDN	PMI
% of Flow IIF Not Subject to Excess of Loss Captives [1]	45%	45%	45%	30%	30%	30%
% of Flow IIF Subject to Excess of Loss Captives [2]	55%	55%	55%	70%	70%	70%
Total Flow Insurance in Force	100%	100%	100%	100%	100%	100%
% of Total IIF Not Subject to Excess of Loss Captives [1]	59%	56%	53%	47%	44%	40%
% of Total IIF Subject to Excess of Loss Captives [2]	41%	44%	47%	53%	56%	60%
Total Insurance in Force	100%	100%	100%	100%	100%	100%
% of IIF Not in Captives	59%	56%	53%	47%	44%	40%
% of IIF in 25% Excess of Loss Captives	41%	0%	0%	53%	12%	13%
% of IIF in 40% Excess of Loss Captives	0%	44%	47%	0%	44%	47%
ROE of Non-Captive Business	15%	15%	15%	15%	15%	15%
ROE of 25% Excess of Loss Captive Business	11%	11%	11%	11%	11%	11%
ROE of 40% Excess of Loss Captive Business	7%	7%	7%	7%	7%	7%
MI Earnings as a % of Total Consolidated Earnings	100%	65%	80%	100%	65%	80%
Other as a % of Consolidated Earnings	0%	35%	20%	0%	35%	20%
Total Consolidated Earnings	100%	100%	100%	100%	100%	100%
ROE - Mortgage Insurance Unit	13.4%	11.5%	11.2%	12.9%	11.0%	10.7%
ROE - Other Businesses	nm	15.0%	15.0%	nm	15.0%	15.0%
ROE - Consolidated	13.4%	12.7%	12.0%	12.9%	12.4%	11.6%

(1) The percentage of flow insurance in force not subject to captives is different from the percentage of total insurance in force not subject to captives because total insurance in force includes bulk MI policies, which are not subject to captive arrangements.

(2) The percentage of flow insurance in force subject to captives is different from the percentage of total insurance in force subject to captives because total insurance in force includes bulk MI policies, which are not subject to captive arrangements.

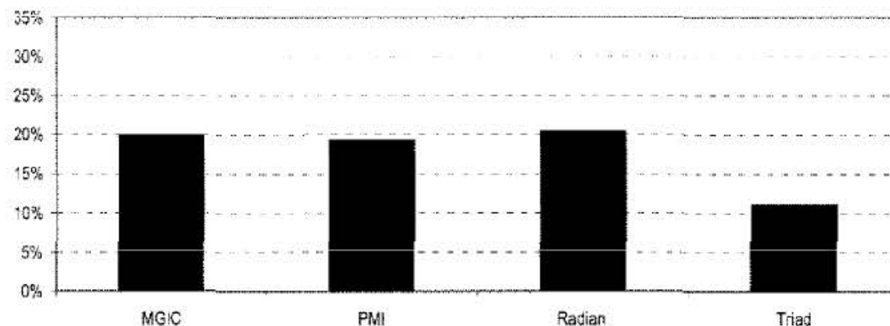
Source: Bear, Stearns & Co. Inc. estimates.

Excess Capital Also Depresses Returns

One of the problems with the private MI industry is that although companies have been generating excess capital (in part a reflection of the recent, very favorable credit environment, but also due to the fact that industry insurance in force is only growing in the mid-single digits), their ability to redeploy it has been limited. This is because insurance regulators place significant restrictions on how much capital an MI subsidiary can dividend to its parent.

It appears that the rating agencies are an even greater constraint on the movement of capital than regulators when it comes to share repurchases and special dividends. As a result, the mortgage insurance industry may have difficulty re-leveraging over time, which could further depress returns. There may be some ability to challenge the rating agencies regarding capital requirements, but some may be concerned about the risk of rating outlook changes or downgrades.

Exhibit 25. Debt-to-Equity Ratios



Source: Company reports.

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Given the challenge of redeploying excess capital, some MIs are willing to write lower-return business through captive arrangements rather than risk losing market share (which could result in even more capital sitting idle).

Exhibits 26 and 27 estimate over-the-life ROEs for a book of insurance that is assumed to run off over ten years. Both matrices include a variety of different risk-to-capital assumptions and cumulative loss ratio assumptions.

The first matrix is a book of business that is not part of a captive arrangement. The second matrix is a book of business that is part of a 40% excess of loss captive arrangement. These demonstrate the deterioration in returns relative to the base case scenario (15:1 risk-to-equity ratio) that we provided in Exhibit 6 on page 13 of this report, which assumes that companies are able to efficiently redeploy capital as books of business wind down but generate strong cash flows.

Exhibit 26. Estimated Returns on Business Not Written in Captives

		Cumulative Loss Ratio (ten years)									
		-20%	-25%	-30%	-35%	-40%	-45%	-50%	-55%	-60%	-65%
	8	11%	10%	9%	8%	7%	7%	6%	5%	4%	3%
	10	13%	12%	11%	10%	9%	8%	7%	6%	5%	4%
	12	16%	15%	13%	12%	11%	10%	9%	7%	6%	5%
Risk/	14	18%	17%	16%	14%	13%	11%	10%	9%	7%	6%
Equity	15	20%	18%	17%	15%	14%	12%	11%	9%	8%	6%
	16	21%	20%	18%	16%	15%	13%	11%	10%	8%	7%
	18	24%	22%	20%	18%	17%	15%	13%	11%	9%	8%
	20	26%	24%	22%	20%	18%	16%	14%	12%	10%	8%

Source: Bear, Stearns & Co. Inc. estimates.

Exhibit 27. Estimated Returns on Business Written in Excess of Loss Captives, Assuming 40% Premium Cede

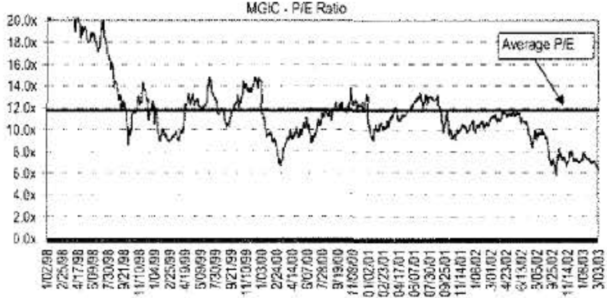
		Cumulative Loss Ratio (ten years)									
		-20%	-25%	-30%	-35%	-40%	-45%	-50%	-55%	-60%	-65%
	8	6%	5%	4%	3%	3%	3%	3%	3%	3%	3%
	10	8%	6%	5%	4%	4%	4%	4%	4%	4%	4%
	12	10%	8%	7%	5%	5%	5%	5%	5%	4%	4%
Risk/	14	12%	10%	8%	6%	6%	6%	6%	5%	5%	5%
Equity	15	13%	11%	9%	7%	6%	6%	6%	6%	6%	6%
	16	14%	12%	9%	7%	7%	7%	7%	6%	6%	6%
	18	16%	13%	11%	8%	8%	8%	8%	8%	7%	7%
	20	18%	15%	12%	10%	9%	9%	9%	9%	8%	8%

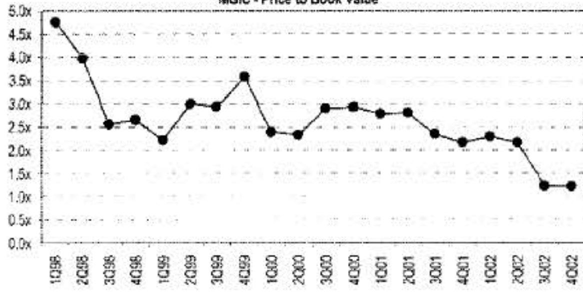
Source: Bear, Stearns & Co. Inc. estimates.

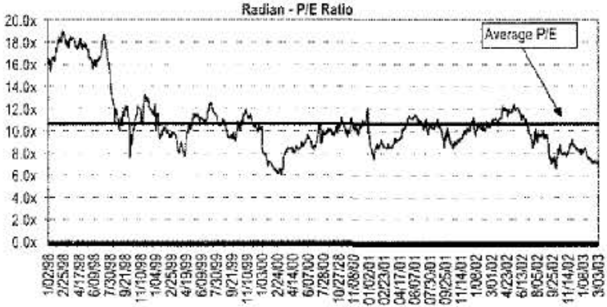
Appendix I

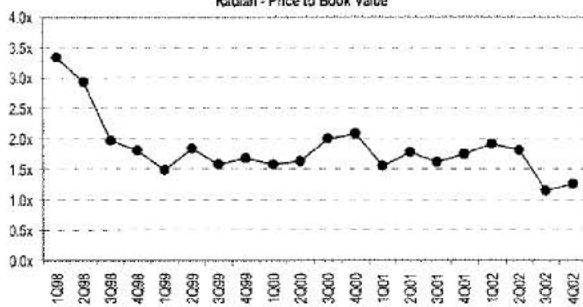
The following charts show recent price-to-earnings and price-to-book-value ratios for MGIC, Radian, and PMI.

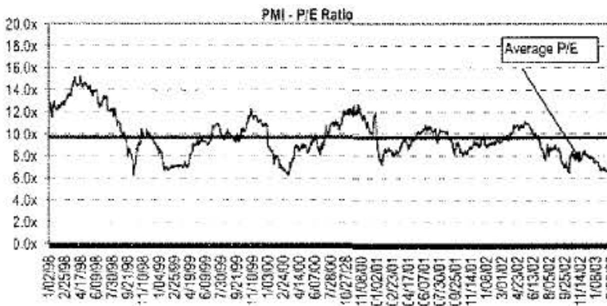
Exhibit 28. Historical Valuations

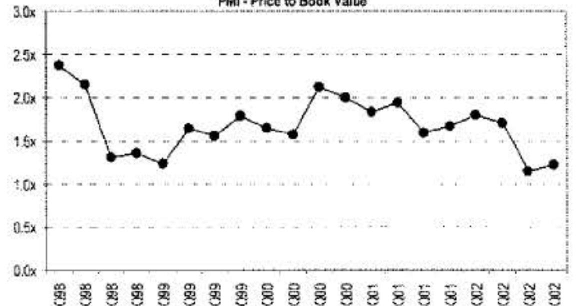












Source: FactSet Research Systems Inc.; Bear, Stearns & Co. Inc. estimates.

Appendix II

The following models shows how we forecasted the average returns generated by books of business in a "normal" operating environment. The first exhibit examines a book of business that is not subject to captives. The second exhibit examines a book of business that is in a 40% deep-cede captive arrangement. In that scenario, we assume the attachment point is a 35% loss ratio and that the company gets $0.50 of capital credit for each dollar of insurance in force written in the captive. We use a 20% expense ratio, a seasoned cumulative loss rate estimate of 35%, and a 15:1 risk-to-capital ratio in both models.

Exhibit 29. Return Model for Non-Captive Book of Business

No Captive	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
IIF (beg)	$100,000	$75,000	$56,250	$42,188	$31,641	$23,730	$17,798	$13,348	$10,011	$7,508	$100,000
IIF (end)	$75,000	$56,250	$42,188	$31,641	$23,730	$17,798	$13,348	$10,011	$7,508	$5,631	$5,631
RIF (beg.)	$25,000	$18,750	$14,063	$10,547	$7,910	$5,933	$4,449	$3,337	$2,503	$1,877	$25,000
RIF (end.)	$18,750	$14,063	$10,547	$7,910	$5,933	$4,449	$3,337	$2,503	$1,877	$1,408	$1,408
Equity (beg.)	$1,667	$1,966	$2,172	$2,288	$2,337	$2,370	$2,395	$2,432	$2,456	$2,486	$1,667
Equity (end.)	$1,966	$2,172	$2,288	$2,337	$2,370	$2,395	$2,432	$2,456	$2,486	$2,508	$2,508
Equity (assuming excess redeployed)	$1,458	$1,094	$820	$615	$461	$346	$260	$195	$146	$109	
Risk-to-Capital Ratio (bop)	15.0x	12.7x	8.6x	6.1x	4.5x	3.3x	2.5x	1.8x	1.4x	1.0x	15.0x
Risk-to-Capital Ratio (eop)	12.7x	8.6x	6.1x	4.5x	3.3x	2.5x	1.8x	1.4x	1.0x	0.7x	0.7x
Risk to Capital (excess redeployed)	*15.0x*	*15.0x*	*15.0x*	*15.0x*	*15.0x*	*15.0x*	*15.0x*	*15.0x*	*15.0x*	*15.0x*	
Capital Relief from Captive (cumulative)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Capital Credit per $1 Ceded	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Captive Attachment Point (loss ratio)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Investment Portfolio (beg)	$0	$299	$506	$621	$670	$704	$729	$765	$790	$819	$0
Investment Portfolio (end)	$299	$506	$621	$670	$704	$729	$765	$790	$819	$842	$842
Investment Yield	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Persistency Rate	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	
Average Premium Rate[1]	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	
Premium Ceded in Captive:	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Cumulative Loss Ratio	0%	-2%	-7%	-14%	-20%	-25%	-28%	-31%	-33%	-35%	-35%

As a % of Premium Earned	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Premium Earned	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Premium Ceded	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Premium Earned, Net Captives	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Investment Income	1%	5%	9%	14%	20%	28%	39%	55%	75%	104%	16%
Ceding Commission	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Losses	0%	-10%	-34%	-63%	-72%	-80%	-64%	-85%	-75%	-101%	-35%
Losses Covered by Reinsurance	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Expenses	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%
Pretax Income	81%	75%	56%	32%	29%	29%	56%	50%	80%	83%	61%

Income Statement	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Premium Earned	$525	$394	$295	$221	$166	$125	$93	$70	$53	$39	$1,982
Premium Ceded	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Premium Earned, Net Captives	$525	$394	$295	$221	$166	$125	$93	$70	$53	$39	$1,982
Ceding Commission	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Investment Income	$7	$20	$28	$32	$34	$35	$37	$38	$40	$41	$311
Losses	$0	($40)	($99)	($139)	($119)	($99)	($59)	($59)	($40)	($40)	($694)
Losses Covered by Reinsurance	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Expenses	($105)	($79)	($59)	($44)	($33)	($25)	($19)	($14)	($11)	($8)	($396)
Pretax Income	$427	$295	$165	$70	$48	$36	$52	$35	$42	$33	$1,203
Net Income	$299	$207	$115	$49	$33	$25	$36	$24	$29	$23	$842
ROE	21%	19%	14%	8%	7%	7%	14%	13%	20%	21%	15%

(1) The 60-basis-point average premium rate assumes an equal mix of 90% and 95% loan-to-value, 30-year fixed-rate loans with 25% coverage.

Source: Bear, Stearns & Co. Inc. estimates.

Exhibit 30. Return Model for Book of Business Subject to a 40% Excess of Loss Captive Arrangement

Captive	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
IIF (beg)	$100,000	$75,000	$56,250	$42,188	$31,641	$23,730	$17,798	$13,348	$10,011	$7,508	$100,000
IIF (end)	$75,000	$56,250	$42,188	$31,641	$23,730	$17,798	$13,348	$10,011	$7,508	$5,631	$5,631
RIF (beg.)	$25,000	$18,750	$14,063	$10,547	$7,910	$5,933	$4,449	$3,337	$2,503	$1,877	$25,000
RIF (end.)	*$18,750*	*$14,063*	*$10,547*	*$7,910*	*$5,933*	*$4,449*	*$3,337*	*$2,503*	*$1,877*	*$1,408*	*$1,408*
Equity (beg.)	$1,667	$1,846	$1,959	$1,999	$1,988	$1,971	$1,954	$1,954	$1,945	$1,945	$1,667
Equity (end.)	$1,846	$1,959	$1,999	$1,988	$1,971	$1,954	$1,954	$1,945	$1,945	$1,940	$1,940
Equity (assuming excess redeployed)	$1,406	$1,002	$699	$472	$301	$173	$78	$6	$0	$0	
Risk-to-Capital Ratio (bop)	15.0x	13.5x	9.6x	7.0x	5.3x	4.0x	3.0x	2.3x	1.7x	1.3x	15.0x
Risk-to-Capital Ratio (eop)	13.5x	9.6x	7.0x	5.3x	4.0x	3.0x	2.3x	1.7x	1.3x	1.0x	1.0x
Risk to Capital (excess redeployed)	15.0x	15.0x	15.0x	15.0x	15.0x	15.0x	15.0x	15.0x	15.0x	15.0x	
Capital Relief from Captive (cumulative)	$105	$184	$243	$287	$320	$345	$364	$378	$388	$396	$396
Capital Credit per $1 Ceded	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	
Captive Attachment Point (loss ratio)	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	
Investment Portfolio (beg)	$0	$179	$292	$333	$321	$305	$287	$287	$279	$278	$0
Investment Portfolio (end)	$179	$292	$333	$321	$305	$287	$287	$279	$278	$273	$273
Investment Yield	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Persistency Rate	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	
Average Premium Rate[1]	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	
Premium Ceded in Captive:	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	
Cumulative Loss Ratio	0%	-2%	-7%	-14%	-20%	-25%	-28%	-31%	-33%	-35%	-35%

as a % of Premium Earned	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Premium Earned	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Premium Ceded	-40%	-40%	-40%	-40%	-40%	-40%	-40%	-40%	-40%	-40%	-40%
Premium Earned, Net Captives	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Investment Income	1%	3%	5%	7%	9%	12%	15%	20%	26%	34%	7%
Ceding Commission	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Losses	0%	-10%	-34%	-63%	-72%	-80%	-64%	-85%	-75%	-101%	-35%
Losses Covered by Rainsurance	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Expenses	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%
Pretax Income	48%	41%	20%	-7%	-14%	-20%	-1%	-17%	-1%	-18%	20%

Income Statement	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Premium Earned	$525	$394	$295	$221	$166	$125	$93	$70	$53	$39	$1,982
Premium Ceded	($210)	($158)	($118)	($89)	($66)	($50)	($37)	($28)	($21)	($16)	($793)
Premium Earned, Net Captives	$315	$236	$177	$133	$100	$75	$56	$42	$32	$24	$1,189
Ceding Commission	$42	$32	$24	$18	$13	$10	$7	$6	$4	$3	$159
Investment Income	$4	$12	$15	$16	$15	$15	$14	$14	$14	$14	$133
Losses	$0	($40)	($99)	($139)	($119)	($99)	($59)	($59)	($40)	($40)	($694)
Losses Covered by Reinsurance	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Expenses	($105)	($79)	($59)	($44)	($33)	($25)	($19)	($14)	($11)	($8)	($396)
Pretax Income	$256	$161	$58	($16)	($24)	($25)	($0)	($12)	($1)	($7)	$390
Net Income	$179	$113	$41	($11)	($17)	($17)	($0)	($8)	($1)	($5)	$273
ROE	13%	11%	6%	-2%	-6%	-10%	0%	-147%	0%	0%	7%

(1) The 60-basis-point average premium rate assumes an equal mix of 90% and 95% loan-to-value, 30-year fixed rate loans with 25% coverage.

Source: Bear, Stearns & Co. Inc. estimates.

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BSC Recommendation History since January 1, 2000 for:
MGIC Investment Corp (MTG) - U.S. Dollar

Date	Close Price	Rating	Target
10-Oct-00	60.00		75.00
30-Oct-00	71.50	ATTRACTIVE	75.00
09-Apr-02	70.85	ATTRACTIVE	77.00
10-Jul-02	60.15	ATTRACTIVE	75.00
09-Sep-02	58.99	OUTPERFORM	75.00
10-Oct-02	37.83	PEER PERFORM	64.00

BSC Recommendation History since January 1, 2000 for:
PMI Group (PMI) - U.S. Dollar

Date	Close Price	Rating	Target
06-Sep-00	31.47		35.00
08-Sep-00	33.56		42.50
18-Apr-01	29.76	BUY	42.50
25-Oct-01	28.35	BUY	43.50
10-Apr-02	41.38	BUY	50.00
19-Jun-02	38.90	BUY	50.00
09-Sep-02	34.15	OUTPERFORM	50.00

BSC Recommendation History since January 1, 2000 for:
Radian Group Inc. (RDN) - U.S. Dollar

Date	Close Price	Rating	Target
28-Jun-01	40.92	BUY	
24-Oct-01	34.59	BUY	55.00
10-Apr-02	54.03	BUY	60.00
09-Sep-02	43.66	OUTPERFORM	60.00

Disclosures

Ratings for Stocks (vs. analyst coverage universe)
Outperform (O) — Stock is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (P) — Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (U) — Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

Ratings for Sectors (vs. regional broader market index)
Market Overweight (MO) — Expect the industry to perform better than the primary market index for the region over the next 12 months.
Market Weight (MW) — Expect the industry to perform approximately in line with the primary market index for the region over the next 12 months.
Market Underweight (MU) — Expect the industry to underperform the primary market index for the region over the next 12 months.

Bear, Stearns & Co. Inc. ratings distribution as of January 15, 2003 (% rated companies/% banking client in the last 12 months):
Buy (Outperform): 35.0%/21.7%
Neutral (Peer Perform): 43.5%/14.7%
Sell (Underperform): 19.1%/7.6%
Not Rated: 2.4%/32.0%

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Price targets and valuation methods, where appropriate, may be found on page 6 of this report.

The costs and expenses of Equity Research, including the compensation of the analyst(s) that prepared this report, are paid out of the Firm's total revenues, a portion of which is generated through investment banking activities.

EXHIBIT 48

MORTGAGE GUARANTY INSURANCE MODEL ACT

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Section 1. Title

This Act may be cited as the Mortgage Guaranty Insurance Act.

Section 2. Definitions

The definitions set forth in this Act shall govern the construction of the terms used in this Act but shall not affect any other provisions of the code.

A. "Authorized real estate security," for the purpose of this Act, means an amortized note, bond or other evidence of indebtedness, not exceeding ninety-five percent (95%) of the fair market value of the real estate, secured by a mortgage, deed of trust, or other instrument that constitutes, or is equivalent to, a first lien or charge on real estate; provided:

(1) The real estate loan secured in this manner is one of a type that a bank, savings and loan association, or an insurance company, which is supervised and regulated by a department of this state or an agency of the federal government, is authorized to make, or would be authorized to make, disregarding any requirement applicable to such an institution that the amount of the loan not exceed a certain percentage of the value of the real estate;

(2) The improvement on the real estate is a building or buildings designed for occupancy as specified by Subsections A(1) and A(2) of this section; and

(3) The lien on the real estate may be subject to and subordinate to the following:

(a) The lien of any public bond, assessment or tax, when no installment, call or payment of or under the bond, assessment or tax is delinquent; and

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(b) Outstanding mineral, oil, water or timber rights, rights-of-way, easements or rights-of-way of support, sewer rights, building restrictions or other restrictions or covenants, conditions or regulations of use, or outstanding leases upon the real property under which rents or profits are reserved to the owner thereof.

B. "Contingency reserve" means an additional premium reserve established to protect policyholders against the effect of adverse economic cycles.

C. "Mortgage guaranty insurance" is:

(1) Insurance against financial loss by reason of nonpayment of principal, interest or other sums agreed to be paid under the terms of any note or bond or other evidence of indebtedness secured by a mortgage, deed of trust, or other instrument constituting a lien or charge on real estate, provided the improvement on the real estate is a residential building or a condominium unit or buildings designed for occupancy by not more than four families;

(2) Insurance against financial loss by reason of nonpayment of principal, interest or other sums agreed to be paid under the terms of any note or bond or other evidence of indebtedness secured by a mortgage, deed of trust, or other instrument constituting a lien or charge on real estate, providing the improvement on the real estate is a building or buildings designed for occupancy by five (5) or more families or designed to be occupied for industrial or commercial purposes; and

(3) Insurance against financial loss by reason of nonpayment of rent or other sums agreed to be paid under the terms of a written lease for the possession, use or occupancy of real estate, provided the improvement on the real estate is a building or buildings designed to be occupied for industrial or commercial purposes.

Section 3. Capital and Surplus

A mortgage guaranty insurance company shall not transact the business of mortgage guaranty insurance unless, if a stock insurance company, it has paid-in capital of at least $1,000,000 and paid-in surplus of at least $1,000,000, or if a mutual insurance company, a minimum initial surplus of $2,000,000. A stock company or a mutual company shall at all times thereafter maintain a minimum policyholders' surplus of at least $1,500,000.

Section 4. Insurer's Authority to Transact Business

No mortgage guaranty insurance company may issue policies until it has obtained from the commissioner of insurance a certificate setting forth that fact and authorizing it to issue policies.

Section 5. Geographic Concentration

A. A mortgage guaranty insurance company shall not insure loans secured by a single risk in excess of ten percent (10%) of the company's aggregate capital, surplus and contingency reserve.

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B. No mortgage guaranty insurance company shall have more than twenty percent (20%) of its total insurance in force in any one Standard Metropolitan Statistical Area (SMSA), as defined by the United States Department of Commerce.

C. The provisions of this section shall not apply to a mortgage guaranty insurance company until it has possessed a certificate of authority in this state for three (3) years.

Section 6. Advertising

No mortgage guaranty insurance company or an agent or representative of a mortgage guaranty insurance company shall prepare or distribute or assist in preparing or distributing any brochure, pamphlet, report or any form of advertising to the effect that the real estate investments of any financial institution are "insured investments," unless the brochure, pamphlet, report or advertising clearly states that the loans are insured by mortgage guaranty insurance companies possessing a certificate of authority to transact mortgage guaranty insurance in this state or are insured by an agency of the federal government, as the case may be.

Section 7. Investment Limitation

A mortgage guaranty insurance company shall not invest in notes or other evidences of indebtedness secured by mortgage or other lien upon real property. This section shall not apply to obligations secured by real property, or contracts for the sale of real property, which obligations or contracts of sale are acquired in the course of the good faith settlement of claims under policies of insurance issued by the mortgage guaranty insurance company, or in the good faith disposition of real property so acquired.

Section 8. Coverage Limitation

A mortgage guaranty insurance company shall limit its coverage net of reinsurance ceded to a reinsurer in which the company has no interest to a maximum of twenty-five percent (25%) of the entire indebtedness to the insured or in lieu thereof, a mortgage guaranty insurance company may elect to pay the entire indebtedness to the insured and acquire title to the authorized real estate security.

Section 9. Mortgage Guaranty Insurance as Monoline

A. A mortgage guaranty insurance company that anywhere transacts any class of insurance other than mortgage guaranty insurance is not eligible for the issuance of a certificate of authority to transact mortgage guaranty insurance in this state nor for the renewal thereof.

B. A mortgage guaranty insurance company that anywhere transacts the classes of insurance defined in Section 2A(2) or 2A(3) is not eligible for a certificate of authority to transact in this state the class of mortgage guaranty insurance defined in Section 2A(1). However, a mortgage guarantee insurance company that transacts a class of insurance defined in Section 2A may write up to five percent (5%) of its insurance in force on residential property designed for occupancy by five (5) or more families.

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Section 10. Underwriting Discrimination

A. Nothing in this chapter shall be construed as limiting the right of a mortgage guaranty insurance company to impose reasonable requirements upon the lender with regard to the terms of a note or bond or other evidence of indebtedness secured by a mortgage or deed of trust, such as requiring a stipulated down payment by the borrower.

B. No mortgage guaranty insurance company may discriminate in the issuance or extension of mortgage guaranty insurance on the basis of the applicant's sex, marital status, race, color, creed or national origin.

C. No policy of mortgage guaranty insurance, excluding policies of reinsurance, shall be written unless and until the insurer has conducted a reasonable and thorough examination of the evidence supporting credit worthiness of the borrower and the appraisal report reflecting market evaluation of the property and has determined that prudent underwriting standards have been met.

Section 11. Policy Forms and Premium Rates Filed

A. All policy forms and endorsements shall be filed with and be subject to the approval of the commissioner. With respect to owner-occupied, single-family dwellings, the mortgage guaranty insurance policy shall provide that the borrower shall not be liable to the insurance company for any deficiency arising from a foreclosure sale.

B. In addition, each mortgage guaranty insurance company shall file with the department the rate to be charged and the premium including all modifications of rates and premiums to be paid by the policyholder.

C. Every mortgage guaranty insurance company shall adopt, print and make available a schedule of premium charges for mortgage guaranty insurance policies. Premium charges made in conformity with the provisions of this Act shall not be deemed to be interest or other charges under any other provision of law limiting interest or other charges in connection with mortgage loans. The schedule shall show the entire amount of premium charge for each type of mortgage guaranty insurance policy issued by the insurance company.

NOTE: Open rating states may delete a portion or all of this provision and insert their own rating law.

Section 12. Outstanding Total Liability

A mortgage guaranty insurance company shall not at any time have outstanding a total liability, net of reinsurance, under its aggregate mortgage guaranty insurance policies exceeding twenty-five (25) times its capital, surplus and contingency reserve. In the event that any mortgage guaranty insurance company has outstanding total liability exceeding twenty-five (25) times its capital, surplus and contingency reserve, it shall cease transacting new mortgage guaranty business until such time as its total liability no longer exceeds twenty-five (25) times its capital, surplus and contingency reserve. Total outstanding liability shall be calculated on a consolidated basis for all mortgage guarantee insurance companies that are part of a holding company system.

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Section 13. Rebates, Commissions and Charges

A. A mortgage guaranty insurance company shall not pay or cause to be paid either directly or indirectly, to any owner, purchaser, lessor, lessee, mortgagee or prospective mortgagee of the real property that secures the authorized real estate security or that is the fee of an insured lease, or any interest therein, or to any person who is acting as an agent, representative, attorney or employee of such owner, purchaser or mortgagee, any commission, or any part of its premium charges or any other consideration as an inducement for or as compensation on any mortgage guaranty insurance business.

B. In connection with the placement of any mortgage guaranty insurance, a mortgage guaranty insurance company shall not cause or permit any commission, fee, remuneration or other compensation to be paid to, or received by an insured lender or lessor; any subsidiary or affiliate of an insured; an officer, director or employee of an insured or any member of their immediate family; a corporation, partnership, trust, trade association in which an insured is a member, or other entity in which an insured or an officer, director or employee or any member of their immediate family has a financial interest; or any designee, trustee, nominee or other agent or representative of any of the foregoing.

C. No mortgage guaranty insurance company shall make a rebate of any portion of the premium charge shown by the schedule required by Section 11C. No mortgage guaranty insurance company shall quote any rate or premium charge to a person that is different than that currently available to others for the same type of coverage. The amount by which a premium charge is less than that called for by the current schedule of premium charges is an unlawful rebate.

D. The commissioner may, after notice and hearing, suspend or revoke the certificate of authority of a mortgage guaranty insurance company, or in his or her discretion, issue a cease and desist order to a mortgage guaranty insurance company that pays a commission or makes an unlawful rebate in willful violation of the provisions of this Act. In the event of the issuance of a cease and desist order, the commissioner may, after notice and hearing, suspend or revoke the certificate of authority of a mortgage guaranty insurance company that does not comply with the terms thereof.

Section 14. Compensating Balances Prohibited

Except for commercial checking accounts and normal deposits in support of an active bank line of credit, a mortgage guaranty insurance company, holding company or any affiliate thereof is prohibited from maintaining funds on deposit with the lender for which the mortgage guaranty insurance company has insured loans. Any deposit account bearing interest at rates less than what is currently being paid other depositors on similar deposits or any deposit in excess of amounts insured by an agency of the federal government shall be presumed to be an account in violation of this section. Furthermore, a mortgage guaranty insurance company shall not use compensating balances, special deposit accounts or engage in any practice that unduly delays its receipt of monies due or that involves the use of its financial resources for the benefit of any owner, mortgagee of the real property or any interest therein or any person who is acting as agent, representative, attorney or employee of the owner, purchaser or mortgagee as a means of circumventing any part of this section.

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Section 15. Conflict of Interest

A. If a member of a holding company system, a mortgage guaranty insurance company licensed to transact business in this state shall not, as a condition of its certificate of authority, knowingly underwrite mortgage guaranty insurance on mortgages originated by the holding company system or an affiliate or on mortgages originated by any mortgage lender to which credit is extended, directly or indirectly, by the holding company system or an affiliate.

B. A mortgage guaranty insurance company, the holding company system of which it is a part, or any affiliate shall not as a condition of the mortgage guaranty insurance company's certificate of authority, pay any commissions, remuneration, rebates or engage in activities proscribed in Sections 13 and 14.

Section 16. Reserves

A. Unearned Premium Reserves

A mortgage guaranty insurance company shall compute and maintain an unearned premium reserve as set forth by regulation adopted by the commissioner of insurance.

B. Loss Reserve

A mortgage guaranty insurance company shall compute and maintain adequate case basis and other loss reserves that accurately reflect loss frequency and loss severity and shall include components for claims reported and for claims incurred but not reported, including estimated losses on:

(1) Insured loans that have resulted in the conveyance of property that remains unsold;

(2) Insured loans in the process of foreclosure;

(3) Insured loans in default for four (4) months or for any lesser period that is defined as default for such purposes in the policy provisions; and

(4) Insured leases in default for four (4) months or for any lesser period that is defined as default for such purposes in policy provisions.

C. Contingency Reserve

Each mortgage guaranty insurance company shall establish a contingency reserve out of net premium remaining (gross premiums less premiums returned to policyholders net of reinsurance) after establishment of the unearned premium reserve. The mortgage guaranty insurance company shall contribute to the contingency reserve an amount equal to fifty percent (50%) of the remaining unearned premiums. Contributions to the contingency reserve made during each calendar year shall be maintained for a period of 120 months, except that withdrawals may be made by the company in any year in which the actual incurred losses exceed thirty-five percent (35%) of the corresponding earned premiums, and no releases shall be made without prior approval by the commissioner of insurance of the insurance company's state of domicile.

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If the coverage provided in this Act exceeds the limitations set forth herein, the commissioner of insurance shall establish a rate formula factor that will produce a contingency reserve adequate for the added risk assumed. The face amount of an insured mortgage shall be computed before any reduction by the mortgage guaranty insurance company's election to limit its coverage to a portion of the entire indebtedness.

D. Reinsurance

Whenever a mortgage guaranty insurance company obtains reinsurance from an insurance company that is properly licensed to provide reinsurance or from an appropriate governmental agency, the mortgage guaranty insurer and the reinsurer shall establish and maintain the reserves required in this Act in appropriate proportions in relation to the risk retained by the original insurer and ceded to the assuming reinsurer so that the total reserves established shall not be less than the reserves required by this Act.

E. Miscellaneous

(1) Whenever the laws of any other jurisdiction in which a mortgage guaranty insurance company subject to the requirement of this Act is also licensed to transact mortgage guaranty insurance require a larger unearned premium reserve or contingency reserve in the aggregate than that set forth herein, the establishment of the larger unearned premium reserve or contingency reserve in the aggregate shall be deemed to be in compliance with this Act.

(2) Unearned premium reserves and contingency reserves shall be computed and maintained on risks insured after the effective date of this Act as required by Subsections A and C. Unearned premium reserves and contingency reserves on risks insured before the effective date of this Act may be computed and maintained as required previously.

Section 17. Regulations

The commissioner shall have the authority to promulgate rules and regulations deemed necessary to effectively implement the requirements of this Act.

Chronological Summary of Actions (all references are to the Proceedings of the NAIC).

1976 Proc. II 15, 17, 647, 686, 747-753 (adopted).
1979 Proc. I 44, 47-48, 49, 719, 968-969 (corrected).

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MORTGAGE GUARANTY INSURANCE MODEL ACT

These charts are intended to provide the readers with additional information to more easily access state statutes, regulations, bulletins or administrative rulings which are related to the NAIC model. Such guidance provides the reader with a starting point from which they may review how each state has addressed the model and the topic being covered. The NAIC Legal Division has reviewed each state's activity in this area and has made an interpretation of adoption or related state activity based on the definitions listed below. The NAIC's interpretation may or may not be shared by the individual states or by interested readers.

This state page does not constitute a formal legal opinion by the NAIC staff on the provisions of state law and should not be relied upon as such. Every effort has been made to provide correct and accurate summaries to assist the reader in targeting useful information. For further details, the laws cited should be consulted. The NAIC attempts to provide current information; however, due to the timing of our publication production, the information provided may not reflect the most up to date status. Therefore, readers should consult state law for additional adoptions and subsequent bill status.

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MORTGAGE GUARANTY INSURANCE MODEL ACT

KEY:

MODEL ADOPTION: States that have citations identified in this column adopted the most recent version of the NAIC model in a **substantially similar manner**. This requires states to adopt the model in its entirety but does allow for variations in style and format. States that have adopted portions of the current NAIC model will be included in this column with an explanatory note.

RELATED STATE ACTIVITY: States that have citations identified in this column have **not** adopted the most recent version of the NAIC model in a substantially similar manner. Examples of Related State Activity include but are not limited to: An older version of the NAIC model, legislation or regulation derived from other sources such as Bulletins and Administrative Rulings.

NO CURRENT ACTIVITY: No state activity on the topic as of the date of the most recent update. This includes states that have repealed legislation as well as states that have never adopted legislation.

NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Alabama		ALA. ADMIN. CODE r. 482-1-043.01 to 482-1-043.10 (2008).
Alaska		ALASKA STAT. § 21.12.110 (1976) (Mortgage Guaranty Insurance defined).
American Samoa	NO CURRENT ACTIVITY	
Arizona	ARIZ. REV. STAT. ANN. §§ 20-1541 to 20-1559 (1977/2010).	
Arkansas	NO CURRENT ACTIVITY	
California	CAL. INS. CODE §§ 12640.01 to 12640.18 (1961/2012).	
Colorado	NO CURRENT ACTIVITY	
Connecticut	NO CURRENT ACTIVITY	
Delaware	NO CURRENT ACTIVITY	
District of Columbia	NO CURRENT ACTIVITY	
Florida		FLA. STAT. 635.011 to 635.091 (1983/2010); FLA. ADMIN. CODE ANN. r. 69O-185.001 to 69O-185.007 (1974/2013).

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NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Georgia	NO CURRENT ACTIVITY	
Guam	NO CURRENT ACTIVITY	
Hawaii	NO CURRENT ACTIVITY	
Idaho	IDAHO CODE ANN. §§ 41-2650 to 41-2656 (1972/2010) (portions of model).	
Illinois	ILL. ADMIN. CODE tit. 50, §§ 202.10 to 202.60 (1982/2000).	
Indiana	NO CURRENT ACTIVITY	
Iowa		IOWA CODE §§ 515C.1 to 515C.11 (1963/2010).
Kansas	KAN. STAT. ANN. §§ 40-3501 to 40-3521 (1977/2012).	
Kentucky		KY. REV. STAT. ANN. §§ 304.23-010 to 304.23-040 (1970).
Louisiana	NO CURRENT ACTIVITY	
Maine	NO CURRENT ACTIVITY	
Maryland	NO CURRENT ACTIVITY	
Massachusetts	NO CURRENT ACTIVITY	
Michigan	NO CURRENT ACTIVITY	
Minnesota	NO CURRENT ACTIVITY	
Mississippi	NO CURRENT ACTIVITY	
Missouri	MO. CODE REGS. ANN. tit. 20, §§ 500-10.100 to 500-10.400 (1996/2003).	
Montana	NO CURRENT ACTIVITY	

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NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Nebraska	NO CURRENT ACTIVITY	
Nevada	NO CURRENT ACTIVITY	
New Hampshire	NO CURRENT ACTIVITY	
New Jersey	N.J. STAT. ANN. §§ 17:46A-1 to 17:46A-11 (1968/2004).	
New Mexico	NO CURRENT ACTIVITY	
New York		N.Y. INS. LAW §§ 6501 to 6507 (1984/2003).
North Carolina		N.C. GEN. STAT. §§ 58-10-120 to 58-10-135 (2001/2009); 11 N.C. ADMIN. CODE §§ 11.0401 to 11.0406 (1978).
North Dakota	NO CURRENT ACTIVITY	
Northern Marianas	NO CURRENT ACTIVITY	
Ohio	OHIO ADMIN. CODE 3901:1-13 (1978/2007).	
Oklahoma	NO CURRENT ACTIVITY	
Oregon		OR. REV.STAT. §§ 743.705 to 743.708 (1969/1973).
Pennsylvania	NO CURRENT ACTIVITY	
Puerto Rico		P.R. LAWS ANN. tit. 26, §§ 2301 to 2307 (1976).
Rhode Island	NO CURRENT ACTIVITY	
South Carolina	NO CURRENT ACTIVITY	
South Dakota	NO CURRENT ACTIVITY	
Tennessee	NO CURRENT ACTIVITY	

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NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Texas		TEX. INS. CODE ANN. § 21.50 (1971/1997).
Utah	NO CURRENT ACTIVITY	
Vermont		VT. STAT. ANN. tit. 55, § 66.3 (2010).
Virgin Islands	NO CURRENT ACTIVITY	
Virginia	NO CURRENT ACTIVITY	
Washington	NO CURRENT ACTIVITY	
West Virginia	NO CURRENT ACTIVITY	
Wisconsin		WIS. ADMIN. CODE INS. § 3.09 (1957/2000).
Wyoming	NO CURRENT ACTIVITY	

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MORTGAGE GUARANTY INSURANCE MODEL ACT

Legislative History

Cited to the Proceeding of the NAIC

A special task force was appointed by the Subcommittee on Essential Insurance to look at a number of issues related to mortgage guaranty insurance. The areas of concern into which the task force should make inquiry included: rating, underwriting, reinsurance, contingency reserves, unearned premium reserves, losses and loss adjustment reserves, agents' licensing, admission requirements, multiple line or monoline, and conflict of interest. **1975 Proc. I 866.**

The goal of the committee was to develop a model law and regulation by December of 1975. A trade association offered to provide each commissioner with a copy of a study on private mortgage insurance sponsored by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. The study assessed the mortgage insurance industry's financial strength, competitive position and procedures, investment policies, accounting techniques and underwriting practices. **1975 Proc. II 477-478.**

The drafters concluded that the scope of the proposed model bill should be broad enough to contain all pertinent and required regulatory provisions yet concise enough to constitute enabling legislation to be implemented by regulations or directives in those jurisdictions where needed. As they drafted the model act, the task force still felt it was important to also develop a regulation to implement the model act. **1976 Proc. I 625.**

Section 1. Title

Section 2. Definitions

A. The exposure draft contained definitions for residential mortgage guaranty insurance, commercial mortgage guaranty insurance and lease guaranty insurance, instead of the single consolidated definition adopted. **1976 Proc. I 626.**

Section 3. Capital and Surplus

The exposure draft suggested a minimum surplus to be maintained of $500,000 for a stock company and $1,500,000 for a mutual company. These figures were changed before final adoption. **1976 Proc. I 627.**

Section 4. Insurer's Authority to Transact Business

Section 5. Geographic Concentration

The exposure draft contained a limitation on insuring loans in a single or contiguous housing or commercial tract in excess of ten percent of the company's assets. **1976 Proc. I 627.**

In 1978 the Executive Committee noted that the NAIC *Proceedings* incorrectly contained an early version of the model rather than the one adopted. **1979 Proc. I 49.** One of the errors corrected was to replace the contiguous tract language with a more exact definition from the United States Department of Commerce. **1979 Proc. I 968.**

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Legislative History
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Section 6. Advertising

Section 7. Investment Limitation

Section 8. Coverage Limitation

Section 9. Mortgage Guaranty Insurance as Monoline

The exposure draft of the model contained only the first paragraph. When the definitions were revised, a second paragraph was added which contained the first part of Subsection B. **1976 Proc. I 628.**

After adoption the draft was corrected to show it should also have included the second part of Subsection B. **1979 Proc. I 968.**

Section 10. Underwriting Discrimination

C. Subsection C was added to the draft after comments on the exposure draft were received. **1976 Proc. I 628.**

Section 11. Policy Forms and Premium Rates Filed

C. A drafting note was added when the draft was corrected to clarify the application of Subsection C. **1979 Proc. I 968.**

Section 12. Outstanding Total Liability

One of the corrections made in 1978 was to show the model should have contained the last sentence of this section which had been omitted. **1979 Proc. I 968.**

Section 13. Rebates, Commissions and Charges

D. The last sentence of Subsection D did not appear in the exposure draft, but was added after comments were received by the task force. **1976 Proc. I 628.**

Section 14. Compensating Balances Prohibited

There was considerable reworking of this section in the period of time between exposure of the draft and adoption. **1976 Proc. I 629.**

The draft of this section printed in the *Proceedings* contained an incorrect version. It was reprinted in 1978 with the correct language. **1979 Proc. I 969.**

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MORTGAGE GUARANTY INSURANCE MODEL ACT

Legislative History
Cited to the Proceeding of the NAIC

Section 15. Conflict of Interest

Section 16. Reserves

A. Although it was the intent of the drafters to develop a model regulation, this was not done after the task force prepared the model act. **1975 Proc. II 477.**

B. When adopted the model contained an obvious typographical error. The version printed in the *Proceedings* spoke of components for claims reported *"and unpaid"*. The corrections printed in 1978 showed those two words should not have been included. **1979 Proc. I 968-969.**

D. The subsection on reinsurance was not included in the exposure draft, but was added before adoption by the NAIC. **1976 Proc. I 630.**

Section 17. Regulations

This section was not part of the exposure draft, even though the task force had voiced its intention to develop regulations. **1976 Proc. I 630.**

Chronological Summary of Actions

June 1976: Model adopted.
December 1978: Errors corrected.

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Legislative History
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EXHIBIT 49

6/20/11 Origination News (Pg. Unavail. Online)
2011 WLNR 12254501
Loaded Date: 06/20/2011

Origination News
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June 20, 2011

Volume 1; Issue 1

Section: News

Mixed Outlook for MI

Brad Finkelstein, Paul Muolo

Genworth Financial earned $82 million in the first quarter, a 54% drop from the year ago, as continued losses at its mortgage insurance unit held back the company's financial recovery. Although its MI business is still suffering, the Richmond, Va.-based firm saw an improvement in that line of business, thanks to slowing flow delinquencies, and the addition of what it calls "high margin new business." The MI unit lost $81 million in the first quarter compared to a $36 million loss in the same period a year earlier.

"Loss mitigation activities, including workouts, presales, policy rescissions and targeted settlements, net of reinstatements, resulted in $122 million of savings in the quarter," Genworth said of its MI business.

Among the nation's eight MI firms, Genworth ranks fifth in terms of policies-in-force, according to figures compiled by Origination News and the Quarterly Data Report.

Fannie Mae has approved a second subsidiary of Genworth Mortgage Insurance Corp. as an eligible mortgage insurance writer, according to a report last month.

Several of the private mortgage insurers have established subsidiaries to keep on writing new business in the event their main operation breaches the 25-to-1 risk-to-capital ratio or minimum policy position required by 16 states.

A spokesman for Genworth said the subsidiary, Genworth Residential Mortgage Assurance Corp., was not yet writing any business at press time last month.

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The lender letter from Fannie Mae says GRMAC is approved to write coverage “in a limited number of states, which may change over time.” However, the Genworth spokesman noted, “The entity is approved by regulators to write business in all 50 states, but we intend to use it only in states where our existing entities are unable to write business.” The approval was effective as of April 18, although the lender letter was not issued until May 17.

Freddie Mac has not approved GRMAC as of now, the Genworth spokesman said.

This is the third underwriting entity from Genworth that Fannie Mae has approved. Besides GMICO, also approved to write business is Genworth Residential Mortgage Insurance Corp. of North Carolina. As of now, all three entities have the same Fannie Mae MI code. In the letter, Fannie Mae said it was evaluating whether to assign separate MI codes for each entity.

The private mortgage insurers’ cure/default ratio for March was at an all-time high, at 143.9%, according to the latest monthly data from the Mortgage Insurance Cos. of America. This is an improvement over February’s 112.2% and March 2010’s 123.4%. MICA changed its data gathering methods in August 2001 so any information prior to that is not comparable. Additionally, for a period of time, Radian pulled out of the group (although it is currently a member) and more recently, United Guaranty discontinued its membership.

There were 56,934 cures and 39,557 defaults in March. Primary insurance written was $4.4 billion (with $40 million of that through the bulk channel), up from $4.2 billion in February. In March 2010, there was $4.5 billion written; this total includes data from UGC. Primary insurance-in-force declined to $621 billion from February’s $625 billion. There was $3.4 million of new pool risk written in March.

---- INDEX REFERENCES ---

COMPANY: GENWORTH RESIDENTIAL MORTGAGE INSURANCE CORPORATION OF NORTH CAROLINA; GENWORTH MORTGAGE INSURANCE CORP; FEDERAL NATIONAL MORTGAGE ASSOCIATION; MORTGAGE INSURANCE COMPANIES OF AMERICA; GENWORTH FINANCIAL INC; FEDERAL HOME LOAN MORTGAGE CORP

NEWS SUBJECT: (Mortgage-Backed Markets (1MO87); Major Corporations (1MA93); Securitization (1SE75); Funding Instruments (1FU41); Residential Mortgage-Backed Securities (1US15); Real Estate Investments (1RE04))

INDUSTRY: (Investment Management (1IN34); Insurance (1IN97); Mortgage Banking (1MO85); Mortgage Agency Debt (1MO90); Financial Services (1FI37); Insurance Products (1IN13); Consumer Finance (1CO55); Asset-Backed Securities (1AS67); Mortgage Insurance (1MO34); Banking (1BA20); Retail Banking Services (1RE38); Securities Investment (1SE57))

Language: EN

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OTHER INDEXING: (However)

Word Count: 525
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END OF DOCUMENT

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EXHIBIT 50

Correction - Fitch Announces Various Rating Actions on Mortgage Insurers

February 26, 2008 10:28 AM Eastern Standard Time

NEW YORK--(BUSINESS WIRE)--(This is a correction for a press release that was published February 25, 2008. It corrects the CMG Mortgage Insurance Company U.S statutory capital dollar amount to $280 million.)

Fitch Ratings today announced a number of negative rating actions on the mortgage insurance (MI) sector (see full list below). The actions are mainly driven by continued weakness in the U.S. mortgage markets, highlighted by marked deterioration in performance for mortgages backed by subprime and reduced or limited documentation (Alt-A) borrowers.

While initially the current situation was impacted mainly by the subprime mortgage sector, deterioration has begun to spill over to other mortgage asset classes, such as adjustable-rate, negative amortizing, reduced documentation (Alt-A), and second-lien mortgages. The major factors driving the deterioration in mortgage performance indicators has been the poor underwriting process demonstrated by many mortgage lenders the past few years, combined with the continued and accelerating national home price decline which has eliminated the option to sell or refinance a home to avoid foreclosure for many borrowers. Additionally, this phenomenon has created an incentive to 'walk away' from mortgage debt for those borrowers whose current estimated home values are below their current mortgage balances. Fraud has also played a key role. These developments remain especially relevant for mortgages originated in the past few years.

The continued trouble in the U.S. mortgage market has led to sharp increases in delinquencies for the MI companies, particularly for loans originated in the 2005-2007 vintage years. With reduced options to refinance or cure troubled credits, Fitch believes a greater percentage of these delinquent borrowers will end up in foreclosure in the years ahead, which will translate into higher claims and losses over this time period.

Fitch believes the highlighted concerns over problems in the mortgage markets will continue to pressure, as it did in 2007, the bottom lines of most MI companies for the foreseeable future. In addition, Fitch believes stress in the mortgage markets which has been incorporated into our updated model stress scenarios (see Fitch commentary from Feb. 8, 2008 titled 'Fitch Provides Updated Commentary on Mortgage Insurers'), especially in the 2005-2007 vintage years, will increase the level of capital necessary to achieve their current ratings. This assessment factors in material benefit that Fitch believes the MIs will receive from lender captive mortgage reinsurance company arrangements that have been entered into over the years.

As a result of expected future losses to be realized by the industry over the next several years, Fitch believes a number of the major players in the industry will need to raise significant additional equity in the near future or risk having their ratings downgraded. Fitch recognizes this process could be difficult given the challenging market environment currently being experienced. Except for the most conservative players in the US MI

sector, Fitch does not anticipate existing players returning to healthy levels of profitability until late-2009 or more likely 2010. While all of the mortgage insurers rated by Fitch have been affected by the deterioration in today's mortgage environment, the extent of the trouble varies by company, as each insurer has differing levels of exposure to product sectors of concern (i.e., prime, subprime, Alt-A, or negative amortization). Furthermore, the companies have different organizational structures, with some benefiting from diversified parent companies or from MI operations based in international markets.

While the majority of the U.S. private mortgage insurance industry's risk in force relates to mortgages that conform to government sponsored entities (GSE) underwriting guidelines, the industry as a whole does have material exposure to non-conforming loans, both in the subprime and Alt-A sectors, and in many cases with the additional risk of untested loan products layered on top (i.e., negative amortization or interest-only loans). A large portion of this exposure is housed through the MIs' bulk and modified pool business lines. Additionally, significant portions of these non-conforming loans are geographically concentrated in soft markets such as California and Florida, where home price depreciation has been especially pronounced. To be sure, the national home price decline has had a negative impact on mortgage performance across all sectors of insured loans within the 2006 and 2007 vintages, not just higher-risk segments, and this phenomenon has already led to significant increases in reserves for all of the mortgage insurers.

Fitch provides the following rating actions on the MI companies as listed below:

CMG Mortgage Insurance Co.: Fitch has affirmed the 'AA' IFS rating of CMG Mortgage Insurance Company (CMG MI) and revised the Rating Outlook to Negative from Stable. While Fitch believes that CMG MI is in a better position to weather the current problems than most of its peers in the US MI industry, weakness in the U.S. mortgage markets is still expected to have some impact on the company's performance. CMG MI maintains a higher-quality book of business than most of its peers as its portfolio is focused on insuring loans underwritten and originated by credit unions, a niche sector which has historically performed better than the rest of the mortgage market due to more stringent underwriting standards. CMG MI also benefits from a smaller exposure to pooled second lien mortgages than some of its competitors. In Fitch's opinion, CMG MI's book of business will continue to exhibit superior performance relative to its peers and Fitch believes the company will remain profitable throughout the current economic cycle.

Fitch has historically viewed the operational support provided to CMG MI by its two parent companies, CUNA Mutual Insurance Society ('AA-') and PMI Group, Inc. ('AA'), favorably. However, given the current conditions in the US mortgage market, Fitch's rating assessment of CMG MI is tending to view the company as more of stand-alone credit. That being said, weakness being experienced at PMI is tending to be a negative drag on CMG MI, at least over the near-to-intermediate term. That being said, CUNA remains a solid and dedicated parent which continues to support CMG MI.

At Sept. 30, 2007, CMG MI maintained consolidated U.S. risk in force of $4.05 billion and consolidated U.S. statutory capital of $280 million for a risk to capital ratio of 14.5:1.

Fitch has affirmed the following rating and revised the Rating Outlook to Negative from Stable:

CMG Mortgage Insurance Co.:

--Insurer Financial Strength (IFS) 'AA'.

Genworth Mortgage Insurance Corp: Fitch has affirmed the 'AA' insurer financial strength rating of Genworth Mortgage Insurance Corp. (GMICO) and its operational affiliates. The Rating Outlook on the ratings remains Stable. The affirmation of GMICO's IFS ratings reflects the company's conservative underwriting which has resulted in an insured portfolio that compares favorably to that of the company's peers with relation to exposure to riskier mortgage products and geographies. As a result of GMICO's more conservative underwriting, GMICO has been able to outperform its peers from a financial performance perspective. GMICO also benefits from ownership by a diversified holding company as well as an established international mortgage insurance presence.

Today's rating affirmation recognizes GMICO's better risk characteristics than its competitors, however Fitch believes the company will nonetheless be negatively affected by the overall state of the U.S. mortgage market which will make it difficult to generate capital internally within the U.S. mortgage insurance operations. Additionally, the expectation for higher losses translates into a higher amount of required capital to support previously underwritten business. That said, while Genworth's prior business now consumes more capital, Fitch continues to view GMICO's current capital levels as consistent with the 'AA' IFS rating. However, given that Genworth Financial Inc.'s international mortgage insurance operations derive significant capital support from the U.S. mortgage insurance operations, the anticipated negative pressure on the U.S. mortgage insurance operations may constrain growth in international markets.

As of Sept. 30, 2007, GMICO and its consolidated U.S. mortgage insurance affiliates maintained consolidated U.S. risk in force of $28.5 billion and consolidated U.S. statutory capital of $2.5 billion for a risk to capital ratio of 11.3:1.

Fitch has affirmed the following ratings:

Genworth Mortgage Insurance Corporation

Genworth Residential Mortgage Insurance Corporation of North Carolina

Genworth Financial Assurance Corporation

Genworth Financial Mortgage Insurance Pty Ltd

Genworth Financial Mortgage Insurance Limited

--IFS at 'AA'.

Genworth Seguros de Credito a la Vivienda, S.A. De C.V.

--IFS at 'A';

--National IFS at 'AAA(mex)' .

The Outlook on the ratings is Stable.

Mortgage Guaranty Insurance Corp.: Fitch has placed the 'AA' insurer financial strength (IFS) ratings of Mortgage Guaranty Insurance Corp. and MGIC Australia as well as the 'A' long term issuer rating of MGIC Investment Corp. on Rating Watch Negative. These rating actions incorporate Fitch's revised view on ultimate loss expectations, particularly on the 2005-2007 vintage years, and its impact on the company's capital position. MGIC maintains relatively higher exposure to soft markets and riskier product classes through its bulk and pool business lines relative to most of its competitors and Fitch believes these products are likely to perform considerably worse than recent history. As a result, although MGIC has historically maintained a healthy capital base, the present stressful mortgage environment has resulted in a modeled capital shortfall for the company at the 'AA' rating threshold.

If within the next several months, MGIC is able to obtain additional capital resources to address this shortfall, Fitch would expect to affirm MGIC's ratings, with a Negative Rating Outlook, reflecting the financial stress associated with the present mortgage environment. Assuming MGIC does not raise additional capital to support its franchise, Fitch will downgrade MGIC's rating to 'AA-'.

As of Sept. 30, 2007, MGIC maintained U.S. risk in force net of reinsurance of $53.5 billion and consolidated U.S. statutory capital of $5.9 billion for a risk to capital ratio of 9.1:1.

Fitch has placed the following ratings on Rating Watch Negative:

Mortgage Guaranty Insurance Corporation

MGIC Australia Pty Ltd

--Insurer financial strength (IFS) at 'AA'.

MGIC Investment Corporation

--$200 million 5.625% senior notes due Sept. 15, 2011 at 'A';

--$300 million 5.375% senior notes due Nov. 01, 2015 at 'A';

--Long-Term Issuer Rating at 'A'.

PMI Mortgage Insurance Co.: Fitch has placed the IFS ratings of PMI Mortgage Insurance Co. (PMI) and its operational affiliates as well as the long-term issuer ratings of The PMI Group, Inc. (TPG) and PMI Capital I (see list below) on Rating Watch Negative. These rating actions incorporate Fitch's updated view on ultimate loss expectations and its impact on the company's capital position, particularly with respect to the company's large exposure to Alt-A, interest-only and high LTV loans. Adding to the overall concern is the potential for further negative pressure on earnings for TPG related to its significant investments in financial guaranty insurers FGIC Corp. and Ram Holdings Ltd. Given our updated stressed assessments, which incorporate additional pressure against business underwritten in the past three years, Fitch believes PMI currently has a capital shortfall at the 'AA' IFS rating. Fitch's current assessment of PMI incorporates a view that TPG maintains additional financial flexibility through unutilized capital available at several affiliates.

Given the stress being experienced in the U.S., Fitch would expect PMI to engage in a capital enhancement plan to bolster the company's financial position over the next several months. Failure to execute upon a plan could pressure PMI's IFS rating by up to two notches in the near-term.

As of Sept. 30, 2007, PMI maintained U.S. risk in force of $33.6 billion and consolidated U.S. statutory capital of $3.7 billion for a risk to capital ratio of 9.6:1.

PMI's Australian subsidiary's operations benefit from stringent capital standards required by the Australian regulatory authorities, which, combined with a high level of regulatory oversight and a strict corporate governance regime, substantially ringfence the Australian subsidiary from the capital adequacy concerns regarding its parent. Consequently any downgrade of this subsidiary would be limited to one notch.

Fitch has placed the following ratings on Rating Watch Negative:

PMI Mortgage Insurance Co.

PMI Guaranty Co.

PMI Insurance Co.

PMI Mortgage Insurance Company Limited (PMI Europe)

PMI Mortgage Insurance Ltd. (PMI Australia)

--IFS 'AA'.

The PMI Group, Inc.

--Long-term Issuer Rating at 'A';

--$250 million 6% senior notes due 2016 at 'A';

--$150 million 6.625% senior notes 2036 at 'A';

--$45 million 5.568% senior notes due 2008 at 'A'.

PMI Capital I

--$52 million 8.309% trust preferred securities 2027 at 'A-'.

Radian Guaranty Inc.: Fitch has placed the 'AA-' insurer financial strength ratings of Radian Guaranty Inc. and its operational affiliates as well as the long-term issuer ratings of Radian Group Inc. on Rating Watch Negative. These rating actions incorporate Fitch's updated view on ultimate loss expectations and its impact on the company's existing capital position. This revised view also factors in the implications to the consolidated Radian Group Inc. given the company's exposure to subprime mortgages through its structured mortgage insurance business line as well as Radian Group's exposure to net interest margin and second-lien mortgage insurance.

Given Fitch's more pessimistic view of business underwritten in the past few years, Fitch believes that the current capitalization of Radian's consolidated US mortgage insurance business is below the level required at the 'AA-'IFS rating. Absent obtaining additional capital resources over the next several months, it is likely that the ratings of the U.S. mortgage insurance operating subsidiaries and Radian Group may be lowered by one notch.

The current ratings and Rating Watch Evolving status of Radian Asset Assurance Inc., the financial guaranty subsidiary of Radian Group were unaffected by this action.

As of Sept. 30, 2007, Radian Guaranty maintained consolidated U.S. risk in force of $34.3 billion and consolidated U.S. statutory capital of $3.5 billion for a risk to capital ratio of 9.7:1.

Fitch has placed the following ratings on Rating Watch Negative:

Radian Guaranty Inc.

Radian Insurance Inc.

Amerin Guaranty Corp.

--IFS at 'AA-'.

Radian Group Inc

--Long-term Issuer Rating at 'A-';

--$250 million 7.75% senior notes due June 1, 2011 at 'A-';

--$250 million 5.625% senior notes due Feb. 15, 2013 at 'A-';

--$250 million 5.375% senior notes due Feb. 15, 2015 at 'A-'.

The following ratings remain on Rating Watch Evolving:

Radian Asset Assurance Inc.

Radian Asset Assurance Ltd.

--IFS at 'A+'.

Market Street Custodial Trusts I-III

--$150 million money market preferred custodial trust securities at 'BBB+'.

Republic Mortgage Insurance Corp.: Fitch is taking no rating action on the 'AA' insurer financial strength rating of Republic Mortgage Insurance Corp. The Rating Outlook on the rating remains Negative. Fitch believes that the Negative Rating Outlook continues to adequately reflect concerns related to RMIC's insured portfolio in light of Fitch's revised loss expectations for the 2006 and 2007 vintage collateral performance. While Fitch's revised loss expectations, indicate that RMIC's stand alone capitalization level is below the 'AA' IFS rating threshold, Fitch notes RMIC benefits from its ownership by Old Republic International Corp., a diversified holding company with significant operations in property/casualty and title insurance in addition to mortgage insurance.

That said, Fitch views the holding company's recent significant investments in two of RMIC's competitors, namely The PMI Group, Inc. and MGIC Investment Corp., as creating increased correlation between the fortunes of RMIC and that of the holding company. In addition, Fitch is also monitoring the performance of ORI's consumer credit indemnity (CCI) program which is underwritten by Old Republic Insurance Company and consists of first loss coverage to pools of primarily second lien residential mortgage loans. While ORI's CCI business has historically performed very well and has yet to experience the problems seen by competitors providing similar credit protection, Fitch believes that the performance of ORI's credit indemnity product line is closely correlated with the performance of its mortgage insurance business.

As of Dec. 31, 2007, Republic Mortgage Insurance Corp. maintained consolidated U.S. risk in force of $21.9 billion and consolidated U.S. statutory capital of $1.7 billion for a risk to capital ratio of 13.1:1.

Fitch has taken no action on the following ratings, and the Rating Outlook remains Negative:

Republic Mortgage Insurance Co.

--Insurer Financial Strength 'AA'.

Old Republic International Corp.

--Issuer Default Rating 'AA-';

--Short-term IDR and commercial paper 'F1+'.

Triad Guaranty Insurance Co.: Fitch takes no rating action on the 'AA-' IFS rating of Triad Guaranty Insurance Co. and the 'A' long-term issuer rating of Triad Guaranty, Inc (see list below). These ratings remain on Rating Watch Negative. However, based on Fitch's revised view of ultimate loss expectations, particularly with respect to the company's large exposure to negative amortization products which represented over 13% of the company's primary and modified pool insured exposure, combined with the fact that Triad currently maintains the highest operating leverage in the MI industry with a risk to capital ratio of 20.5:1 at Dec. 31, 2007, Fitch believes Triad currently maintains capital well below levels necessary to maintain an 'AA-' rating.

Absent obtaining additional capital resources within a short timeframe, it is likely that Fitch will lower the ratings of Triad and Triad Guaranty Inc. several more notches, with the IFS rating possibly falling below the 'A' category. If capital is strengthened within the noted timeframe, Fitch would expect to affirm the ratings

At Dec. 31, 2007, Triad Guaranty Insurance Co. maintained consolidated U.S. risk in force of $11.9 billion and consolidated U.S. statutory capital of $585 million for a risk to capital ratio of 20.5:1.

The following ratings remain on Rating Watch Negative:

Triad Guaranty Insurance Corporation:

--Insurer Financial Strength (IFS) at 'AA-'.

Triad Guaranty, Inc.:

--Long-Term Issuer at 'A-';

--$35 million 7.9% fixed coupon senior notes due Jan.15, 2028 at 'A-'.

United Guaranty Residential Insurance Co.: Fitch is taking no rating action on the 'AA+' insurer financial strength rating of United Guaranty Residential Insurance Co. The Rating Outlook on this rating remains Stable. While Fitch views the consolidated capital of UGRIC and its U.S. mortgage insurance affiliates to be pressured, particularly when taking into account the performance of United Guaranty Corp.'s pooled second lien mortgage insurance exposure, UGC and its U.S. mortgage insurance subsidiaries derive significant implicit and explicit support from its parent company, American International Group, Inc. (AIG).

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At Sept. 30, 2007, United Guaranty Residential Insurance Co. and its U.S. first lien and second lien mortgage insurance affiliates maintained consolidated risk in force of $28.6 billion (including approximately a $0.3 billion component of international business), and consolidated U.S. statutory capital of $2.1 billion for a risk to capital ratio of 13.9:1

The following rating remains unchanged:

United Guaranty Residential Insurance Company

--Insurer financial strength (IFS) 'AA+'.

The Outlook on these ratings remain Stable.

The following ratings also remain unchanged and remain on Rating Watch Negative:

Ezer Mortgage Insurance Company Ltd.

--Insurer financial strength (IFS) 'AA+'.

United Guaranty Corporation

--Long-term Issuer Rating at 'AA'.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

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EXHIBIT 51

INSIGHTS™

zINGENUITY, INC.

OCTOBER 2011

MORTGAGE INSURANCE INDUSTRY REPORT

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MORTGAGE INSURANCE INDUSTRY OCTOBER 2011

OVERVIEW

Significant changes to the MI industry occurred in Q2 2011, as state regulators and the GSEs ordered two of the remaining "original seven" mortgage insurers, RMIC and PMI, to stop writing new business as a result of breaching statutory capital limits. As with all carriers, RMIC and PMI were subjected to the economic conditions that have been pervasive since the housing crisis began -- declining revenues and elevated incurred losses, leading to operating losses and declining capital levels.

The events of Q2 2011 also demonstrate that the days of regulatory forbearance should be considered a thing of the past, as both Arizona and North Carolina state insurance commissioners refused to continue waivers for RMIC and PMI, even though both companies had contingency plans to write new business using separately capitalized affiliated insurers in states where waivers could not be obtained. This regulatory action has important implications for the remaining carriers, as eligibility of these affiliated insurers was contingent on the flagship operating companies remaining eligible in their states of domicile. For the remaining mortgage insurers to maintain eligibility with the GSEs, it now appears that they must maintain statutory eligibility of their flagship carriers; converting all business to separately capitalized subsidiaries is not likely a strategy that will be accepted. It is also now evident that state regulators will not extend waivers indefinitely. Although PMI is the only mortgage insurer domiciled in Arizona, both Genworth and UGI are North Carolina domiciled. Whether other state regulators will follow suit is not known, but in light of the actions taken by Arizona and North Carolina, it would seem that the likelihood of similar regulatory action has increased.

Unfortunately, the statutory capital cushion is not large for some of the remaining carriers. Risk-to-capital ratios remain elevated for all carriers who report that statistic. (Figure 1: Risk to Capital Ratios)

Although the forced runoff of competitors may seem on the surface to be a positive for the remaining carriers, we believe that these failures, over the medium-to-long term, are a negative for the industry, as they increase the uncertainty of the role of private mortgage insurance in the housing

FIGURE 1: RISK-TO-CAPITAL RATIOS

MI	Q4 2008	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
GNW	14.3	14.6	14.9	15.1	17.8	21.9	25.0	25.0
MTG	12.9	19.4	20.2	17.8	17.7	19.8	19.7	20.4
PMI	16.6	22.0	26.6	15.8	17.2	19.9	24.4	58.1
RMIC	18.8	23.1	23.2	23.0	25.5	28.4	31.6	45.7
RDN	16.1	15.4	16.9	17.9	17.2	16.8	20.3	19.8
AVG	15.7	18.9	20.4	17.9	19.1	21.4	24.2	33.8

State insurance regulators and the GSEs continue to grant capital waivers above the 25:1 Risk-to-Capital ratios required by state law to the legacy MI carriers and approve new MI subsidiaries and affiliates to write new business as needed.

finance market. The fact that three of the seven major MIs entering the crisis have been forced to stop writing policies raises doubts about the ability of the industry to survive stress losses, something regulators and lawmakers will undoubtedly consider when drafting regulations and legislation regarding the future of mortgage finance.

If the industry is considered by regulators to be an accepted/mandated form of credit enhancement going forward, it will almost certainly come with stricter regulations for the carriers themselves, such as significantly higher capital requirements and/or restrictions on the type of business that can be written. Note that, going into the crisis, most carriers had risk-to-capital ratios in the low double digits, approximately twice the levels mandated by regulators and well in excess of rating agency requirements.

Also note that RMIC was part of a larger corporate structure, an arrangement that was thought by some observers to be superior to the standalone, monoline structure seen with Triad and PMI, in that it was believed that the parent company's larger, diversified business base would prove to be a source of capital when required. In the case of RMIC, however, rather than support its troubled MI subsidiary, RMIC's parent put it into runoff, while maintaining the parent company's shareholder dividend.

Therefore, we believe that if the MI industry survives to remain a part of the housing finance industry, it will face much stricter capital requirements as measured by capital held at the operating company level.

Overall, industry New Insurance Written (NIW) remains at low levels despite historically low mortgage rates. As a result, industry Insurance In Force (IIF) and Risk In Force (RIF) continue to decline at roughly a 10% annualized rate, leading to declining written premiums, while high paid claims continue to eat away at invested assets, resulting in lower investment income, and putting additional pressure on revenues. (Figure 2: Primary Risk in Force)

FIGURE 2: PRIMARY RISK IN FORCE

MI	Q4 2008	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
GNW	35,822	31,722	30,729	30,345	30,237	29,037	28,543	28,029
MTG	58,960	54,343	52,690	50,830	50,410	49,000	47,870	46,760
PMI	30,605	27,794	26,957	26,304	25,568	24,856	24,292	23,744
RMIC	22,975	20,802	19,992	19,242	18,666	18,001	17,457	16,964
RDN	34,951	33,765	33,128	32,665	31,969	31,461	30,989	30,361
AIG	27,100	26,400	26,100	25,900	25,500	25,300	24,900	24,700
Total	210,413	194,826	189,596	185,286	182,350	177,655	174,051	170,558

In the short term, the positive impact for the remaining carriers from the possible reallocation of RMIC's and PMI's business is limited -- both were writing very low levels of new insurance, leaving little additional business to re-distribute.

Paid losses rose yet again in Q2, though consistent with carrier estimates, we believe Q2 may represent the peak of paid claims, to be followed by a slow decline. On a combined basis, MGIC, Radian, and PMI reported an increase in claim rescissions and denials from Q2 to Q1, with MGIC reporting a decline and Radian and PMI showing increases. (Figure 3: Claim Statistics) As financial stress continues for those carriers still writing new business, the pressure to continue to rescind and deny claims in order to remain within statutory limits will intensify.

Delinquency inventory continues to increase in average age, putting upward pressure on reserving factors (i.e., average reserve-per-delinquency). Delinquency counts continue to decline as claims are paid, though with new notices out-stripping cures and rescissions in Q2.

Figure 3: Claim Statistics

MI	Q4 2008	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
PAID CLAIMS								
MGIC	5,832	9,175	9,194	10,653	11,722	12,257	13,466	13,553
PMI	5,044	6,026	6,892	8,284	9,079	7,614	6,641	6,823
RDN	4,165	5,148	4,825	6,517	6,985	7,438	6,780	8,049
Total	15,041	20,349	20,911	25,454	27,786	27,309	26,887	28,425
RESCINDED CLAIMS								
MGIC	1,029	3,942	4,185	3,027	3,168	3,562	2,929	2,020
PMI	2,293	1,478	1,488	1,122	1,178	1,227	1,078	1,509
RDN	808	2,067	1,834	1,387	1,902	2,080	1,318	2,192
Total	4,130	7,487	7,507	5,536	6,248	6,869	5,325	5,721
PERCENT RESCINDED								
MGIC	15%	30%	31%	22%	21%	23%	18%	13%
PMI	31%	20%	18%	12%	11%	14%	14%	18%
RDN	16%	29%	28%	18%	21%	22%	16%	21%
Total	22%	27%	26%	18%	18%	20%	17%	17%

Figure 4: Flow Delinquency Rate

MI	Q4 2008	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
GNW	8.52%	14.27%	13.92%	13.66%	13.54%	13.41%	12.74%	12.83%
MGIC	9.51%	15.46%	15.38%	14.97%	15.11%	14.94%	13.87%	13.40%
PMI	13.00%	20.18%	20.41%	19.66%	19.21%	19.05%	18.39%	18.34%
RMIC	10.34%	16.80%	16.90%	16.56%	16.00%	15.60%	14.50%	14.00%
RDN	10.26%	16.62%	16.45%	16.01%	15.81%	15.45%	14.60%	14.27%

Delinquency rates continued to decline in Q2, although at a reduced rate of decline, and again, mostly due to delinquencies converting to paid claims, not through net cures. (Figure 4: Flow Dilenquency Rate)

Also of concern is the fact that various MI companies continue to be involved in lawsuits regarding claim rescissions and denials. The outcome of these lawsuits could further pressure MI financial conditions, as none of the MI companies has reserved for potential litigation losses.

MI REGULATORY OUTLOOK

The uncertainty around the future of the U.S. housing finance system in general, and the MI companies' role in that system in particular, continues with negative implications.

In our opinion, GSE reform represents the highest risk to the ongoing viability of the MI industry, given that nearly all current New Insurance Written (NIW) comes via GSE-guaranteed loans. The timing and ultimate direction of GSE reform is unknown, though it is unlikely to happen before the next election cycle, buying the remaining MI carriers some time to add new, and presumably profitable, business (assuming they can avoid statutory constraints).

The comment period for the proposed regulations for risk retention under the Dodd-Frank Act has passed, and the MI carriers and other industry participants have argued that the Qualified Residential Mortgage ("QRM") definition be changed to allow for the use of MI as a risk mitigant. QRM, as it is written, applies only to the "private label" mortgage market, and both FHA and Fannie/Freddie loans are already exempt from QRM guidelines. The final guidelines may be modified to permit MI as an alternative to higher down payments, but we reiterate our skepticism regarding the amount of new private label business that might result from inclusion of MI in QRM, should it occur.

Even if included in the final QRM definition, MI as a credit enhancement would need to find acceptance with private label investors. While originators/securitizers may welcome the opportunity to use MI as a credit enhancement, investors may not be as willing to accept MI, given the industry's recent highly publicized struggles: (a) one carrier paying claims at 60 cents on the dollar (despite pre-crisis AA ratings), (b) two additional carriers facing uncertainty over their ability to pay all claims, (c) all carriers rescinding/denying 25% of claims (and a higher percentage of non-GSE claims) in a stress scenario, and (d) all of the MI carriers that still write business being rated in the B – BBB range.

As mentioned above, these discussions and decisions must now take place in the context of an industry where three of the seven participants entering the crisis have been ordered to stop writing new business, with uncertainty whether they will be able to meet all claims obligations. Thus, in designing the future housing finance system, regulators will certainly have to consider the ability of MI carriers to honor all claims in a stress environment.

FIGURE 5: FLOW NIW ($MM)

MI	Q4 2008	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
GNW	3,200	1,800	1,500	2,100	2,400	2,600	2,000	1,900
MGIC	5,469	2,989	1,800	2,739	3,487	4,235	3,041	3,083
PMI	5,725	969	964	1,567	2,004	2,214	1,471	1,426
RMIC	2,690	1,120	748	964	1,098	1,180	688	780
RDN	5,025	2,414	1,897	2,654	3,226	3,781	2,586	2,280
Total	22,109	9,292	6,909	10,024	12,215	14,010	9,786	9,469

On the GSE front, both Fannie and Freddie have recently capped the lenders' timeframes to pursue claim recoveries from the MI carriers before requiring whole loan repurchase. After September 30, 2011, lenders have only 90 days to fight an MI cancellation, denial, or rescission before being forced to repurchase the loan from the GSE without paying penalties or posting collateral on the MI appealed loans. The current GSE rules place a serious obstacle in front of lenders to remedy repurchase demands based on MI coverage issues. The MI carriers could simply cancel, deny, or rescind an MI certificate and ignore the lender for the next 90+ days, which may force the lender into automatic repurchase and potentially weaken the lender's push for MI claim payment. Should MI carriers fail to respond timely to a lender's appeal, the MI carriers might be opening themselves up to far greater liability than just the original MI claim payment. This tangled dance between the three -- GSEs, lenders, and MI carriers -- is just starting. Who will sue first over these arbitrary repurchase timelines?

MI CARRIER KEY OBSERVATIONS

ESSENT GUARANTY

Essent is privately held and thus does not file results with the SEC. Its insurance subsidiaries, however, must still file statutory statements with regulators.

Essent's main challenge is growth -- through June 30, 2011, its main operating subsidiary, Essent Guaranty, Inc., reported $1.9M in net earned premium. The run rate of earned premiums likely translates to less than $1B in IIF based on industry average premium rates.

The $1.9M net earned premium compares to $21.8M in underwriting expenses. To generate sufficient premium to offset the current expense run rate would require approximately $7B in IIF.

Essent Guaranty, Inc. has roughly $150M in statutory capital as of June 30, 2011.

GENWORTH

In Q2, Genworth required a capital infusion from its parent to avoid breaching a 25:1 statutory risk-to-capital ratio requirement. While the company was operating on waivers in 45 of 50 states and writing business through other subsidiaries in the remaining 5 states, it appears that Genworth management no longer wanted to rely on regulatory forbearance, so it injected enough capital to maintain a risk-to-capital ratio at the regulatory limits. The capital infusion came in the form of $375M of stock in the Canadian MI subsidiary, which is a separately traded public company.

As a result of the decision to add capital to its U.S. MI operations, the management of Genworth's parent company faced considerable criticism, and Genworth's stock price declined, ultimately falling to 52-week lows. This reaction likely creates headwinds for Genworth's parent company to contribute additional capital, which we believe will be needed in Q3 2011 to maintain capital ratios below 25:1. Whether more capital is provided will be a test of Genworth management's commitment to the U.S. MI industry.

MGIC

MGIC reported a loss of $152M for Q2, largely as a result of paid claims topping $800M for the quarter. This was a common theme with all the MIs – elevated paid claims combined with slowly shrinking and aging delinquencies leading to high incurred losses. In line with other industry participants, half of MGIC's primary delinquencies have missed 12 or more payments.

MGIC's reported loss does not include an additional $51M in incurred loss that Freddie Mac believes MGIC is liable under a pool policy MGIC provided to Freddie. It appears MGIC and Freddie have a different interpretation of the insurance coverage limit under the policy; according to disclosures given by Freddie Mac in its 10-Q, this discrepancy could ultimately reach $700M. If MGIC is ultimately found liable for these additional losses, it could place significant pressure on MGIC's ability to stay within statutory capital limits. Without any knowledge of the details of this pool insurance coverage, our best guess is that either Freddie Mac will change its interpretation of MGIC's liability, or this matter will end up in litigation/arbitration. MGIC cannot afford to acquiesce on this matter.

PMI

PMI's risk-to-capital ratio jumped from 24.4:1 to 58:1 from the end of Q1 to the end of Q2. Reaction from the Arizona Department of Insurance, the regulator of PMI's main operating company, PMI Mortgage Insurance Co. ("MIC"), was swift – shortly after PMI filed its statutory statements with the Department, Arizona not only suspended MIC from writing new business, but also appointed a supervisor to oversee MIC's operations. The supervisor has the authority to restrict greatly MIC's activities. If MIC does not provide the Department with a satisfactory plan to cure its deficiencies within 60 days, it may be placed under conservatorship.

This was a highly atypical step by the Arizona Department of Insurance, reflecting the serious financial condition MIC finds itself in. Even in the case of Triad, which went into runoff over three years ago, and so far in the case of RMIC, which is also going into runoff, no supervisor has been appointed. Triad is operating under a confidential agreement with the Illinois state insurance regulator, and we would not be surprised to see RMIC in a similar situation with its North Carolina insurance regulator.

PMI management has announced efforts to try to attract new capital and to continue to write business in a separately capitalized subsidiary. We are skeptical of the likelihood of success of these efforts for several reasons:

1) PMI's holding company has roughly $730M in debt vs. roughly $200M in cash. Thus, existing bondholders would first have to agree to any reorganization (or less likely, new equity would be placed under the existing debt). This process could take months, if not years, to complete, as it would likely require a holding company bankruptcy filing.

2) As of September 16, 2011, PMI is no longer accepting new business. Any newly capitalized entity would have to regain market share from existing competitors (albeit with existing relationships).

3) It is unclear if the GSEs would accept as an eligible insurer any company that is not subordinate to the existing operating company, meaning new capital would have to be available to pay claims on legacy risk, if needed. This makes the contribution of new capital less attractive to investors.

Thus, in our opinion, the likely future for PMI is runoff, either as an independent entity or under conservatorship of the Arizona Department of Insurance. As an insured, whether PMI is in runoff or under conservatorship makes little difference because sources and uses of capital will not vary significantly under either scenario.

As an insured, under runoff, the concern becomes the ability of PMI to pay all claims. Given the publicly available information on PMI's exposures, combined with our estimates of portfolio performance, our proprietary modeling shows significant risk in PMI's ability to pay all claims. (Note: this is consistent with PMI's own forecast of portfolio performance given during their Q4 2010 earnings announcement, adjusted for recent trends). One key determinant will be how much PMI can reduce operating expenses. Under runoff, it is expected that expenses will be greatly reduced, as Triad demonstrated (where expenses dropped roughly 70% from pre- to post-runoff). Failing to meet this expectation places additional stress on claims-paying ability.

We think it likely, however, if the Department is determined to distribute sources of funds equitably among all claimants, PMI will be ordered to pay partial claims and remit a Deferred Payment Obligation or similar structured liability for the remainder.

RADIAN

As of June 30, 2011, Radian Guaranty, Inc., Radian's main operating company, had a statutory surplus of $1.006B (and no remaining contingency reserve, which is often added to surplus in calculating available capital). Radian Guaranty's assets, however, include the statutory surplus of Radian Asset Assurance, its wholly owned financial guaranty subsidiary, in the amount of $1.001B. Therefore Radian Guaranty's surplus, and thus its risk-to-capital ratio, is highly dependent on the fortunes of its financial guaranty subsidiary. This is an important distinction for lenders, GSEs, and investors to understand -- Radian Asset Assurance is not just a source of funds, but also a source of statutory surplus. Any impairment of Radian Asset Assurance's surplus leads directly to an impairment of Radian Guaranty's surplus.

Radian's main holding company reported $630M of cash at the end of Q2, giving the company some cushion in the event of future capital-depleting losses.

However, the ability to downstream capital may not necessarily translate into the willingness to downstream capital. As in the case with RMIC, willingness may shift with management's perception of the long-term viability of the MI industry.

Radian Guaranty has outperformed its peers in gaining market share during 2009-2011, and as a result, it is shifting its insured book more quickly into new vintage originations, with 21% of RIF being from years 2009-2011 (compared to 15% at Genworth and 15.9% at MGIC, for example).

RMIC (ORI)

RMIC's main operating company, Republic Mortgage Insurance Company, had been operating under a regulatory waiver for being out of compliance with minimum capital statutory regulations since December 2009. On August 31, 2011, that waiver expired and RMIC's parent decided not to contribute more capital, thus placing RMIC into runoff. Unlike with PMI, there has been no supervisor appointed by North Carolina, RMIC's regulator. We expect RMIC will operate under a runoff agreement, similar to Triad.

As with PMI, our modeling casts significant uncertainty over the prospects that RMIC will have sufficient resources to pay all claims. It is unknown whether Old Republic would ultimately support RMIC should funds be needed to pay claims given current public statements by ORI executives that each insurance entity stands on its own without affiliate or corporate support.

In runoff, RMIC does have the advantage of being able to reduce expenses to a minimum, which will help policyholders recover claims dollars. To that end, we have heard of some cost cutting measures that have already been taken. However, we would not be surprised to see RMIC's North Carolina regulator directing RMIC to pay partial claims with a DPO or other similar reduction, as the Illinois regulator did with Triad.

Old Republic has offered to provide up to $100M to a separately capitalized subsidiary to write new business, but that approach has not yet won approval from the GSEs, highlighting again the importance of keeping the main operating subsidiary in compliance with regulatory limits.

TRIAD GUARANTY

Triad continues in runoff, which began in September 2008, with no change in status this quarter. Triad continues to pay claims at 60 cents on the dollar, with the remaining 40% being withheld and booked to a DPO. The current amount of the DPO is $517.2M, which grows not only based on future partial claims, but also accrues interest at the average investment income rate of Triad's portfolio.

While there have been public comments from various analysts as to the long-term ability of Triad to pay any portion of the DPO, the Illinois insurance regulator has not issued any public statements or changed Triad's method of accounting or operations at this time.

UNITED GUARANTY (AIG)

United Guaranty Residential Insurance Company (UGRIC), the flagship first-lien entity, has two reinsurance agreements with MG Re, a Vermont captive owned by AIG. Under the first agreement, United Guaranty cedes loss development from loans not in default as of December 31, 2008 that cause UGRIC's loss ratio to exceed 95% (i.e., UGRIC losses cannot exceed 95% of earned premiums) as part of an overall loss limit of $6.5B for all UG companies. Under the second agreement, UGRIC cedes loss development for loss reserves established as of December 31, 2008 to MG Re up to a maximum of $500M. UG, as of June 30, 2011, has ceded over $1.1B of losses to MG Re. As MG Re is a Vermont captive, it is not subject to normal insurance company disclosure rules, such as the requirement to file a publicly available statutory statement. Thus, the financial condition of MG Re is not possible to determine using publicly available information. In AIG's Q2 10Q, it revealed that United Guaranty had rescinded $402M worth of claims on its1st lien business in the first six months of 2011, compared to $230M during the same period in 2010. Thus, unlike some industry participants, United Guaranty has increased its rescission activity.

FINAL THOUGHTS

The trends discussed in the previous edition of zInsights have worsened in Q2. The loss of two additional carriers to runoff puts the industry in a bad light and raises serious questions relating to whether it would be prudent for regulators and/or lawmakers to further a housing finance model that relies on private mortgage insurance that may not be able to pay all claims during the next stress scenario. This puts into question the future of credit risk retention in general -- Who will hold it? Who is best suited to hold it? What structures will emerge to take that risk? What role will the government take?

INFORMATION SOURCES

The information contained herein was compiled primarily from MI carrier earnings calls, securities filings, annual statutory statements, and other publicly available sources.

ABOUT zINGENUITY, INC.

zIngenuity, Inc. is a boutique consulting firm that provides solutions exclusively to lenders and servicers on mortgage finance related issues. Our primary services include mortgage pool analytics, business-to-business resolution of rescissions / repurchase demands, and expert advice, reports and testimony. We are recognized as the nation's foremost expert on mortgage insurance companies and their products and services.

Today, lenders' operational models are challenged with new regulations, and our clients rely on us as subject matter experts in the areas of mortgage performance analytics and dispute resolution services.

zIngenuity Analytics and Reporting Services (ZIN ARS) focuses on mortgage portfolio quantitative analysis, loss and reserve forecasting, captive reinsurance consulting, actuarial services, and MI counterparty risk analysis.

zIngenuity Dispute and Resolution Services (ZIN DRS) focuses on defending lender and servicer clients against representation and warranty repurchase demands, rescinded, cancelled, or denied mortgage insurance coverage, origination appraisal disputes, breaches of contract underwriting agreements, mortgage insurance claim payment audits, and litigation support.

You may learn more about us on our website: www.zIngenuity.com.

For information about our analytical or dispute resolution services please contact: info@zingenuity.com or Bob Voll at 404-771-1927.

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EXHIBIT 52

3/5/12 SNL Ins. Wkly. (Life & Health Ed.) (Pg. Unavail. Online)
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SNL Insurance Weekly (Life & Health Edition)
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March 5, 2012

Genworth mortgage insurance subsidiary receives waiver from North Carolina

Rodger Nayak

Genworth Mortgage Insurance Corp., Genworth Financial Inc.'s primary U.S. mortgage insurance subsidiary, received a revocable two-year waiver of compliance with risk-to-capital requirement in North Carolina, according to a Form 10-K filed Feb. 27.

The waiver, issued by the North Carolina Department of Insurance, allows Genworth Mortgage Insurance to operate in the state even while its risk-to-capital exceeds 25-to-1. As of Dec. 31, 2011, its risk-to-capital ratio was 32.9-to-1. The waiver took effect Jan. 31.

Genworth Mortgage Insurance is eligible to write new business in 44 states as of the end of 2011. Of those, 34 states do not impose risk-to-capital requirements, and 12 states have granted waivers to Genworth Mortgage Insurance that allow it to continue to write new business. Two of those waivers are no longer in effect as of Dec. 31, 2011, because alternative risk-to-capital limitations took effect.

Genworth plans to write new business through Genworth Residential Mortgage Assurance Corp. in any state that prevents Genworth Mortgage Insurance from writing new business. This would be subject to the approval of regulators and the government-sponsored enterprises and would depend upon Genworth Residential Mortgage Assurance, which has about a full year of new business capacity, satisfying its own regulatory requirements.

In a conference call Feb. 10, Genworth executives said the U.S. mortgage insurance segment could return to profitability in 2013.

---- INDEX REFERENCES ---

COMPANY: GENWORTH RESIDENTIAL MORTGAGE ASSURANCE CORP; GENWORTH MORTGAGE

INSURANCE CORP; GENWORTH FINANCIAL INC

INDUSTRY: (Banking (1BA20); I.T. (1IT96); Retail Banking Services (1RE38); I.T. in Financial Services (1IT24); Insurance (1IN97); Insurance Products (1IN13); I.T. in Insurance (1IT17); Consumer Finance (1CO55); Mortgage Insurance (1MO34); I.T. Vertical Markets (1IT38); Financial Services (1FI37); Mortgage Banking (1MO85); Insurance Software (1IN05); Alternative Insurance Products & Markets (1AL74))

REGION: (North America (1NO39); Americas (1AM92); North Carolina (1NO26); USA (1US73); U.S. Southeast Region (1SO88))

Language: EN

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EXHIBIT 53

4/9/13 SNL Ins. Mergers & Acquisitions (Pg. Unavail. Online)
2013 WLNR 9042453
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SNL Insurance Mergers and Acquisitions
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April 9, 2013

Genworth Financial executes mortgage insurance capital plan

Maitree Sharma

Genworth Financial Inc. said April 1 that its previously announced U.S. mortgage insurance capital plan was fully implemented.

The plan received all necessary approvals. The ownership transfer of the European mortgage insurance subsidiaries to Genworth Mortgage Insurance Corp. was completed Jan. 31. Additionally, the implementation of an internal legal entity reorganization, which created a new public holding company structure that removed the U.S. mortgage insurance subsidiaries from the companies covered by the indenture governing Genworth's senior notes, was completed April 1.

Cash and highly liquid securities held by Genworth Holdings, the old parent that became a unit of Genworth Financial, are estimated to be approximately $950 million as of March 31. Subsequently, as part of the capital plan, Genworth contributed $100 million to Genworth Mortgage Insurance on April 1. The company continues to expect to maintain holding company cash and highly liquid securities balances of 2x its annual debt service expense plus a $350 million buffer.

Further, Genworth will continue to have an option, in the event of certain adverse conditions, to implement a "NewCo" type structure that would allow for the continued writing of new business in all 50 states. The company expects that the risk-to-capital ratio of Genworth Mortgage Insurance will be reduced by approximately 15 points and the combined risk-to-capital ratio of the U.S. mortgage insurance subsidiaries will be reduced by approximately 10 points from the plan.

---- INDEX REFERENCES ---

COMPANY: GENWORTH HOLDINGS INC; GENWORTH FINANCIAL INC; GENWORTH MORTGAGE

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INSURANCE CORP

NEWS SUBJECT: (Corporate Groups & Ownership (1XO09); Holding Companies (1HO03); Corporate Events (1CR05); Business Management (1BU42))

INDUSTRY: (Insurance Company Ratings (1IN85); Retail Banking Services (1RE38); Insurance (1IN97); Mortgage Banking (1MO85); Banking (1BA20); Insurance Products (1IN13); Mortgage Insurance (1MO34); Financial Services (1FI37); Consumer Finance (1CO55))

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KEYWORDS: (Restructuring/ Privatization/ Spinoff)

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EXHIBIT 54

JULY 2012

MORTGAGE INSURANCE INDUSTRY REPORT

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OVERVIEW

The U.S. mortgage insurance industry continues to face significant challenges, with capital pressures continuing to grow quarterly as underwriting losses continue. While new business appears to be of higher quality and subsequently will produce strong profits, pre-2009 insured loans continue to incur significant losses, putting stress on the thin capital positions of some industry participants.

Of the seven major mortgage insurers in existence before the current crisis started, three are now in runoff (i.e., no longer writing new policies) and paying partial claims under deferred payment obligation orders from their respective regulators. Both PMI and RMIC are paying claims at 50 cents on the dollar, while Triad is paying at 60 cents on the dollar, with unpaid claim dollars deferred until there is more clarity on how much each MI will be able to distribute to policyholders.

Of the four players not yet in runoff, three are facing capital pressures to varying degrees. Genworth, MGIC, and Radian are through or approaching statutory capital limits. Only United Guaranty, thanks to support from AIG, its parent, is capitalized at levels well below statutory limits. (Essent Guaranty, which started writing business after the crisis hit, is still building up its book of business, and with most of its start-up capital unused, is well within regulatory limits.)

For the three insurers facing capital pressures, the next few quarters will be trying. We recommend that originators and servicers with current or historical exposure to these MIs monitor the industry closely.

CAPITAL PRESSURES

Like all insurers, the MIs collect premiums today in exchange for the promise to pay claims tomorrow. That promise is supported by capital.

The most observable capital constraint is the risk-to-capital ratio, which measures the amount of capital held against risk, and is therefore a measure of leverage. As with any leverage ratio, the dynamics are such that the ratio can increase quickly as the denominator decreases. This was seen with both PMI and RMIC, whose risk-to-capital ratios climbed dramatically from 24.4 to 58.1:1 (PMI) and 31.6 to 45.1:1 (RMIC) in just one quarter, 2011 Q1 to Q2.

For Genworth, MGIC, and Radian, their capital positions are as follows:

FIGURE 1: CAPITAL POSITIONS

	Genworth	MGIC	Radian
Risk-to-Capital Ratio	28.6:1	22.2:1	20.6:1
Total Capital	$780M	$1,650M	$950M

To put these numbers into perspective, for calendar year 2011, the main operating subsidiaries of Genworth, MGIC, and Radian lost $605M, $397M, and $545M on a statutory basis, respectively. Absent capital additions, a repeat of 2011 in 2012 would likely force Genworth and Radian into runoff, and would put MGIC outside statutory limits in many states.

Losses in the MI industry usually come from new delinquencies, as reserves are established for expected claims that might arise from those delinquencies. As delinquencies work their way through the loss mitigation process, some are cured, while others become paid claims. The MI industry uses historical experience on cures and defaults to try to set accurate reserves up front when delinquencies first occur.

However, losses can also arise from changes in reserve assumptions. This poses a significant risk to the legacy MIs given the large delinquency inventories across the participants and the unprecedented delays in resolving delinquencies. Besides their overall size, delinquency inventories are far more aged than in the past, and the ultimate outcome of those delinquencies is far less certain. Delinquencies that are several years old are in some cases curing due to government sponsored modification programs, and MIs are building these cures into their assumptions.

Delinquency inventory levels and reserves held against those delinquencies as of 3/31/12 are as follows (primary insurance only):

Figure 2: Delinquency Inventory Levels

	Genworth	MGIC	Radian
Delinquencies	79,474	160,473	103,027
Reserves (000s)	$2,320,000	$3,985,000	$2,867,501
Average per Delinquency	$29,192	$24,833	$27,833

Given the large size of the delinquency inventories, small changes in reserve assumptions can mean large swings in reserves, and thus income and capital levels. As mentioned, reserve assumptions can be especially difficult to estimate given the unprecedented environment where the majority of delinquencies have missed 12 or more payments. Traditionally, these borrowers would cure very infrequently. In recent years, due to government intervention, very seriously delinquent borrowers often cure through modification programs (and often become seriously delinquent to gain access to modification programs).

The aging of primary inventories can be seen below:

Figure 3: Aging of Primary Inventories

Payments Missed	Genworth	MGIC	Radian
3 or fewer	17,260	33,579	16,178
4 - 11	24,137	45,539	26,408
12 +	38,077	81,355	42,684
Pending Claims	NA*	NA*	17,757

*Not applicable since pending claims are included in delinquency counts.

Given the age of the delinquency inventories, reserves are highly dependent on loan modification programs and the success each MI has in rescinding or denying claims, as modifications and rescissions/denials are the two primary ways claims can be avoided on seriously delinquent loans. Small changes in the effectiveness of these initiatives can have a large impact on profits and capital. Going forward, counterparties should pay careful attention to the assumptions built into each MI's reserves, both relative to other participants and on an absolute basis in light of modification and foreclosure activity occurring in the industry.

MI CARRIER KEY OBSERVATIONS

Genworth

There is considerable uncertainty regarding what Genworth's parent company will decide to do with the US MI company. The parent company is searching for a new CEO, so it is unlikely any action will be taken until that search has concluded, but what action a new CEO will take is unknown. The fate of the US MI company lies largely with the decisions made by the parent.

Of the remaining carriers writing new business, Genworth appears to be in the weakest capital position. However, not all is as it seems. As can be seen in Figure 3 above, Genworth has a higher average reserve per primary delinquency than its peers MGIC and Radian. Some of this is due to Genworth's lower assumptions on rescission and denial activity, and some due to their assumptions regarding delinquency-to-claim transitions. As one example, for loans that have missed 4-11 payments, Genworth is reserved for 60% of their coverage on these delinquencies. Radian, in contrast, assumes that only 48% of those will go to claim and will only pay claims on 43% of them. Granted, each company is somewhat different in its loss mitigation, rescission, and denial activity. However, it makes comparing Genworth's financial condition to Radian's (or MGIC's) difficult without some adjustments.

Essent

Essent appears to be gaining traction in writing new business. As of March 31, 2012, it has a combined $1B in insured risk with Fannie and Freddie, up from $600M on December 31, 2011. Making some assumptions about average coverage levels and runoff, this translates into roughly $1.5B of NIW in 2012 Q1, or about half the $3B reported by Genworth, which is fourth in market share among the remaining four original MI participants.

MGIC

With the largest delinquency inventory in the industry, MGIC faces the most uncertainty around the ultimate fate of its delinquencies. Small changes in reserve assumptions can drive large changes in MGIC's profitability and capital. For every $1,000 change in reserves per delinquency (only a 4% change), MGIC's profitability and capital changes by $160M.

Besides the risk surrounding reserve assumptions, MGIC is in a dispute with Freddie Mac over the interpretation of a pool insurance deal. At dispute is the interpretation on a stop loss limit, where MGIC is claiming the stop loss is $535M lower than Freddie Mac claims. Without an opinion on the relative merits of each parties' argument, we note that the dispute appears to be one where, barring a settlement, there will be a clear winner (i.e., the stop loss is either in line with MGIC's interpretation or Freddie's interpretation), and $535M is roughly 1/3 of MGIC's current capital base, so the outcome and timing of the resolution of this dispute is of extreme importance to MGIC's financial condition.

National Mortgage Insurance Corporation

As a testament to the strength of the business being insured currently by the MI industry, a new mortgage insurance entity, National Mortgage Insurance, has been capitalized in excess of $500M and is waiting for GSE approval to begin writing new business.

PMI

As noted, PMI is in runoff and paying claims at 50 cents on the dollar under a deferred payment obligation. Valuing the ultimate payoff from these DPOs is difficult and requires considerable modeling and assumptions.

On the regulatory front, the Arizona Department of Insurance has been appointed the receiver for PMI and has retained a financial advisor to liquidate the assets of PMI in an attempt to maximize payouts to policyholders.

Radian

Beginning last summer, as disclosed in regulatory filings and discussed on earnings calls, Radian instituted a new process for reviewing filed claims. Servicers should be aware that this process may affect them materially.

While Radian's rescission activity has declined in line with other industry participants, its claim denial activity has ramped up considerably.

Below is a table of rescission and denial activity for the past several quarters:

Figure 4: Radian Rescission & Denial Activity

	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1
New Denials	1,477	1,347	1,148	1,398	3,344
Reinstated Denials	1,454	799	633	386	746
Net Denials	23	548	515	1,012	2,596
New Rescissions	1,470	1,812	1,521	976	855
Reinstated Rescissions	175	168	250	334	179
Net Rescissions	1,295	1,644	1,271	642	676

Assuming an industry-average of $50,000 per filed claim, last quarters' new claim denials represents over $167M of denied claims. Had Radian paid, rather than denied those claims, it would have had a material impact on their remaining $950M capital base.

As a servicer, it is important to respond to this claim denial activity in an efficient and timely manner. Besides the activities of one carrier, the larger risk to servicers is that other mortgage insurers find large scale claims denial activities to be an attractive way to manage income and capital, and decide to pursue denials aggressively. This makes it all the more imperative as a servicer to have proper processes and procedures in place to respond.

RMIC

Like PMI, RMIC is also in a deferred payment obligation plan, paying 50 cents on every claim dollar and deferring the remainder. As with PMI, valuing the ultimate claims payout is a complex task.

RMIC's parent, Old Republic International, recently announced its intentions to spinoff RMIC and related mortgage insurance entities, then later reversed this decision in response to "stakeholder" objections. Although the parent company claims it cannot be forced to support RMIC in runoff, this reversal puts that claim into question in our opinion. It appears that some entity convinced Old Republic to keep the MI entities in the corporate fold, presumably to provide support of some kind.

Triad

Triad also continues making partial claim payments. With $802M in remaining invested assets and premium income of roughly $40M a quarter, versus a deferred payment obligation of $674M and zIngenuity-estimated remaining losses in excess of $1.5B, it is unlikely claims will be honored in full.

United Guaranty

UGI's parent, AIG, noted in its recent 10Q that UGI has sent requests to its servicers on over 20,000 seriously delinquent loans to file a claim where a loss is likely, even where foreclosure proceedings had not been finalized. UGI reports that rescissions and denials on the claims they received due to this request were higher than previously experienced. Under UGI's master policies, servicers have up to 12 months to respond to this request or insurance coverage will be cancelled.

UGI's actions highlights again why servicers need to ensure both that their claim submission processes as well as their processes for responding to claims denials are robust. It is also important for servicers to be prepared for such requests from other mortgage insurers if they have not already been received.

Final Thoughts

In light of the weakening financial conditions of some of the current mortgage insurance companies, it will be important for originators, servicers, and insureds to monitor the state of the mortgage insurance industry in the coming quarters. The financial condition of some players, and the actions they take in light of those conditions, will certainly have an impact on counterparties. The industry currently has three MIs paying a deferred payment obligation, and there is a risk that others will be placed into that situation absent capital infusions. Valuing the ultimate payoff from these DPOs is difficult and requires complex modeling. From a loss and reserve forecasting perspective, there should be cause for concern not just on current production, but historical exposure both in production sold to others and, more importantly, loans held in portfolio. zIngenuity can help in these areas and we look forward to working with our clients to help them find the best solutions for managing their credit risk.

About zIngenuity, Inc.

zIngenuity, Inc. is a boutique mortgage consulting firm that provides solutions exclusively to lenders and servicers on mortgage finance related issues. Our primary services include mortgage pool analytics, business-to-business resolution of rescissions / repurchase demands, expert advice, reports and testimony, and contract underwriting services.

Today, lenders' operational models are challenged with new regulations, and our clients rely on us as subject matter experts in managing credit risk through mortgage performance analytics, dispute resolution, and contract underwriting services.

zIngenuity Analytics and Reporting Services (ZIN ARS) focuses on mortgage portfolio quantitative analysis, loss and reserve forecasting, captive reinsurance consulting, actuarial services, and MI counterparty risk analysis.

zIngenuity Dispute and Resolution Services (ZIN DRS) focuses on defending lender and servicer clients against representation and warranty repurchase demands, rescinded, cancelled, or denied mortgage insurance coverage, origination appraisal disputes, breaches of contract underwriting agreements, mortgage insurance claim payment audits, and litigation support.

zIngenuity Mortgage Origination Services (ZIN MOS) focuses on long-term and interim contract underwriting fulfillment, custom fit to lenders' guidelines.

You may learn more about us on our website: www.zIngenuity.com.

For information about our analytic, dispute resolution, or mortgage origination services please contact:

info@zingenuity.com or Bob Voll at 404-771-1927.

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12/6/11 SNL Ins. Mergers & Acquisitions (Pg. Unavail. Online)
2011 WLNR 26027050
Loaded Date: 12/16/2011

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December 6, 2011

Radian seeking risk-to-capital ratio waivers from 15 states

Adam Cancryn

Radian Group Inc. has asked 15 states for waivers allowing the company to temporarily write business above their risk-to-capital ratio limits, CFO Carl Quint said during a Nov. 29 presentation.

So far, three states have granted Radian permission to exceed their maximum risk-to-capital ratio requirement, while one state has rejected the request. The firm is still waiting to hear back from the 11 others.

Most of the 16 states that provide waivers require companies to keep their risk-to-capital ratio below 25-to-1, Quint said at the FBR Fall Investor Conference. Radian's ratio currently sits at about 21.4-to-1, but that figure is expected to widen soon.

For the rest of the states that do not have a waiver system, Radian is seeking government-sponsored enterprise approval for unit Radian Mortgage Assurance Inc. Should it receive the go-ahead, Quint said the additional operations would increase the company's flexibility.

---- INDEX REFERENCES ---

COMPANY: RADIAN MORTGAGE ASSURANCE INC; RADIAN GROUP INC

INDUSTRY: (Healthcare (1HE06); Construction (1CO11); Healthcare Regulatory (1HE04); Tools (1TO28); U.S. National Healthcare Reform (1US09))

Language: EN

OTHER INDEXING: (Carl Quint)

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KEYWORDS: (Lines of Business)

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EXHIBIT 56

Atrium Insurance Corporation

Financial Statements for the Years Ended December 31, 2001 and 2000, Supplemental Schedules as of and for the Year Ended December 31, 2001 and Independent Auditors' Report

NAIC Company Code #10362

ATRIUM INSURANCE CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Atrium Insurance Corporation
New York, New York

We have audited the accompanying statutory statements of admitted assets, liabilities, capital and surplus of Atrium Insurance Corporation (the "Company") as of December 31, 2001 and 2000, and the related statutory statements of operations, changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the statutory financial statements, the Company has prepared these financial statements in conformity with the accounting practices prescribed or permitted by the Insurance Department of the State of New York, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on such financial statements of the differences between the accounting practices prescribed or permitted by the Insurance Department of the State of New York and accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects of the differences between the two bases of accounting referred to in the preceding paragraph, such financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the assets, liabilities, capital and surplus of Atrium Insurance Corporation as of December 31, 2001 and 2000, or the results of its operations or its cash flows for the years then ended.

However, in our opinion, such financial statements present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of Atrium Insurance Corporation as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the statutory financial statements, the Company has changed certain accounting practices as a result of the adoption, with certain modifications, by the Insurance Department of the State of New

York of the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual–Version effective January 1, 2001.

Our 2001 audit was conducted for the purpose of forming an opinion on the basic 2001 statutory financial statements taken as a whole. The supplemental summary investment schedule and the supplemental schedule of investment risk interrogatories as of and for the year ended December 31, 2001 are presented for complying with the National Association of Insurance Commissioners' instructions to Annual Audited Financial Reports and are not a required part of the basic 2001 statutory financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2001 statutory financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2001 statutory financial statements taken as a whole.

Deloitte & Touche LLP

May 17, 2002

ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2001 and 2000

	2001	2000
ADMITTED ASSETS:		
Cash and cash equivalents	$ 788,887	$ 6,126,384
Restricted short-term investments	128,427,528	80,637,786
Premiums in course of collection	15,701,035	10,723,095
Interest due and accrued	931,336	926,490
Total admitted assets	$ 145,848,786	$ 98,413,755
LIABILITIES, CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	$ 11,801,916	$ 7,146,487
Statutory contingency reserves	61,355,889	38,518,510
Commissions payable, contingent commissions and other similar charges	2,799,266	1,976,696
Unearned premiums	622,277	438,072
Other expenses	61,997	-
Federal income taxes payable to parent	36,208,403	22,256,951
Total liabilities	112,849,748	70,336,716
COMMITMENTS AND CONTINGENCIES (See Note 10)	-	-
CAPITAL AND SURPLUS:		
Common capital stock ($1,000 par value, 1,000 shares authorized, issued and outstanding)	1,000,000	1,000,000
Gross paid in and contributed surplus	28,600,000	25,600,000
Unassigned funds	3,399,038	1,477,039
Total capital and surplus	32,999,038	28,077,039
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$ 145,848,786	$ 98,413,755

See notes to statutory statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
INCOME:		
Premiums earned	$ 45,674,758	$ 34,587,948
Net investment income	4,556,153	3,946,164
Total income	50,230,911	38,534,112
EXPENSES:		
Losses incurred	4,655,429	3,411,951
Commissions	6,879,518	6,155,024
Payroll expenses	111,432	111,431
Other expenses	178,933	110,609
Total expenses	11,825,312	9,789,015
INCOME BEFORE INCOME TAXES	38,405,599	28,745,097
FEDERAL INCOME TAXES INCURRED	13,646,221	10,368,054
NET INCOME	$ 24,759,378	$ 18,377,043

See notes to statutory statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
CAPITAL AND SURPLUS, BEGINNING OF YEAR	$ 28,077,039	$ 9,993,970
NET INCOME	24,759,378	18,377,043
INCREASE IN CONTINGENCY RESERVE	(22,837,379)	(17,293,974)
CAPITAL CONTRIBUTION FROM PARENT	3,000,000	17,000,000
INCREASE IN CAPITAL AND SURPLUS	4,921,999	18,083,069
CAPITAL AND SURPLUS, END OF YEAR	$ 32,999,038	$ 28,077,039

See notes to statutory statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2001 and 2000

	2001	2000
PREMIUMS COLLECTED NET OF REINSURANCE	$ 40,881,023	$ 32,749,019
OTHER UNDERWRITING EXPENSE	(6,285,316)	(6,102,687)
NET INVESTMENT INCOME	4,551,307	3,368,440
STATE INCOME TAX REFUND	305,231	-
Net cash from operations	39,452,245	30,014,772
CAPITAL AND SURPLUS PAID IN	3,000,000	17,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS	42,452,245	47,014,772
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	86,764,170	39,749,398
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, END OF YEAR	$ 129,216,415	$ 86,764,170

See notes to statutory statements.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Atrium Insurance Corporation ("the Company") is incorporated under the laws of the State of New York. The Company is an indirect wholly owned subsidiary of PHH Corporation ("Parent"), which is a wholly owned subsidiary of Cendant Corporation. The Company began insurance operations on November 9, 1995.

The Company assumes mortgage insurance reinsurance wherein the ceding company is indemnified, subject to a specified limit, against the amount of loss in excess of a predetermined limit with respect to accumulation of losses.

Basis of Presentation – The Company's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Insurance Department of the State of New York ("IDSNY"). Effective January 1, 2001, the IDSNY required that insurance companies domiciled in the State of New York prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual – Version effective January 1, 2001 ("NAIC SAP"), with certain modifications. Accordingly, the Company's statutory statements of admitted assets, liabilities, capital and surplus as of December 31, 2001, and the statutory statements of operations and the statutory statements of cash flows for the year then ended have been determined in accordance with the new accounting principles. The Company's adoption of NAIC SAP as modified by the State of New York did not have a material impact on the Company's statutory capital and surplus at January 1, 2001. In addition, the Commissioner of the IDSNY has the right to permit other specific practices that may deviate from prescribed practices. The Company had no such permitted practices during the years ended December 31, 2001 and 2000.

Accounting practices and procedures of the NAIC as prescribed or permitted by the IDSNY comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant differences are as follows:

- Assets are reported under NAIC SAP at "admitted-asset" value and "non-admitted" assets are excluded through a charge against surplus while under GAAP, "non-admitted assets" are reinstated to the balance sheet, net of any valuation allowance;

- A predetermined percentage of net premiums written must be reserved (i.e., contingency reserve);

- Comprehensive income and its components are not presented in the statutory-basis financial statements;

- Prior to January 1, 2001, a federal income tax provision was made only on a current basis for statutory accounting, while under GAAP, a provision was also made for deferred taxes on temporary differences between the financial reporting and tax bases of assets and liabilities. Subsequent to January 1, 2001, NAIC SAP requires an amount to be recorded for deferred taxes; however, there are limitations as to the

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amount of deferred tax assets that may be reported as "admitted assets". The State of New York has not adopted this requirement (See Note 4);

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Investments in bonds are generally carried at amortized cost, while under GAAP, they are carried at either amortized cost or fair value based on their classification according to the Company's ability and intent to hold or trade the securities.

Cash and Cash Equivalents **-** Marketable securities with original maturities of three months or less are included in cash equivalents.

Restricted Short-Term Investments – Debt securities are stated at statement value, which based on the NAIC designation of the security, is either amortized cost or a market value prescribed by the NAIC. Short-term investments have original maturities of one year or less. (See also Notes 2 and 6).

Recognition of Premium Revenues - Premiums are recognized as revenue on a pro rata basis over the policy term, generally one-year. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

Recognition of Investment Income – Interest on investments is accrued as earned.

Insurance Liabilities - The liability for loss reserves represents an estimate of losses. Such liability is necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

The change in the contingency reserve reflects 50% of earned premium, which accumulates for ten years, in accordance with NAIC SAP.

Income Taxes - The Company is included in the consolidated federal income tax return of Cendant Corporation. The Company files separate state income tax returns. The tax charge or tax refund to the Company under the tax sharing agreement represents an amount that would have been paid or received if it had filed on a separate return basis with the Internal Revenue Service. The ultimate settlement of this liability is dependent upon the ultimate settlement of Cendant Corporation's tax liability with the Internal Revenue Service.

Expense/Service Allocation - The Company is party to an Expense Allocation Agreement and a Service Allocation Agreement wherein certain goods and services are allocated among Cendant Corporation subsidiaries. Substantially all payroll and other general and administrative expenses paid were subject to these agreements. Payroll expense is allocated based upon actual time Cendant Corporation employees spend performing services for the Company.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Fair Value of Financial Instruments – Cash and cash equivalents and restricted short-term investments are carried at an amount that approximates fair value. There are no financial instruments owned by the Company that are not disclosed on the financial statements.

Use of Estimates – The preparation of financial statements in conformity with the NAIC SAP requires management to make certain estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Reclassifications – Certain 2000 amounts have been reclassified to conform to the 2001 presentation.

2. RESTRICTED SHORT-TERM INVESTMENTS

At December 31, restricted short-term investments consisted of the following:

	2001		2000	
Investment	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
6 Month Treasury Bills	$ 122,363,675	$ 122,363,675	$ 80,636,047	$ 80,636,047
Money Market Fund	6,063,114	6,063,114	-	-
Principal Cash in Trust	739	739	1,739	1,739
	$ 128,427,528	$ 128,427,528	$ 80,637,786	$ 80,637,786

The Money Market Fund invests in short term treasury securities that generally maintain a dollar weighted average maturity of sixty days or less. In accordance with NAIC guidance, the Company's money market fund is classified as an unaffiliated equity investment on the Supplemental Schedule of Investments. All of the Company's short-term investments are restricted. See Note 6 for further details.

3. REINSURANCE ACTIVITY

The Company does not write any direct insurance. The Company is a reinsurer of a portion of the ultimate net losses on mortgage insurance polices underwritten by third parties. At December 31, 2001 and 2000, premiums receivable were $15,701,035, and $10,723,095, respectively. The Company assumes premiums under an excess of loss agreement at the rate of 25% of gross written premiums for policies with effective dates of October 1993 through March 1997 and a rate of 45%, less a ceding

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3. REINSURANCE ACTIVITY (Concluded)

commission of 19%, for policies with effective dates from April 1997 through December 1999. For policies with effective dates of January 2000 and forward, the Company assumes premiums under an excess of loss agreement at the rate of 45% less a ceding commission of 11.1%.

4. INCOME TAXES

The provisions for incurred income taxes on earnings for the years ended December 31 are:

	2001	2000
Federal	$ 13,646,221	$ 10,368,054
Foreign	-	-
Federal and foreign income taxes incurred	$ 13,646,221	$ 10,368,054

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

2001	$ 13,646,221
2000	$ 10,368,054
1999	$ 7,469,137

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory Federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	2001	2000
Income tax expense at statutory rate	35.00%	35.00%
Discounted loss reserves	0.47%	0.99%
Other	0.06%	0.08%
Income tax expense incurred	35.53%	36.07%

4. INCOME TAXES (Continued)

The Company is included in the consolidated federal income tax return of Cendant. The Company files separate state income tax returns. The tax charge or tax refund to the Company under the tax sharing agreement represents an amount that would have been paid or received if it had filed on a separate return basis with the Internal Revenue Service. The ultimate settlement of this liability is dependent upon the ultimate settlement of Cendant Corporation's tax liability with the Internal Revenue Service.

The Company is included in the consolidated federal income tax return of Cendant Corporation which also includes the following affiliated entities:

4509 Corporation
Advance Ross Corporation
Advance Ross Electronics Corporation
Advance Ross Intermediate Corporation
Advance Ross Steel Company
Advance Ross Sub Company
AFL Management Services, Inc.
AFS Mortgage, Inc.
American Western Mortgage Company of Colorado
American Western Mortgage Company of Texas
Amerihost Franchise Systems Inc.
Apex Marketing, Inc.
Apollo Galileo USA
Apollo Galileo USA Sub I, Inc.
Apollo Galileo USA Sub II, Inc.
Apple Ridge Services Corporation
Aston Hotels & Resorts International, Inc.
Atlantic Marketing Realty, Inc.
Atrium Insurance Corporation
Autovantage Com Inc
Avis Capital Corporation
Avis Fleet Leasing & Management Corporation
Axiom Financial, Inc.
Benefit Consultants Membership, Inc.
Benefit Consultants, Inc.
Book Stacks Unlimited, Inc.
Cable JV Sub, Inc.
Cardwell Agency Inc.
CCS International, Inc.
Cendant Asia Pacific Finance, Inc.
Cendant Auto Services, Inc.
Cendant Car Holdings, Inc.
Cendant Car Rental, Inc.
Cendant Corporation
Cendant Data Services Inc.
Cendant Finance Holding Corp.
Cendant Global Services, Inc.
Cendant Membership Services, Inc.
Cendant Intermediate Holdings, Inc.
Cendant Internet Group, Inc.
Cendant Latin America Holdings, Inc.
Cendant Membership Insurance Services, Inc.
Cendant Membership Services Holdings Subsidiary, Inc.
Cendant Membership Services Holdings Inc.
Cendant Mobility Financial Corporation
Cendant Mobility Services Corp.
Cendant Mortgage Corporation
Cendant Operations, Inc.
Cendant Payroll Services, Inc.
Cendant Perfume, Ltd.
Cendant Publishing, Inc.
Cendant Refund Holdings, Inc.
Cendant Restaurant Services, Inc.
Cendant Stock Corporation
Cendant Supplier Services, Inc.
Cendant Transportation Corp.
Cendant Travel, Inc.
Cendant Vacation Holdco, Inc.
CendantCom, Inc.
Century 21 Mortgage Corporation
Century 21 Real Estate Corporation
CGRN, Inc.

ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

4. INCOME TAXES (Continued)

Cheap Tickets, Inc.
Cleveland Financial Services Group
Coldwell Banker Canada Partners, Inc.
Coldwell Banker Corporation
Coldwell Banker Mortgage Corporation
Coldwell Banker Mortgage Partners, Inc.
Coldwell Banker Real Estate Corp
Coldwell Banker Real Estate Holdings, Inc.
Comp-U-Card Services, Inc.
Continental Development Corporation
Cornish & Carey Residential, Inc.
Credentials Services International, Inc.
CUC Asia Holdings
Days Inns Worldwide Inc.
Dealers Holding, Inc.
Distribution Systems, Inc.
Edenton Motors, Inc.
ERA Franchise Systems, Inc.
ERA General Agency Corporation
ERA General Agency of New Jersey, Inc.
ERA Mortgage Corporation
FAH Company, Inc.
Fairfield Acceptance Corporation
Fairfield Bay, Inc.
Fairfield Capital Corporation
Fairfield Flagstaff Realty, Inc.
Fairfield Funding Corporation, II
Fairfield Funding Corporation, III
Fairfield Glade, Inc.
Fairfield Homes Construction Company
Fairfield Management Services, Inc.
Fairfield Mortgage Acceptance Corporation
Fairfield Mortgage Corporation
Fairfield Mountains, Inc.
Fairfield Myrtle Beach, Inc.
Fairfield Pagosa Realty, Inc.
Fairfield Receivables Corporation
Fairfield Resorts, Inc.
Fairfield Sapphire Valley, Inc.
Fairfield Vacation Resorts, Inc.
Fairfield Virgin Islands, Inc.
Family Protection Network, Inc.
Family Software Club, Inc.
Family Value Account Inc.
FISI Madison Financial Corporation
FISI Madison Financial Corporation of Kentucky, Inc.
FISI Madison Holdings, Inc.
Galileo Asia, Ltd.
Galileo BA, Inc.
Galileo Brazil, Ltd.
Galileo International Services, Inc.
Galileo International, Inc.
Galileo Technologies, Inc.
Getko Direct Response Ltd.
GTKY Printing & Mailing Corp.
Haddonfield Holding Corporation
Hamera Corporation
Hebdo Mag Overseas Holdings Inc.
Henry S. Miller Investments, Inc.
Henry S. Miller Residential Group, Inc.
Henry S. Miller Residential Services Corp.
Hewfant, Inc.
HFS Car Rental Holdings, Inc.
HFS Gaming Corp
HFS Licensing, Inc.
HFS New York Corp.
Highwire, Inc.
Hotel Financing Inc.
HouseNet, Inc.
Howard Johnson International, Inc.
Ideon Group, Inc.
Imperial Life Insurance Company
Instamortgage.com Corporation
Intercambios Endless Vacation IEV, Inc.
IP Development Corp.
Jackson Hewitt, Inc,
Jon Douglas Company
Joseph J. Murphy Realty, Inc.
King Thompson/Holzer-Wollam, Inc.
Knights Franchise Systems, Inc.
Long Term Preferred Care Insurance Services of Nevada, Inc.
Long Term Preferred Care Insurance Services of North Carolina, Inc.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

4. INCOME TAXES (Continued)

Magellan Technologies, Inc.
McGarvey - Clark Realty, Inc
MCM Group, Ltd
MetroRent, Inc.
Metro Financial Services, Inc.
Metro Real Estate Services, Inc.
Mortgagesave Com Corporation
Move.Com Mortgage Inc.
Move.Com Operations, Inc.
Move.Com, Inc.
N.A. Sapunar Realty, Inc.
National Library of Poetry, Corp.
NetMarket Group Inc.
Netmarket Inc
NGI Holdings Inc.
Nisbet Corporation
Numa Corporation
Ocean Ranch Development, Inc.
Pacesetter Nevada, Inc.
Pacific Preferred Properties, Inc.
Palm Resort Group, Inc.
Perry & Butler Realty, Inc.
PHH Auto Finance Corporation
PHH Broker Partner Corporation
PHH Broker Partner II Corporation
PHH Canadian Holdings, Inc.
PHH Commercial Leasing, Inc.
PHH Continental Leasing, Inc.
PHH Corner Leasing, Inc.
PHH Corporation
PHH Deutschland Inc.
PHH Financial Services, Inc.
PHH Holdings Corporation
PHH Market Leasing, Inc.
PHH Mexico Corporation
PHH Milford Leasing, Inc.
PHH Mortgage Services Corporation
PHH National Leasing, Inc.
PHH Page Leasing, Inc.
PHH Personalease Corporation
PHH Power Leasing, Inc.
PHH St. Paul Leasing, Inc.
PHH Title Services Corporation
PHH VMS Subsidiary Corporation
Podley Doan, Inc.
Preferred Care Agency, Inc.
Privacyguard Com inc
Property Resources Group, Inc.
Property Resources Group Holdings, Inc.
Providence Title Company
Quantitude Services, Inc.
Quantitude, Inc.
Ramada Franchise Systems, Inc.
RCI Argentina, Inc.
RCI Asia Pacific PTE., Ltd
RCI Canada, Inc.
RCI Chile, Inc.
RCI Colombia, Inc.
RCI Consulting, Inc.
RCI General Holdco 2, Inc.
RCI Korea, Inc.
RCI Malaysia , Inc.
RCI Resort Management, Inc.
RCI Technology Corp.
RCI Thailand, Inc.
Referral Associates International, Inc.
RentNet, Inc.
Resort Connections, Inc.
Resorts Title, Inc.
RMR Financial
Roadsmith, Inc.
S.D. Shepherd Systems, Inc.
Safecard Services Inc.
Safecard Services Insurance Company
Sea Gardens Beach and Tennis Resort, Inc.
Serenity Yacht Club, Inc.
Seville Properties, Inc.
Shirley Realty Company
Shoppers Advantage Inc.
Speedy Title & Appraisal Review Services Corporation
Suntree Development Company
Super 8 Motels, Inc.

4. INCOME TAXES (Concluded)

Tam-Bay Realty, Inc.
The Florida Companies
The Pacesetter Group, Inc.
The Residency Clubs Corporation
THMN, Inc.
TM Acquisition Corp.
Travel Industries, Inc.
Travel Portal Inc.
Travelers Advantage Com Inc
Travelodge Hotels, Inc.
Trip.Com, Inc.
United Bank Club Assoc., Inc.
U.S. Title Guaranty Company, Inc.
U.S. Title Guaranty Co. of St. Charles, Inc.
Vacation Break Management, Inc.
Vacation Break at Ocean Ranch, Inc.
Vacation Break Resorts at Palm Aire, Inc.
Vacation Break Resorts at Star Island, Inc.
Vacation Break Resorts, Inc.
Vacation Break U.S.A. Inc.
Vacation Break Welcome Centers, Inc.
Vacation Care (Israel), Inc.
Villager Franchise Systems, Inc.
VMS Holdings, Inc.
Welcome Wagon International, Inc.
West Shell Indiana, Inc.
West Shell Kentucky, Inc.
West Shell, Inc.
Whitfield-Bernhardt, Inc.
Williamsburg Motors, Inc.
Wingate Inns International, Inc.
Wings of Freedom Service Corporation
Wizard Co., Inc.
Wizcom International, Ltd

The IDSNY has not adopted the deferred income tax assets and deferred income tax liabilities requirements of NAIC SAP. These components are therefore not reported on the Company's statutory statements of admitted assets, liabilities, capital and surplus.

A reconciliation of the Company's capital and surplus at December 31, 2001, between accounting practices prescribed by the IDSNY and NAIC SAP is as follows:

Statutory capital and surplus, IDSNY	$	32,999,038
Deferred tax assets		598,133
Statutory capital and surplus, NAIC SAP	$	33,597,171

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5. BENEFIT PLANS

Employees of the Company are participants in two benefit plans: a defined benefit plan of the Parent, and a defined contribution plan of Cendant Corporation. Effective July 1, 1997, new participation was terminated in the Parent's defined benefit plan, therefore, only those pension participants prior to July 1, 1997 remain in the plan. Accumulated plan benefit data is not available for the individual companies participating in the defined benefit plan. Benefit plan expenses are not separately calculated for the Company, but are included in payroll expense per the Service Allocation Agreement.

6. TRUST ACCOUNT

Under the terms of the Company's reinsurance agreements, the Company is required to maintain a trust account for the benefit of each ceding company. With one cedent, the capital fund portion of the trust account must be maintained at an amount of the greater of (i) ceded risk multiplied by 20% ($119,547,118) or (ii) the contingency reserve. For the other cedent, the capital fund portion of the trust account must be maintained at an amount of the greater of (i) 10% of the aggregate risk exposure ($7,011,134) or (ii) the contingency reserve. At December 31, 2001 and 2000, $128,427,528 and $72,785,786 respectively, was held in the trust. These amounts are recorded in restricted short-term investments on the statutory statements of admitted assets, liabilities, capital and surplus. The Company believes that its trust account balance at December 31, 2001 is sufficient to maintain its reinsurance agreement.

7. LOSSES

	2001	2000
Balance, January 1	$ 7,146,487	$ 3,734,536
Incurred related to:		
Current year	1,162,480	757,401
Prior years	3,492,949	2,654,550
Total incurred	4,655,429	3,411,951
Paid related to:		
Current year	-	-
Prior years	-	-
Total paid	-	-
Balance, December 31	$ 11,801,916	$ 7,146,487

Reinsurance expense for prior years increased by a total of $3,492,949 in 2001 and $2,654,550 in 2000 because of anticipated claims costs.

8. LEASES

The Company leases office space at a monthly rent expense of $2,125 included in other expenses on the statutory statements of operations. The lease terms are month-to-month with a thirty day written notice of cancellation required.

9. DIVIDEND RESTRICTIONS

The Company is required by law to maintain certain minimum statutory surplus and is subject to regulations under which payment of a dividend from statutory surplus may require prior approval of the IDSNY. The Company's Reinsurance Agreement prohibits the payment of any dividends until January 1, 2005.

10. RECONCILIATION TO ANNUAL STATEMENT

	2001	2000
Total capital and surplus per annual statement	$ 33,811,126	$ 28,663,205
Change in income taxes payable to parent	(812,088)	(586,166)
Total capital and surplus per statutory financial statements	$ 32,999,038	$ 28,077,039

11. COMMITMENTS AND CONTINGENCIES

Cendant Corporation Class Action Litigation and Government Irregularities

Cendant Corporation is involved in litigation asserting claims associated with the accounting irregularities discovered in other former business units outside of the principal common stockholder class action litigation. Cendant Corporation does not believe that it is feasible to predict or determine the final outcome or resolution of these unresolved proceedings. However, Cendant Corporation does not believe that the impact of such unresolved proceedings should result in a material liability to the Company in relation to its financial position or liquidity.

Other Pending Litigation

The Company is involved in pending litigation in the usual course of business. In the opinion of management, such other litigation will not have a material adverse effect on the Company’s statutory financial position, results of operations or cash flows.

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
SUMMARY INVESTMENT SCHEDULE
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001

Investment Categories	Gross Investment Holdings*	Admitted Assets as Reported in the Annual Statement
Bonds:		
U.S. treasury securities		
U.S. government agency and corporate obligations (excluding mortgage-backed securities):		
Issued by U.S. government agencies		
Issued by U.S. government-sponsored agencies		
Foreign government (including Canada, excluding mortgage-backed securities)		
Securities issued by states, territories and possessions and political subdivisions in the U.S.:		
State, territory and possession general obligations		
Political subdivisions of states, territories and possessions political subdivisions general obligations		
Revenue and assessment obligations		
Industrial development and similar obligations		
Mortgage-backed securities (includes residential and commercial MBS):		
Pass-through securities:		
Guaranteed by GNMA		
Issued by FNMA and FHLMC		
Privately issued		
CMOs and REMICs		
Issued by FNMA and FHLMC		
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, FHLMC		
All other privately issued		
Other debt and other fixed income securities (excluding short term):		
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)		
Unaffiliated foreign securities		
Affiliated securities		
Equity interests:		
Investments in mutual funds		
Preferred stocks:		
Affiliated		
Unaffiliated		
Publicly traded equity securities (excluding preferred stocks):		
Affiliated		
Unaffiliated	$ 6,063,114	$ 6,063,114
Other equity securities:		
Affiliated		
Unaffiliated		
Other equity interests including tangible personal property under lease:		
Affiliated		
Unaffiliated		

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
SUMMARY INVESTMENT SCHEDULE
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001

Investment Categories	Gross Investment Holdings*	Admitted Assets as Reported in the Annual Statement
Mortgage Loans:		
Construction and land development		
Agricultural		
Single family residential properties		
Multifamily residential properties		
Commercial loans		
Real Estate Investments:		
Property occupied by company		
Property held for production of income		
Property held for sale		
Collateral loans		
Policy loans		
Receivables for securities		
Cash and short-term investments	$ 123,153,301	$ 123,153,301
Write-in for invested assets		
Total invested assets	$ 129,216,415	$ 129,216,415

* Gross Investment Holdings as valued in compliance with *NAIC Accounting Practices and Procedures Manual.*

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
INVESTMENT RISK INTERROGATORIES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001

The Company's total admitted assets reported in the statutory statements of admitted assets, liabilities, capital and surplus is $145,848,786 at December 31, 2001.

1. The 10 largest exposures to a single issuer/borrower/investment, by investment category excluding: (i) U.S government, U.S. government agency securities and those U.S. Government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Company, and (iii) policy loans at December 31, 2001 is as follows: None.

2. The amounts and percentages of the Company's total admitted assets held in bonds by NAIC rating is as follows: None.

3. The amounts and percentages of the Company's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investment denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge), including (i) foreign-currency-denominated investments of $0 supporting insurance liabilities denominated in that same foreign currency of $0 and excluding (ii) Canadian investments and currency exposure of $0 at December 31, 2001 is as follows: None.

4. The amounts and percentages of the Company's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency denominated investments of $0 supporting Canadian-denominated insurance liabilities of $0 at December 31, 2001 are as follows: None.

5. The aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days at December 31, 2001) are as follows: None.

6. The amounts and percentages of admitted assets held in the largest 10 equity interest (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to *SVO Practices and Procedures Manual* as exempt of Class 1) at December 31, 2001 are as follows:

Institutional Money Market Fund	$6,063,114	4.69%

7. Nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions at December 31, 2001 totaled $0, which represents 0% of total admitted assets.

8. The amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities) at December 31, 2001 are as follows: None.

9. The amounts and percentages of the reporting entity's total admitted assets held in mortgage loans at December 31, 2001 are as follows: None.

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
INVESTMENT RISK INTERROGATORIES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001

10. The amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate, excluding property occupied by the Company at December 31, 2001 are as follows: None.

11. The amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements are as follow:

	At Year-end	Percentage of Total	At End of Each Quarter		
	Amount	Admitted Assets	1st Quarter Amount	2nd Quarter Amount	3rd Quarter Amount
Securities lending (do not include assets	$ -	% -	$ -	$ -	$ -
held as collateral for such transactions)	-	-	-	-	-
Repurchase agreements	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-
Dollar repurchase agreements	-	-	-	-	-
Dollar reverse repurchase agreements	-	-	-	-	-

12. The amounts and percentages of warrants not attached to other financial instruments, options, caps, and floors at December 31, 2001 are as follows: None.

13. The amounts and percentages of potential exposure (*defined as the amount determined in accordance with the NAIC Annual Statement Instructions*) for collars, swaps, and forwards at December 31, 2001 are as follows: None.

14. The amounts and percentages of potential exposure (*defined as the amount determined in accordance with the NAIC Annual Statement Instructions*) for futures contracts at December 31, 2001 are as follows: None.

15. The amounts and percentages of the 10 largest investments included in the Write-ins for Invested Assets category of the Summary Investment Schedule as of December 31, 2001 are as follows: None.

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EXHIBIT 57

Atrium Insurance Corporation

Financial Statements for the Years Ended December 31, 2002 and 2001, Supplemental Schedules as of and for the Year Ended December 31, 2002 and Independent Auditors' Report

NAIC Company Code #10362

ATRIUM INSURANCE CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Atrium Insurance Corporation
New York, New York

We have audited the accompanying statutory statements of admitted assets, liabilities, capital and surplus of Atrium Insurance Corporation (the "Company") as of December 31, 2002 and 2001, and the related statutory statements of operations, changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the statutory financial statements, the Company has prepared these financial statements in conformity with the accounting practices prescribed or permitted by the Insurance Department of the State of New York, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on such financial statements of the differences between the accounting practices prescribed or permitted by the Insurance Department of the State of New York and accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects of the differences between the two bases of accounting referred to in the preceding paragraph, such financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the assets, liabilities, capital and surplus of Atrium Insurance Corporation as of December 31, 2002 and 2001, or the results of its operations or its cash flows for the years then ended.

In our opinion, such financial statements present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of Atrium Insurance Corporation as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the statutory financial statements, the Company has changed certain accounting practices as a result of the adoption, with certain modifications, by the Insurance Department of the State of New York of the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual–Version effective January 1, 2001 as modified by the Insurance Department of the State of New York (the "Department"). Effective January 1, 2002, the Company changed accounting practices relating to deferred taxes as a result of amendments to prescribed practices adopted by the Department.

Our 2002 audit was conducted for the purpose of forming an opinion on the basic 2002 statutory financial statements taken as a whole. The supplemental summary investment schedule and the supplemental schedule of investment risk interrogatories as of and for the year ended December 31, 2002 are presented for complying with the National Association of Insurance Commissioners' instructions to Annual Audited Financial Reports and are not a required part of the basic 2002 statutory financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2002 statutory financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2002 statutory financial statements taken as a whole.

Deloitte & Touche LLP

February 5, 2003

ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2002 AND 2001

	2002	2001
ADMITTED ASSETS		
Cash and cash equivalents	$ 2,310,847	$ 788,887
Restricted short-term investments	154,874,477	128,427,528
Premiums in course of collection	17,357,205	15,701,035
Interest due and accrued	596,381	931,336
Deferred income taxes	116,872	-
Total admitted assets	$ 175,255,782	$ 145,848,786
LIABILITIES, CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	$ 16,741,613	$ 11,801,916
Statutory contingency reserves	85,441,848	61,355,889
Commissions payable, contingent commissions and other similar charges	3,022,239	2,799,266
Unearned premiums	828,053	622,277
Other expenses	103,850	61,997
Federal income taxes payable to parent	17,628,849	36,208,403
Total liabilities	123,766,452	112,849,748
COMMITMENTS AND CONTINGENCIES (See Note 11)	-	-
CAPITAL AND SURPLUS		
Common capital stock ($1,000 par value, 1,000 shares authorized, issued and outstanding)	1,000,000	1,000,000
Gross paid in and contributed surplus	46,100,000	28,600,000
Unassigned funds	4,389,330	3,399,038
Total capital and surplus	51,489,330	32,999,038
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$ 175,255,782	$ 145,848,786

See notes to statutory statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
INCOME		
Premiums earned	$ 48,171,917	$ 45,674,758
Net investment income	2,655,358	4,556,153
Total income	50,827,275	50,230,911
EXPENSES		
Losses incurred	4,939,697	4,655,429
Commissions	6,646,788	6,879,518
Payroll expenses	111,432	111,432
Other expenses	312,643	178,933
Total expenses	12,010,560	11,825,312
INCOME BEFORE INCOME TAXES	38,816,715	38,405,599
FEDERAL INCOME TAXES INCURRED	13,857,336	13,646,221
NET INCOME	$ 24,959,379	$ 24,759,378

See notes to statutory statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
CAPITAL AND SURPLUS, BEGINNING OF YEAR	$ 32,999,038	$ 28,077,039
NET INCOME	24,959,379	24,759,378
INCREASE IN CONTINGENCY RESERVE	(24,085,959)	(22,837,379)
INCREASE IN DEFERRED TAX ASSET	26,040	-
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	90,832	-
CAPITAL CONTRIBUTION FROM PARENT	17,500,000	3,000,000
INCREASE IN CAPITAL AND SURPLUS	18,490,292	4,921,999
CAPITAL AND SURPLUS, END OF YEAR	$ 51,489,330	$ 32,999,038

See notes to statutory statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
PREMIUMS COLLECTED NET OF REINSURANCE	$ 46,721,522	$ 40,881,023
OTHER UNDERWRITING EXPENSE	(6,806,036)	(6,285,316)
NET INVESTMENT INCOME	2,990,313	4,551,307
STATE INCOME TAX REFUND	-	305,231
NET CASH FROM OPERATIONS	42,905,799	39,452,245
CHANGE IN CAPITAL AND SURPLUS PAID IN (PAID OUT)	(14,936,890)	3,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS	27,968,909	42,452,245
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	129,216,415	86,764,170
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, END OF YEAR	$ 157,185,324	$ 129,216,415

See notes to statutory statements.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Atrium Insurance Corporation ("the Company") is incorporated under the laws of the State of New York. The Company is an indirect wholly owned subsidiary of PHH Corporation ("Parent"), which is a wholly owned subsidiary of Cendant Corporation. The Company began insurance operations on November 9, 1995.

The Company assumes mortgage insurance reinsurance wherein the ceding company is indemnified, subject to a specified limit, against the amount of loss in excess of a predetermined limit with respect to accumulation of losses.

Basis of Presentation – The Company's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Insurance Department of the State of New York ("IDSNY"). Effective January 1, 2001, the IDSNY required that insurance companies domiciled in the State of New York prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual – Version effective January 1, 2001 ("NAIC SAP"), with certain modifications. Accordingly, the Company's statutory statements of admitted assets, liabilities, capital and surplus as of December 31, 2001, and the statutory statements of operations and the statutory statements of cash flows for the year then ended have been determined in accordance with the new accounting principles. The Company's adoption of NAIC SAP as modified by the State of New York did not have a material impact on the Company's statutory capital and surplus at January 1, 2002. In addition, the Commissioner of the IDSNY has the right to permit other specific practices that may deviate from prescribed practices. The Company had no such permitted practices during the years ended December 31, 2002 and 2001.

Accounting practices and procedures of the NAIC as prescribed or permitted by the IDSNY comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant differences are as follows:

- Assets are reported under NAIC SAP at "admitted-asset" value and "non-admitted" assets are excluded through a charge against surplus while under GAAP, "non-admitted assets" are reinstated to the balance sheet, net of any valuation allowance;

- A predetermined percentage of net premiums written must be reserved (i.e., contingency reserve);

- Comprehensive income and its components are not presented in the statutory-basis financial statements;

- Prior to January 1, 2001, a federal income tax provision was made only on a current basis for statutory accounting, while under GAAP, a provision was also made for deferred taxes on temporary differences between the financial reporting and tax bases of assets and liabilities. Subsequent to January 1, 2001, NAIC SAP requires an amount to be recorded for deferred taxes; however, there are limitations as to the amount of deferred tax assets that may be reported as "admitted assets". The State of New York has adopted this requirement as of January 1, 2002 (See Note 4). As a result, an increase to surplus of $90,832 was made to reflect this adoption;

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Investments in bonds are generally carried at amortized cost, while under GAAP, they are carried at either amortized cost or fair value based on their classification according to the Company's ability and intent to hold or trade the securities.

Cash and Cash Equivalents – Marketable securities with original maturities of three months or less are included in cash equivalents.

Restricted Short-Term Investments – Debt securities are stated at statement value, which based on the NAIC designation of the security, is either amortized cost or a market value prescribed by the NAIC. Short-term investments have original maturities of one year or less. (See also Notes 2 and 6).

Recognition of Premium Revenues – Premiums are recognized as revenue on a pro rata basis over the policy term, generally one-year. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

Recognition of Investment Income – Interest on investments is accrued as earned.

Insurance Liabilities – The liability for loss reserves represents an estimate of losses. Such liability is necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

The change in the contingency reserve reflects 50% of earned premium, which accumulates for ten years, in accordance with NAIC SAP.

Income Taxes – The Company is included in the consolidated federal income tax return of Cendant Corporation. The Company files separate state income tax returns. The tax charge or tax refund to the Company under the tax sharing agreement represents an amount that would have been paid or received if it had filed on a separate return basis with the Internal Revenue Service. The ultimate settlement of this liability is dependent upon the ultimate settlement of Cendant Corporation's tax liability with the Internal Revenue Service.

Expense/Service Allocation – The Company is party to an Expense Allocation Agreement and a Service Allocation Agreement wherein certain goods and services are allocated among Cendant Corporation subsidiaries. Substantially all payroll and other general and administrative expenses paid were subject to these agreements. Payroll expense is allocated based upon actual time Cendant Corporation employees spend performing services for the Company.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Fair Value of Financial Instruments – Cash and cash equivalents and restricted short-term investments are carried at an amount that approximates fair value. There are no financial instruments owned by the Company that are not disclosed on the financial statements.

Use of Estimates – The preparation of financial statements in conformity with the NAIC SAP requires management to make certain estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

2. RESTRICTED SHORT-TERM INVESTMENTS

At December 31, restricted short-term investments consisted of the following:

	2002		2001	
Investment	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
6 Month Treasury Bills	$139,925,106	$139,925,106	$122,363,675	$122,363,675
Money Market Fund	14,948,830	14,948,830	6,063,114	6,063,114
Principal Cash in Trust	541	541	739	739
	$154,874,477	$154,874,477	$128,427,528	$128,427,528

The Money Market Fund invests in short term treasury securities that generally maintain a dollar weighted average maturity of sixty days or less. In accordance with NAIC guidance, the Company's money market fund is classified as an unaffiliated equity investment on the Supplemental Schedule of Investments. All of the Company's short-term investments are restricted. See Note 6 for further details.

3. REINSURANCE ACTIVITY

The Company does not write any direct insurance. The Company is a reinsurer of a portion of the ultimate net losses on mortgage insurance policies underwritten by third parties. At December 31, 2002 and 2001, premiums receivable were $17,357,205 and $15,701,035, respectively. The Company assumes premiums under an excess of loss agreement at the rate of 25% of gross written premiums for policies with effective dates of October 1993 through March 1997 and a rate of 45%, less a ceding

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3. REINSURANCE ACTIVITY (Concluded)

commission of 19%, for policies with effective dates from April 1997 thorough December 1999. For policies with effective dates of January 2000 and forward, the Company assumes premiums under an excess of loss agreement at the rate of 45% less a ceding commission of 11.1%.

4. INCOME TAXES

The IDSNY has adopted the deferred income tax asset and deferred income tax liability requirements of NAIC SAP. These components are therefore reported on the Company's statutory statement of admitted assets, liabilities, capital and surplus.

The provisions for incurred income taxes on earnings for the years ended December 31 are:

	2002	2001
Federal	$ 13,857,336	$ 13,646,221
Foreign	-	-
Federal and foreign income taxes incurred	$ 13,857,336	$ 13,646,221

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

2002	$ 13,857,336
2001	$ 13,646,221
2000	$ 10,368,054

The components of net deferred tax asset at December 31, 2002 and January 1, 2002 are as follows:

	December 31, 2002	January 1, 2002
Total deferred tax assets	$ 869,619	$ 598,133
Total deferred tax liabilities	-	-
Net deferred tax assets	869,619	598,133
Nonadmitted deferred tax assets	752,747	507,301
Net admitted deferred tax asset	$ 116,872	$ 90,832
Increase in nonadmitted deferred tax asset	$ 245,446	$ 507,301

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4. INCOME TAXES (Continued)

The change in main components of deferred tax assets and deferred tax liabilities arising from temporary differences are as follows:

	December 31, 2002	January 1, 2002	Change
Deferred Tax Assets			
Loss Reserve	$ 752,747	$ 507,301	$ 245,446
Unearned Premiums	116,872	90,832	26,040
Total deferred tax assets	869,619	598,133	271,486
Nonadmitted deferred tax assets	(752,747)	(507,301)	(245,446)
Net admitted deferred tax asset	$ 116,872	$ 90,832	$ 26,040

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	12/31/2002	Effective Tax Rate
Provision computed at statutory rate	$ 13,585,850	35.00%
Change in nonadmitted assets	245,446	0.63%
Total statutory income taxes	$ 13,831,296	35.63%
Federal income taxes incurred	$ 13,857,336	35.70%
Change in net deferred income taxes	(26,040)	(0.07%)
Total statutory income taxes	$ 13,831,296	35.63%

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

4. INCOME TAXES (Continued)

The Company is included in the consolidated federal income tax return of Cendant. The Company files separate state income tax returns. The tax charge or tax refund to the Company under the tax sharing agreement represents an amount that would have been paid or received if it had filed on a separate return basis with the Internal Revenue Service. The ultimate settlement of this liability is dependent upon the ultimate settlement of Cendant Corporation's tax liability with the Internal Revenue Service.

The Company is included in the consolidated federal income tax return of Cendant Corporation which also includes the following affiliated entities:

4509 Corporation
Advance Ross Corporation
Advance Ross Electronics Corporation
Advance Ross Intermediate Corporation
Advance Ross Steel Company
Advance Ross Sub Company
AFL Management Services, Inc.
AFS Mortgage, Inc.
Amerihost Franchise Systems Inc.
Ann Blackham & Company, Inc.
Apex Marketing, Inc.
Apollo Galileo USA
Apollo Galileo USA Sub I, Inc.
Apollo Galileo USA Sub II, Inc.
Apple Ridge Services Corporation
Associated Client Referral Corp.
Aston Hotels & Resorts International, Inc.
Atlantic Marketing Realty, Inc.
Atrium Insurance Corporation
Avis Capital Corporation
Avis Car Holdings, Inc.(fka Cendant Car Holdings, Inc.)
Avis Car Rental Group, Inc. (fka Cendant Car Rental Inc.)
Avis Fleet Leasing & Management Corporation
Axiom Financial, Inc.
Benefit Consultants Membership, Inc.
Benefit Consultants, Inc.
BFICP Corporation
BGI Leasing, Inc.
Book Stacks Unlimited, Inc.
Boston Waterfront Realty Corporation
BSSP Acquisition Corporation
Budget Funding Corporation
Budget Rent A Car System, Inc. (fka Cherokee Acquisition Corporation)
Burgdorff Referral Associates, Inc.
Burnet Insurance Corporation
Burnet Realty Chicago, Inc.
Burnet Realty, Inc.
Burnet Title, Inc.
Burrows Closing Management Corporation
Burrows Escrow Services, Inc.
C & C Home Center
CB Residential Real Estate Svcs of Wisconsin, Inc.
Cendant Auto Services, Inc.
Cendant Car Rental, Inc.
Cendant Corporation
Cendant Data Services Inc.
Cendant Finance Holding Corp.
Cendant Global Services, Inc.
Cendant Intermediate Holdings, Inc.
Cendant Internet Group, Inc.
Cendant Latin America Holdings, Inc.
Cendant Membership Services Holdings Subsidiary, Inc.
Cendant Membership Services Holdings, Inc.
Cendant Membership Services, Inc.
Cendant Mobility Financial Corporation
Cendant Mobility Governmental Financial Svcs Corp
Cendant Mobility Services Corp.
Cendant Mortgage Corporation
Cendant Operations, Inc.
Cendant Publishing, Inc.
Cendant Real Estate Holdings, Inc.
Cendant Settlement Svcs Group (fka NRT Settlement Services, Inc.)
Cendant Stock Corporation
Cendant Supplier Services, Inc.

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4. INCOME TAXES (Continued)

Cendant Technology Holdings, LLC
Cendant Transportation Corp.
Cendant Travel, Inc.
Cendant Vacation Holdco, Inc.
Central Florida Title Company
Central Penn Multi-List, Inc.
Century 21 Mortgage Corporation
Century 21 Real Estate Corporation
CGRN, Inc.
Cheap Tickets, Inc.
Cleveland Financial Services Group
Coldwell Banker Canada Partners, Inc.
Coldwell Banker Corporation
Coldwell Banker Mortgage Corporation
Coldwell Banker Real Estate Corp.
Coldwell Banker Real Estate Holdings, Inc.
Coldwell Banker Real Estate Services, Inc.
Coldwell Banker Real Estate, Inc.
Coldwell Banker Residential Brokerage Company
Coldwell Banker Residential Brokerage Corporation
Coldwell Banker Residential Brokerage Insurance Agency of Maine, Inc.(fka The Dewolf Ins. Agency of Maine, Inc.)
Coldwell Banker Residential Brokerage Insurance Agency, Inc. (fka The Dewolf Ins Agency, Inc.)
Coldwell Banker Residential Brokerage Pardoe, Inc.
Coldwell Banker Residential Brokerage, Inc. (fka Pardoe Real Estate, Inc.)
Coldwell Banker Residential Real Estate Pardoe, Inc.
Coldwell Banker Residential Real Estate, Inc.
Coldwell Banker Residential Referral Network
Coldwell Banker Residential Referral Network, Inc.
Colonial Express Title Services, Inc.
Comp-U-Card Services, Inc.
Continental Development Corporation
Corcoran.com, Inc.
Cornish & Carey Residential, Inc.
Corporate Real Estate Services, Inc.
Credentials Services International, Inc.
CUC Asia Holdings
Days Inns Worldwide Inc.
De Wolfe Direct, Inc.
De Wolfe Realty Affiliates, Inc.
De Wolfe Relocation Services, Inc.
De Wolfe.com, Inc.
Dealers Holding, Inc.
Del Monte Realty Company
Distribution Systems, Inc.
Douglas & Jean Burgdorff, Inc.
Drivershield.Com FS Corporation
E.A. Hill & Company, LTD.
Eastern Resort Corporation
Edenton Morts, Inc.
EFI Development Funding, Inc.
EFI Funding Company, Inc.
Equity Title Company
Equivest Administration Services, Inc.
Equivest Capital, Inc.
Equivest Club, Inc.
Equivest Entertainment Services, Inc.
Equivest Finance, Inc.
Equivest Florida, Inc.
Equivest Louisiana, Inc.
Equivest Management Services, Inc.
Equivest Maryland, Inc.
Equivest Resorts Vacation Club, Inc.
Equivest Texas, Inc.
Equivest Vacation and Travel Club, Inc. (fka Peppertree Resorts Vacation Club)
Equivest Vacation Club
Equivest Washington, Inc. (fka Capital City Suites)
ERA Franchise Systems, Inc.
ERA General Agency Corporation
ERA General Agency of New Jersey, Inc.
ERA Mortgage Corporation
FAH Company, Inc.
Fairfield Acceptance Corporation
Fairfield Bay, Inc.
Fairfield Capital Corporation
Fairfield Flagstaff Realty, Inc.
Fairfield Funding Corporation, II
Fairfield Funding Corporation, III
Fairfield Glade, Inc.
Fairfield Homes Construction Company
Fairfield Management Services, Inc.
Fairfield Mortgage Acceptance Corporation
Fairfield Mortgage Corporation
Fairfield Mountains, Inc.
Fairfield Myrtle Beach, Inc.

ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

4. INCOME TAXES (Continued)

Fairfield Pagosa Realty, Inc.
Fairfield Receivables Corporation
Fairfield Resorts, Inc.
Fairfield Sapphire Valley, Inc.
Fairfield Vacation Resorts, Inc.
Fairfield Virgin Islands, Inc.
Fairtide Insurance, LTD.
FISI Madison Financial Corporation
FJS Corporation
Florida's Preferred School of Real Estate
Forest E. Olsen
Fox Realty
Fred Sands School of Real Estate
Galileo Asia, Ltd.
Galileo BA, Inc.
Galileo Brazil, Ltd.
Galileo International Services, Inc.
Galileo International, Inc.
Galileo Technologies, Inc.
Gerwer & Associates, Inc.
Grey City Graphics, Inc.
Guardian Title Company
Haddonfield Holding Corporation
Hamera Corporation
Hebdo Mag Overseas Holdings Inc.
Henry S. Miller Investments, Inc.
Henry S. Miller Real Estate Institute, Inc.
Henry S. Miller Residential Group, Inc.
Henry S. Miller Residential Services Corp.
Hewfant, Inc.
HFS Decar Funding Corporation
HFS Licensing, Inc.
HFS New York Corp.
HFS Truck Funding Corporation
Higgins & Health, Inc.
Highwire, Inc.
Hillshire House, Inc.
Home Referral Network, Inc.
Hotel Financing Inc.
Howard Johnson International, Inc.
Hunneman Commercial Management Corp.
Hunneman Management Company, Inc.
Hunneman Mortgage Corporation
Hunneman Residential Management Corp.
Hunneman Security Services, Inc.
Ideon Group, Inc.
Imperial Life Insurance Company
Instamortgage.com Corporation
Intercambios Endless Vacation IEV, Inc.
Internetwork Publishing Corporation
J.W. Riker - Northern R. I., Inc.
Jack Gaughen Network Services, Inc.
Jack Gaughen, Inc.
Jackson Hewitt, Inc.
Jambor & Associates, Inc.
Jon Douglas Company
Joseph J. Murphy Realty, Inc.
K & T Realty, Inc.
Kahn Realty Companies
Kenosia Services Corporation
King Thompson/Holzer-Wollam, Inc.
Knights Franchise Systems, Inc.
Kona Hawaiian Vacation Ownership, LLC.
Leisure Sciences, Inc. (fka RCI Consulting, Inc.)
LMS (Delaware) Corporation
Long Term Preferred Care Insurance Services of Nevada, Inc.
Long Term Preferred Care Insurance Services of North Carolina, Inc.
Long Term Preferred Care, Inc.
Long Wharf Marina Restaurant Inc.
Magellan Technologies, Inc.
Mansell Commercial Real Estate Services, Inc.
Mark Stimson Associates
Marshall L. Miller, Inc.
McGarvey – Clark Realty, Inc.
MCM Group, Ltd.
Metro Financial Services, Inc.
Metro Real Estate Services, Inc.
Mid-Exchange, Inc.
Mirror Lake Development, Inc.
Mirror Lake Realty, Inc.
Mortgagequestions.com Corporation (fka Mortgagesave.com Corporation)
MRG&L Judgement Acquisition Corp, Inc.
Municipal Compliance Services

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

4. INCOME TAXES (Continued)

N.A. Sapunar Realty, Inc.
NE Moves Mortgage Corporation (fka DeWolfe Mortgage Services, Inc.)
NetMarket Group Inc.
Netmarket Inc.
NGI Holdings Inc.
Nisbet Corporation
NRT Colorado, Inc.
NRT Columbus, Inc.
NRT Commercial, Inc.
NRT Commercial, Utah, Inc.
NRT Incorporated
NRT Mid-Atlantic, Inc.
NRT Missouri Referral Network, Inc.
NRT Missouri, Inc.
NRT Mortgage Service, Inc.
NRT New England (fka Hunneman Real Estate Corporation)
NRT New York, Inc.
NRT Settlement Services of Missouri, Inc.
NRT Settlement Services of Texas, Inc.
NRT Sunshine, Inc.
NRT Texas Real Estate Services, Inc. (fka Rigg Real Estate)
NRT Texas, Inc.
NRT Utah, Inc. (DE)
NRT Utah, Inc. (UT)
Ocean City Coconut Malorie Resort
Ocean Ranch Development, Inc.
O'Conor, Piper & Flynn, Inc.
P.A. Lethridge & Co.
Pacesetter Nevada, Inc.
Pacesetter Properties, Inc.
Pacific Preferred Properties, Inc.
Palm Resort Group, Inc.
PAR Services, Inc. (Beierle)
Peppertree Acquisition II Corp.
Peppertree Resort Villas Inc.
Peppertree Resorts Ltd.
Peppertree Resorts Management Inc.
Perry & Butler Realty, Inc.
PHH Auto Finance Corporation
PHH Broker Partner Corporation
PHH Canadian Holdings, Inc.
PHH Commercial Leasing, Inc.
PHH Continental Leasing, Inc.
PHH Corner Leasing, Inc.
PHH Corporation
PHH Financial Services, Inc.
PHH Holdings Corporation
PHH Market Leasing, Inc.
PHH Milford Leasing, Inc.
PHH Mortgage Services Corporation
PHH National Leasing, Inc.
PHH Page Leasing, Inc.
PHH Personalease Corporation
PHH Power Leasing, Inc.
PHH St. Paul Leasing, Inc.
PHH Title Services Corporation
PHH VMS Subsidiary Corporation
Podley Doan, Inc.
Preferred Care Agency, Inc.
Preferred Mortgage Group, Inc.
Progeny Marketing Innovations Holdings, Inc (fka FISI Madison Holdings, Inc.)
Progeny Marketing Innovations of Kentucky, Inc. (fka FISI Madison Financial Corporation of Kentucky)
Progeny Marketing Innovations, Inc. (fka Benefit Consultants Inc.)
Progressive Title Company, Inc.
Property Resources Group Holdings, Inc.
Property Resources Group, Inc.
Providence Title Company
Quantitude Services, Inc.
Quantitude, Inc.
Raccoon Acquisition Corp.
Ramada Franchise Systems, Inc.
RCI Argentina, Inc.
RCI Asia Pacific PTE., Ltd.
RCI Canada, Inc.
RCI Chile, Inc.
RCI Columbia, Inc.
RCI General Holdco 2, Inc.
RCI Holiday Network, Inc.
RCI Korea, Inc.
RCI Malaysia, Inc.
RCI Resort Management, Inc.
RCI Technology Corp.
RCI Thailand, Inc.
Real Estate Referral, Inc.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

4. INCOME TAXES (Continued)

Real Estate Referral, Inc.
Real Estate Referrals, Inc.
Real Estate Services of Pennsylvania, Inc. (DE)
Real Estate Services of Pennsylvania, Inc. (PA)
Real Estate Services, Inc.
Referral Associates International
Referral Associates of California, Inc.
Referral Associates of Florida, Inc.
Referral Associates of Illinois, Inc.
Referral Associates of New England, Inc.
Referral Network, Inc.
Relocation Chicago
Resolution Credit Corporation
Resort Connections, Inc.
Resort Marketing Services, Inc.
Resorts Title, Inc.
RMR Financial
Roadsmith, Inc.
S, L & M Properties, Inc.
S.D. Shepherd Systems, Inc.
Safecard Services Inc.
Sea Gardens Beach and Tennis Resort, Inc.
Secured Land Transfers, Inc.
Serenity Yacht Club, Inc.
Seville Properties Realty, Inc.
Seville Properties, Inc.
Shirley Realty Company
Shoppers Advantage Inc.
Sierra Deposit LLC (fka Sierra Receivables Company, LLC)
Sierra Receivables Funding Company, LLC (fka Sierra Funding Company LLC)
Signature Properties, Inc.
Soleil Florida Corporation
Speedy Title & Appraisal Review Services Corporation
St. Joe Title Services, Inc.
St. Augustine Resort Development Group, Inc.
St, Joe Real Estate Services, Inc.
Sunbelt Lending Services, Inc.(fka Arvida Mortgage Svcs, Inc.)
Sunshine Group, LTD.
Suntree Development Company
Super 8 Motels, Inc.
Tam-Bay Realty, Inc.
Tax Services of America, Inc.
Team Fleet Financing Corporation
Terramar Guaranty Title & Trust, Inc.
The Corcoran Group Downtown, Inc.
The Corcoran Group Eastside, Inc.
The Corcoran Group Rental, Inc.
The Corcoran Group West Side, Inc.
The De Wolfe Companies, Inc.
The De Wolfe Company, Inc.
The Florida Companies
The Pacesetter Group, Inc.
The Residency Clubs Corporation
The Sunshine Group (Florida), LTD. Corporation
TM Acquisition Corp.
TM Acquisition Sub, Inc.
Travel Industries, Inc.
Travel Rewards, Inc.
Travelodge Hotels, Inc.
Trendwest Funding I, Inc.
Trendwest Leasing, LLC
Trendwest Real Estate, Inc.
Trendwest Resorts, Inc.
Tri Funding II, Inc.
Tri Funding III, Inc.
Tri Funding IV, Inc.
Tri Funding V, Inc.
Trip.Com, Inc.
Trust International Hotel Reservation Services, Inc.
TW Holdings II, Inc.
TW Holdings III, Inc.
TWH Funding I, Inc.
United Bank Club Assoc., Inc.
U.S. Title Guaranty Company, Inc.
U.S. Title Guaranty Co. of St. Charles, Inc.
Vacation Break at Ocean Ranch, Inc.
Vacation Break Management, Inc.
Vacation Break Resorts at Palm Aire, Inc.
Vacation Break Resorts at Star Island, Inc.
Vacation Break Resorts, Inc.
Vacation Break U.S.A. Inc.
Vacation Break Welcome Centers, Inc.
Vacation Care (Israel), Inc.
Valley of California, Inc.

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4. INCOME TAXES (Concluded)

Van Zandt & Associates, Inc.
Villager Franchise Systems, Inc.
VMS Holdings, Inc.
Warranty Escrow Company
West Coast Escrow
West Shell Indiana, Inc.
West Shell Kentucky, Inc.
West Shell, Inc.
Whitfield-Bernhardt, Inc.
Williamsburg Motors, Inc.
Wingate Inns International, Inc.
Wings of Freedom Service Corporation
Wizard Co., Inc.
Wizcom International, Ltd.
Wright Express Financial Services Corporation

5. BENEFIT PLANS

Employees of the Company are participants in two benefit plans: a defined benefit plan of the Parent, and a defined contribution plan of Cendant Corporation. Effective July 1, 1997, new participation was terminated in the Parent's defined benefit plan, therefore, only those pension participants prior to July 1, 1997 remain in the plan. Accumulated plan benefit data is not available for the individual companies participating in the defined benefit plan. Benefit plan expenses are not separately calculated for the Company, but are included in payroll expense per the Service Allocation Agreement.

6. TRUST ACCOUNT

Under the terms of the Company's reinsurance agreements, the Company is required to maintain a trust account for the benefit of each ceding company. With one cedent, the capital fund portion of the trust account must be maintained at an amount of the greater of (i) ceded risk multiplied by 20% ($138,644,668) or (ii) the contingency reserve. For the other cedent, the capital fund portion of the trust account must be maintained at an amount of the greater of (i) 10% of the aggregate risk exposure ($17,098,044) or (ii) the contingency reserve. At December 31, 2002 and 2001, $154,874,477 and $128,427,528 respectively, was held in the trust. These amounts are recorded in restricted short-term investments on the statutory statements of admitted assets, liabilities, capital and surplus. The Company believes that its trust account balance at December 31, 2002 is sufficient to maintain its reinsurance agreement.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

7. LOSSES

	2002	2001
Balance, January 1	$ 11,801,916	$ 7,146,487
Incurred related to:		
Current year	622,296	1,162,480
Prior years	4,317,401	3,492,949
Total incurred	4,939,697	4,655,429
Paid related to:		
Current year	-	-
Prior years	-	-
Total paid	-	-
Balance, December 31	$ 16,741,613	$ 11,801,916

Reinsurance expense for prior years increased by a total of $4,317,401 in 2002 and $3,492,949 in 2001 because of anticipated claims costs.

8. LEASES

The Company leases office space at a monthly rent expense of $1,882 included in other expenses on the statutory statements of operations. The lease terms are month-to-month with a thirty day written notice of cancellation required.

9. DIVIDEND RESTRICTIONS

The Company is required by law to maintain certain minimum statutory surplus and is subject to regulations under which payment of a dividend from statutory surplus may require prior approval of the IDSNY. The Company's Reinsurance Agreement prohibits the payment of any dividends until January 1, 2005.

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10. RECONCILIATION TO ANNUAL STATEMENT

	2002	2001
Total capital and surplus per annual statement	$ 51,654,337	$33,811,126
Change in income taxes payable to parent	(281,879)	(812,088)
Change in net admitted deferred tax asset	116,872	-
Total capital and surplus per statutory financial statements	$ 51,489,330	$32,999,038

11. COMMITMENTS AND CONTINGENCIES

Cendant Corporation Class Action Litigation and Government Irregularities

Cendant Corporation is involved in litigation asserting claims associated with the accounting irregularities discovered in other acquired business units outside of the principal common stockholder class action litigation. Cendant does not believe that it is feasible to predict or determine the final outcome or resolution of these unresolved proceedings. An adverse outcome from such unresolved proceedings could be material with respect to earnings in any given reporting period. Cendant does not believe that the impact of such unresolved proceedings should result in a material liability to Cendant in relation to its financial position or liquidity.

Other Pending Litigation

The Company is involved in litigation arising in the normal course of business. Although the amount of any ultimate liability arising from these matters cannot presently be determined, the Company does not anticipate that any such liability will have a material effect on the Company's statutory financial position, results of operations or cash flows.

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
SUMMARY INVESTMENT SCHEDULE
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2002

Investment Categories	Gross Investment Holdings*	Admitted Assets as Reported in the Annual Statement
Bonds:		
U.S. treasury securities		
U.S. government agency and corporate obligations (excluding mortgage-backed securities):		
Issued by U.S. government agencies		
Issued by U.S. government-sponsored agencies		
Foreign government (including Canada, excluding mortgage-backed securities)		
Securities issued by states, territories and possessions and political subdivisions in the U.S.:		
State, territory and possession general obligations		
Political subdivisions of states, territories and possessions political subdivisions general obligations		
Revenue and assessment obligations		
Industrial development and similar obligations		
Mortgage-backed securities (includes residential and commercial MBS):		
Pass-through securities:		
Guaranteed by GNMA		
Issued by FNMA and FHLMC		
Privately issued		
CMOs and REMICs		
Issued by FNMA and FHLMC		
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, FHLMC		
All other privately issued		
Other debt and other fixed income securities (excluding short term):		
Unaffiliated domestic securities (Includes credit tenant loans rated by the SVO)		
Unaffiliated foreign securities		
Affiliated securities		
Equity interests:		
Investments in mutual funds		
Preferred stocks:		
Affiliated		
Unaffiliated		
Publicly traded equity securities (excluding preferred stocks):		
Affiliated		
Unaffiliated	$ 14,948,831	$ 14,948,831
Other equity securities:		
Affiliated		
Unaffiliated		
Other equity interests including tangible personal property under lease:		
Affiliated		
Unaffiliated		

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
SUMMARY INVESTMENT SCHEDULE
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2002

Investment Categories	Gross Investment Holdings*	Admitted Assets as Reported in the Annual Statement
Mortgage Loans:		
Construction and land development		
Agricultural		
Single family residential properties		
Multifamily residential properties		
Commercial loans		
Real Estate Investments:		
Property occupied by company		
Property held for production of income		
Property held for sale		
Collaterial loans		
Policy loans		
Receivables for securities		
Cash and short-term investments	$142,236,493	$142,236,493
Write-in for invested assets		
Total invested assets	$157,185,324	$157,185,324

* Gross Investment Holdings as valued in compliance with *NAIC Accounting Practices and Procedures Manual.*

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
INVESTMENT RISK INTERROGATORIES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2002

The Company's total admitted assets reported in the statutory statements of admitted assets, liabilities, capital and surplus is $175,138,910 at December 31, 2002.

1. The 10 largest exposures to a single issuer/borrower/investment, by investment category excluding: (i) U.S. government, U.S. government agency securities and those U.S. Government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Company, and (iii) policy loans at December 31, 2002 is a follows: None.

2. The amounts and percentages of the Company's total admitted assets held in bonds by NAIC rating is as follows: None.

3. The amounts and percentages of the Company's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investment denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge), including (i) foreign-currency-denominated investments of $0 supporting insurance liabilities denominated in that same foreign currency of $0 and excluding (ii) Canadian investments and currency exposure of $0 at December 31, 2002 is as follows: None.

4. The amounts and percentages of the Company's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency denominated investments of $0 supporting Canadian-denominated insurance liabilities of $0 at December 31, 2002 are as follows: None.

5. The aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days at December 31, 2002) are as follows: None.

6. The amounts and percentages of admitted assets held in the largest 10 equity interest (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to *SVO Practices and Procedures Manual* as exempt of Class 1) at December 31, 2002 are as follows:

Institutional Money Market Fund	$14,948,831	9.51%

7. Nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions at December 31, 2002 totaled $0, which represents 0% of total admitted assets.

8. The amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities) at December 31, 2002 are as follows: None.

9. The amounts and percentages of the reporting entity's total admitted assets held in mortgage loans at December 31, 2002 are as follows: None.

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
INVESTMENT RISK INTERROGATORIES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2002

10. The amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate, excluding property occupied by the Company at December 31, 2002 are as follows: None.

11. The amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements are as follows:

	At Year-end	Percentage of Total	At End of Each Quarter		
	Amount	Admitted Assets	1st Quarter Amount	2nd Quarter Amount	3rd Quarter Amount
Securities lending (do not include assets	$ -	% -	$ -	$ -	$ -
held as collaterial for such transactions)	-	-	-	-	-
Repurchase agreements	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-
Dollar repurchase agreements	-	-	-	-	-
Dollar reverse repurchase agreements	-	-	-	-	-

12. The amounts and percentages of warrants not attached to other financial instruments, options, caps, and floors at December 31, 2002 are as follows: None.

13. The amounts and percentages of potential exposure *(defined as the amount determined in accordance with the NAIC Annual Statement Instructions)* for collars, swaps, and forwards at December 31, 2002 are as follows: None.

14. The amounts and percentages of potential exposure *defined as the amount determined in accordance with the NAIC Annual Statement Instructions)* for futures contracts at December 31, 2002 are as follows: None.

15. The amounts and percentages of the 10 largest investments included in the Write-ins for Invested Assets category of the Summary Investment Schedule as of December 31, 2002 are as follows: None.

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EXHIBIT 58

Atrium Insurance Corporation

Financial Statements as of and for the Years Ended December 31, 2003 and 2002, Supplemental Schedules as of and for the Year Ended December 31, 2003 and Independent Auditors' Report

NAIC Company Code #10362

ATRIUM INSURANCE CORPORATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Atrium Insurance Corporation
New York, New York

We have audited the accompanying statutory-basis statements of admitted assets, liabilities, capital and surplus of Atrium Insurance Corporation (the "Company") as of December 31, 2003 and 2002 and the related statutory-basis statements of operations, changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of New York, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such statutory-basis financial statements present fairly, in all material respects, the admitted assets, liabilities and surplus of Atrium Insurance Corporation as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the statutory-basis financial statements, effective January 1, 2002, the Company changed the method of accounting for deferred income taxes as a result of amendments to prescribed practices adopted by the Insurance Department of the State of New York.

Our 2003 audit was conducted for the purpose of forming an opinion on the basic 2003 statutory-basis financial statements taken as a whole. The supplemental summary of investment schedule and the supplemental schedule of investment risk interrogatories as of and for the year ended December 31, 2003 are presented for complying with the National Association of Insurance Commissioners' instructions to Annual Audited Financial Reports and are not a required part of the basic 2003 statutory-basis financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2003 statutory-basis financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2003 statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors and management of Atrium Insurance Corporation and for filing with the Insurance Department of the state of New York and other state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 13, 2004

A member firm of
Deloitte Touche Tohmatsu

ATRIUM INSURANCE CORPORATION

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2003 AND 2002

	2003	2002
ADMITTED ASSETS		
Cash and cash equivalents	$ 2,062,925	$ 2,310,847
Restricted short-term investments	181,843,232	154,874,477
Premiums in course of collection	9,440,502	17,357,205
Interest due and accrued	441,441	596,381
Deferred income taxes	1,021,291	116,872
Total admitted assets	$ 194,809,391	$ 175,255,782
LIABILITIES, CAPITAL AND SURPLUS		
LIABILITIES		
Loss reserves	$ 5,778,000	$ 16,741,613
Statutory contingency reserves	103,783,935	85,441,848
Commissions payable, contingent commissions and other similar charges	1,127,617	3,022,239
Unearned premiums	685,385	828,053
Other liabilities	76,912	103,850
Federal income taxes payable to parent	20,285,232	17,628,849
Total liabilities	131,737,081	123,766,452
COMMITMENTS AND CONTINGENCIES (See Note 11)	-	-
CAPITAL AND SURPLUS		
Common capital stock ($1,000 par value, 1,000 shares authorized, issued and outstanding)	1,000,000	1,000,000
Gross paid-in and contributed surplus	46,100,000	46,100,000
Unassigned funds	15,972,310	4,389,330
Total capital and surplus	63,072,310	51,489,330
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$ 194,809,391	$ 175,255,782

See accompanying notes to statutory-basis financial statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY-BASIS STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
INCOME		
Premiums earned	$ 36,684,175	$ 48,171,917
Net investment income	1,942,783	2,655,358
Total income	38,626,958	50,827,275
EXPENSES		
Loss Provision	(10,963,613)	4,939,697
Commissions	3,669,721	6,646,788
Payroll expenses	111,419	111,432
Other expenses	249,218	312,643
Total expenses	(6,933,255)	12,010,560
INCOME BEFORE INCOME TAXES	45,560,213	38,816,715
FEDERAL INCOME TAXES INCURRED	16,539,564	13,857,336
NET INCOME	$ 29,020,649	$ 24,959,379

See accompanying notes to statutory-basis financial statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
CAPITAL AND SURPLUS, BEGINNING OF YEAR	$ 51,489,330	$ 32,999,038
NET INCOME	29,020,649	24,959,379
INCREASE IN CONTINGENCY RESERVE	(18,342,088)	(24,085,959)
INCREASE IN DEFERRED TAX ASSET	592,770	271,486
DECREASE (INCREASE) IN NON-ADMITTED DEFERRED TAX ASSET	311,649	(245,446)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	90,832
CAPITAL CONTRIBUTION FROM PARENT	-	17,500,000
INCREASE IN CAPITAL AND SURPLUS	11,582,980	18,490,292
CAPITAL AND SURPLUS, END OF YEAR	$ 63,072,310	$ 51,489,330

See accompanying notes to statutory-basis financial statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY-BASIS STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
PREMIUMS COLLECTED NET OF REINSURANCE	$ 44,458,211	$ 46,721,522
OTHER UNDERWRITING EXPENSE	(5,835,049)	(6,806,036)
NET INVESTMENT INCOME	2,097,724	2,990,313
NET CASH FROM OPERATIONS	40,720,886	42,905,799
CHANGE IN CAPITAL AND SURPLUS PAID OUT	(14,000,053)	(14,936,890)
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS	26,720,833	27,968,909
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	157,185,324	129,216,415
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, END OF YEAR	$ 183,906,157	$ 157,185,324

See accompanying notes to statutory-basis financial statements.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Atrium Insurance Corporation ("the Company") is incorporated under the laws of the State of New York. The Company is an indirect wholly owned subsidiary of PHH Corporation ("Parent"), which is a wholly owned subsidiary of Cendant Corporation. The Company began insurance operations on November 9, 1995.

The Company assumes mortgage insurance reinsurance wherein the ceding company is indemnified, subject to a specified limit, against the amount of loss in excess of a predetermined limit with respect to accumulation of losses.

Basis of Presentation – The Company's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Insurance Department of the State of New York ("IDSNY"). Effective January 1, 2001, the IDSNY required that insurance companies domiciled in the State of New York prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual – Version effective January 1, 2001 ("NAIC SAP"), with certain modifications. The Company's adoption of NAIC SAP as modified by the State of New York did not have a material impact on the Company's statutory capital and surplus at January 1, 2002. In addition, the Commissioner of the IDSNY has the right to permit other specific practices that may deviate from prescribed practices. The Company had no such permitted practices during the years ended December 31, 2003 and 2002.

Accounting practices and procedures of the NAIC as prescribed or permitted by the IDSNY comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant differences are as follows:

- Assets are reported under NAIC SAP at "admitted-asset" value and "non-admitted" assets are excluded through a charge against surplus while under GAAP, "non-admitted assets" are reinstated to the balance sheet, net of any valuation allowance;

- A predetermined percentage of net premiums written must be reserved (i.e., contingency reserve);

- Comprehensive income and its components are not presented in the statutory-basis financial statements;

- Prior to January 1, 2001, a federal income tax provision was made only on a current basis for statutory accounting, while under GAAP, a provision was also made for deferred taxes on temporary differences between the financial reporting and tax bases of assets and liabilities. Subsequent to January 1, 2001, NAIC SAP requires an amount to be recorded for deferred taxes; however, there are limitations as to the amount of deferred tax assets that may be reported as "admitted assets". The State of New York has adopted this requirement as of January 1, 2002 (See Note 4 – Income Taxes). As a result, an increase to surplus of $90,832 was made to reflect this adoption.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Investments in bonds are generally carried at amortized cost, while under GAAP, they are carried at either amortized cost or fair value based on their classification according to the Company's ability and intent to hold or trade the securities.

Cash and Cash Equivalents – Marketable securities with original maturities of three months or less are included in cash equivalents.

Restricted Short-Term Investments – Debt securities are stated at statement value, which based on the NAIC designation of the security, is either amortized cost or a market value prescribed by the NAIC. Short-term investments have original maturities of one year or less. (See also Note 2 – Restricted Short-term Investments and Note 6 – Trust Accounts).

Recognition of Premium Revenues – Premiums are recognized as revenue on a pro rata basis over the policy term, generally one-year. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

Recognition of Investment Income – Interest on investments is recognized as earned.

Insurance Liabilities – The liability for loss reserves represents an estimate of mortgage credit losses. Such liability is based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

The change in the contingency reserve reflects 50% of earned premium, which accumulates for ten years, in accordance with NAIC SAP.

Income Taxes – The Company is included in the consolidated federal income tax return of Cendant Corporation. The Company files separate state income tax returns. The tax charge or tax refund to the Company under the tax sharing agreement represents an amount that would have been paid or received if it had filed on a separate return basis with the Internal Revenue Service. The ultimate settlement of this liability is dependent upon the ultimate settlement of Cendant Corporation's tax liability with the Internal Revenue Service.

Expense/Service Allocation – The Company is party to an Expense Allocation Agreement and a Service Allocation Agreement wherein certain goods and services are allocated among Cendant Corporation subsidiaries. Substantially all payroll and other general and administrative expenses paid were subject to these agreements. Payroll expense is allocated based upon actual time Cendant Corporation employees spend performing services for the Company.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Fair Value of Financial Instruments – Cash and cash equivalents and restricted short-term investments are carried at an amount that approximates fair value. There are no financial instruments owned by the Company that are not disclosed on the financial statements.

Use of Estimates – The preparation of financial statements in conformity with the NAIC SAP requires management to make certain estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

2. RESTRICTED SHORT-TERM INVESTMENTS

The Company's, restricted short-term investments consisted of the following:

	December 31, 2003		December 31, 2002	
Investment	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
6 Month Treasury Bills	$155,185,310	$155,185,310	$139,925,106	$139,925,106
Money Market Fund	26,657,922	26,657,922	14,948,830	14,948,830
Principal Cash in Trust	-	-	541	541
	$181,843,232	$181,843,232	$154,874,477	$154,874,477

The Money Market Fund invests in short term treasury securities that generally maintain a dollar weighted average maturity of sixty days or less. In accordance with NAIC guidance, the Company's money market fund is classified as an unaffiliated equity investment on the Supplemental Schedule of Investments. All of the Company's short-term investments are restricted. See Note 6 – Trust Accounts for further details.

3. REINSURANCE ACTIVITY

The Company does not write any direct insurance. The Company is a reinsurer of a portion of the ultimate net losses on mortgage insurance policies underwritten by third parties. At December 31, 2003 and 2002, premiums receivable were $9,440,502 and $17,357,205, respectively. The Company assumes premiums under an excess of loss agreement at the rate of 25% of gross written premiums for policies with effective dates of October 1993 through March 1997 and a rate 45%, less a ceding

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3. REINSURANCE ACTIVITY (Concluded)

commission of 19%, for policies with effective dates from April 1997 thorough December 1999. For policies with effective dates of January 2000 and forward, the Company assumes premiums under an excess of loss agreement at the rate of 45% less a ceding commission of 11.1%.

4. INCOME TAXES

The IDSNY has adopted the deferred income tax asset and deferred income tax liability requirements of NAIC SAP. These components are therefore reported on the Company's statutory statement of admitted assets, liabilities, capital and surplus.

The provisions for incurred income taxes on earnings are as follows:

	December 31, 2003	December 31, 2002
Federal income taxes incurred	$ 16,539,564	$ 13,857,336

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

2003	$ 16,539,564
2002	$ 13,857,336
2001	$ 13,646,221

The components of net deferred tax asset are as follows:

	December 31, 2003	December 31, 2002
Total deferred tax assets	$ 1,462,389	$ 869,619
Nonadmitted deferred tax assets	441,098	752,747
Net admitted deferred tax asset	$ 1,021,291	$ 116,872
(Decrease) increase in nonadmitted deferred tax asset	$ (311,649)	$ 245,446

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2003 AND 2002

4. INCOME TAXES (Continued)

The change in main components of deferred tax assets and deferred tax liabilities arising from temporary differences are as follows:

	December 31, 2003	December 31, 2002	Change
Deferred Tax Assets			
Loss Reserve	$ 441,098	$ 752,747	$(311,649)
Unearned Premiums	1,021,291	116,872	904,419
Total deferred tax assets	1,462,389	869,619	592,770
Nonadmitted deferred tax assets	(441,098)	(752,747)	311,649
Net admitted deferred tax asset	$ 1,021,291	$ 116,872	$ 904,419

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	2003		2002	
Statutory income before income taxes	$ 45,560,213		$ 38,816,715	
Income tax - statutory rate	15,946,794	35.00%	13,585,850	35.00%
Other	-	(0.00%)	-	(0.00%)
Total statutory income taxes	$ 15,946,794	35.00%	$ 13,585,850	35.00%
Federal income taxes incurred	$ 16,539,564	36.30%	$ 13,857,336	35.70%
Change in deferred income taxes	(592,770)	(1.30%)	(271,486)	(0.70%)
Total income taxes incurred	$ 15,946,794	35.00%	$ 13,585,850	35.00%

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2003 AND 2002

4. INCOME TAXES (Continued)

The Company is included in the consolidated federal income tax return of Cendant. The Company files separate state income tax returns. The tax charge or tax refund to the Company under the tax sharing agreement represents an amount that would have been paid or received if it had filed on a separate return basis with the Internal Revenue Service. The ultimate settlement of this liability is dependent upon the ultimate settlement of Cendant Corporation's tax liability with the Internal Revenue Service.

The Company is included in the consolidated federal income tax return of Cendant Corporation, which also includes the following affiliated entities:

Cendant Corporation
4509 Corporation
A Market Place, Inc.
Advance Ross Corporation
Advance Ross Electronics Corporation
Advance Ross Intermediate Corporation
Advance Ross Steel Company
Advance Ross Sub Company
Aesop Leasing Corporation
Afl Management Services, Inc.
AFS Mortgage, Inc.
Amerihost Franchise Systems, Inc.
Ann Blackham & Company, Inc.
Apex Marketing, Inc.
Apollo Galileo USA
Apollo Galileo USA Sub I, Inc.
Apollo Galileo USA Sub Ii, Inc.
Apple Ridge Services Corporation
Arac Management Services, Inc.
Associated Client Referral Corp.
Aston Hotels & Resorts International, Inc.
Atlantic Marketing Realty, Inc.
Atrium Insurance Corporation
Avis Asia And Pacific Limited
Avis Capital Corporation
Avis Car Holdings, Inc.
Avis Car Rental Group, Inc.
Avis Caribbean Limited
Avis Enterprises, Inc.
Avis Fleet Leasing And Management Corporation
Avis Group Holdings, Inc.
Avis International Ltd.
Avis Leasing Corporation
Avis Lube Inc.
Avis Management Services, Ltd.
Avis Rent A Car System, Inc.
Avis Service, Inc.
Axiom Financial, Inc.
Baker Car And Truck Rental, Inc.
Benefit Consultants Membership Inc.
BFICP Corporation
BGI Leasing, Inc.
Book Stacks Unlimited, Inc.
Boston Waterfront Realty Corp.
BSSP Acquisition Corporation
Budget Funding Corporation
Budget Rent A Car System, Inc.
Burgdorff Referral Associates, Inc.
Burnet Insurance Corporation
Burnet Realty Chicago, Inc.
Burnet Realty, Inc.
Burnet Realty, Inc.
Burnet Title, Inc.
Burrow Closing Management Corporation
Burrow Escrow Services, Inc.
Cable JV Sub, Inc.
CB Residential Real Estate Svcs Of Wisconsin, Inc.
Cendant Auto Services, Inc.
Cendant Car Rental Group, Inc.
Cendant Car Rental Operations Support, Inc.
Cendant Data Services Inc.
Cendant Finance Holding Corporation
Cendant Global Services, Inc.
Cendant Hotel Group International (East), Inc.
Cendant Hotel Group International , Inc.
Cendant Hotel Group, Inc.

ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2003 AND 2002

4. INCOME TAXES (Continued)

Cendant Incentives Incorporated
Cendant Intermediate Holdings, Inc.
Cendant Internet Group, Inc.
Cendant Latin America Holdings, Inc.
Cendant Membership Services Holdings Subsidiary, Inc.
Cendant Membership Services Holdings, Inc.
Cendant Membership Services, Inc.
Cendant Mobility Financial Corporation
Cendant Mobility Governmental Financial Svcs Corp
Cendant Mobility Services Corp.
Cendant Mortgage Corporation
Cendant Operations, Inc.
Cendant Publishing, Inc.
Cendant Real Estate Holdings, Inc.
Cendant Settlement Svcs Group
Cendant Stock Corporation
Cendant Suppliers Services, Inc.
Cendant Technology Holdings, LLC
Cendant Transportation Corp.
Cendant Travel Distribution Services Group, Inc.
Cendant Vacation Holdco, Inc.
Cendant Vacation Holdco Subsidiary LLC
Cendant Travel, Inc.
Central Florida Title Company
Century 21 Mortgage Corporation
Century 21 Real Estate Corporation
Century 21 Zittel Realtors
CGRN, Inc.
Cheap Tickets, Inc.
Cleveland Financial Services Group
Coldwell Banker Canada Partners, Inc.
Coldwell Banker Corporation
Coldwell Banker Mortgage Corporation
Coldwell Banker Real Estate Corporation
Coldwell Banker Real Estate Holdings, Inc.
Coldwell Banker Real Estate Services, Inc.
Coldwell Banker Real Estate, Inc.
Coldwell Banker Residential Brokerage Company
Coldwell Banker Residential Brokerage Corporation
Coldwell Banker Residential Brokerage Insurance Agency of Maine
Coldwell Banker Residential Brokerage Insurance Agency, Inc.
Coldwell Banker Residential Brokerage Pardoe, Inc.
Coldwell Banker Residential Brokerage, Inc.
Coldwell Banker Residential Real Estate, Inc.
Coldwell Banker Residential Referral Network
Coldwell Banker Residential Referral Network, Inc.
Colonial Express Title Services, Inc.
Com-U-Card Services, Inc.
Constellation Reinsurance Company Limited
Continental Development Corporation
Cook-Pony Farm Real Estate, Inc.
Corcoran.Com, Inc.
Cornish & Carey Residential, Inc.
Corporate Real Estate Services, Inc.
Cosby-Tipton Real Estate, Inc.
Credentials Services International, Inc.
CSSG Holdings, Inc.
Days Inns Worldwide, Inc.
DeWolfe Realty Affiliates, Inc.
DeWolfe Relocation Services, Inc.
DeWolfe.Com, Inc.
Dealers Holding, Inc.
DelMonte Realty Company
Distribution Systems, Inc.
Douglas & Jean Burgdorff, Inc.
Drivershield.Com FS Corporation
E.A. Hill & Company, Ltd.
Eastern Resort Corporation
Edenton Motors
EFI Development Funding, Inc.
EFI Funding Company, Inc.
Equity Title Company
Equity Title Messenger Service Holding Company
Equivest Administration Services, Inc.
Equivest Capital, Inc.
Equivest Entertainment Services, Inc.
Equivest Finance, Inc.
Equivest Florida, Inc.
Equivest Louisiana, Inc.
Equivest Management Services, Inc.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2003 AND 2002

4. INCOME TAXES (Continued)

Equivest Maryland, Inc.
Equivest Resorts Vacation Club, Inc.
Equivest Texas, Inc.
Equivest Vacation and Travel Club, Inc.
Equivest Washington, Inc.
ERA Franchise Systems, Inc.
ERA General Agency Corporation
ERA General Agency of New Jersey, Inc.
ERA Mortgage Corporation
FAH Company, Inc.
Fairfield Acceptance Corporation
Fairfield Bay, Inc.
Fairfield Capital Corporation
Fairfield Flagstaff Realty, Inc.
Fairfield Funding Corporation, II
Fairfield Funding Corporation, III
Fairfield Glade, Inc.
Fairfield Homes Construction Company
Fairfield Management Services, Inc.
Fairfield Mortgage Acceptance Corporation
Fairfield Mortgage Corporation
Fairfield Mountains, Inc.
Fairfield Myrtle Beach, Inc.
Fairfield Pagosa Realty, Inc.
Fairfield Receivables Corporation
Fairfield Resorts, Inc.
Fairfield Sapphire Valley, Inc.
Fairfield Vacation Resorts, Inc.
Fairfield Virgin Islands, Inc.
Fairtide Insurance, Ltd.
FJS Corporation
Florida Preferred School of Real Estate
Forest E. Olsen
Fox Realty
Fred Sands School of Real Estate
Galileo BA, Inc.
Galileo Brasil, Ltd.
Galileo International Services, Inc.
Galileo International, Inc.
Galileo Technologies, Inc.
Gerwer & Associates, Inc.
Grey City Graphics, Inc.
Guardian Title Company
Haddonfield Holding Corporation
Hamera Corporation
Hebdo Mag Overseas Holdings, Inc.
Henry S. Miller Investments, Inc.
Henry S. Miller Real Estate Institute, Inc.
Henry S. Miller Residential Group, Inc.
Henry S. Miller Residential Services Corp.
Hewfant, Inc.
HFS Decar Funding Corporation
HFS Licensing, Inc.
HFS Truck Funding Corporation
Highwire, Inc.
Hillshire House, Inc.
Home Referral Network, Inc.
Hotel Financing, Inc.
Howard Johnson International, Inc.
Hunneman Commercial Management Corp.
Hunneman Management Company, Inc.
Hunneman Mortgage Corporation
Hunneman Residential Management Corp.
Hunneman Security Services, Inc.
Ideon Group, Inc.
Imperial Life Insurance Company
Instamortgage.Com Corporation
Intercambios Endless Vacation IEV, Inc.
Internetwork Publishing Corporation
J. W. Riker Northern R. I., Inc.
Jack Gaughen Network Services, Inc.
Jack Gaughen, Inc.
Jackson Hewitt, Inc.
Jon Douglas Company
Joseph J. Murphy Realty, Inc.
Kahn Realty Companies
King Thompson/Holzer-Willam, Inc.
Knights Franchise Systems, Inc.
Leisure Sciences, Inc.
LMS (Delaware) Corporation
Long Term Preferred Care Insurance Services Of NV, Inc.
Long Term Preferred Care Of North Carolina, Inc.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2003 AND 2002

4. INCOME TAXES (Continued)

Long Term Preferred Care, Inc.
Long Wharf Marina Restaurant Inc.
Magellan Technologies, Inc.
Mansell Commercial Real Estate Services, Inc.
Mark Stimson Associates
Marshall L. Miller, Inc.
McGarvey - Clark Realty, Inc
MCM Group, Ltd
Metro Financial Services, Inc.
Metro Real Estate Services, Inc.
Mid-Exchange, Inc.
Mirror Lake Development, Inc.
Mirror Lake Realty, Inc.
Mortgagequestions.Com Corporation
Motorent, Inc.
MRG&L Judgment Acquisition Corporation
Municipal Compliance Services
N.A. Sapunar Realty, Inc.
NE Moves Mortgage Corporation
Neat Group Corporation
Netmarket Group, Inc.
Netmarket, Inc.
NGI Holdings, Inc.
Nisbet Corporation
NRT Colorado, Inc.
NRT Columbus, Inc.
NRT Commercial, Inc.
NRT Commercial, Utah, Inc.
NRT Incorporated
NRT Mid-Atlantic, Inc.
NRT Missouri Referral Network, Inc.
NRT Missouri, Inc.
NRT Mortgage Service, Inc.
NRT New England, Inc.
NRT New York, Inc.
NRT Settlement Services Of Missouri, Inc.
NRT Settlement Services Of Texas, Inc.
NRT Sunshine, Inc.
NRT Texas Real Estate Services, Inc.
NRT Texas, Inc.
NRT The Condo Store Incorporated
NRT Utah, Inc.
Numa Corporation
Ocean City Coconut Malorie Resort, Inc.
Ocean Ranch Development, Inc.
O'Conor, Piper & Flynn, Inc.
P.A. Lethridge & Co.
Pacesetter Nevada, Inc.
Pacific Preferred Properties, Inc.
Palm Resort Group, Inc.
Par Services, Inc.
Pathfinder Insurance Company
Peppertree Acquisition Ii Corp.
Peppertree Resort Villas Inc.
Peppertree Resorts Ltd.
Peppertree Resorts Management Inc.
Perry & Butler Realty, Inc.
Pf Claims Management Ltd.
PHH Auto Finance Corporation
PHH Broker Partner Corporation
PHH Canadian Holdings, Inc.
PHH Commercial Leasing, Inc.
PHH Continental Leasing, Inc.
PHH Corner Leasing, Inc.
PHH Corporation
PHH Financial Services, Inc.
PHH Holdings Corporation
PHH Market Leasing, Inc.
PHH Milford Leasing, Inc.
PHH Mortgage Services Corporation
PHH National Leasing, Inc.
PHH Page Leasing, Inc.
PHH Personalease Corp.
PHH Power Leasing, Inc.
PHH St. Paul Leasing, Inc.
PHH Title Services Corporation
PHH VMS Subsidiary Corporation
Podley Doan, Inc.
Preferred Care Agency, Inc.
Preferred Mortgage Group, Inc.
Progeny Marketing Innovations Of Kentucky, Inc.
Progeny Marketing Innovations, Inc. (fka Benefit Consultants Inc.)

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ATRIUM INSURANCE CORPORATION

4. INCOME TAXES (Continued)

Progressive Title Company, Inc.
Property Resources Group Holdings, Inc.
Property Resources Group, Inc.
Providence Title Company
Quantitude Services, Inc.
Quantitude, Inc.
Ramada Franchise Systems, Inc.
RCI Argentina, Inc.
RCI Asia Pacific Pte., Ltd
RCI Canada, Inc.
RCI Chile, Inc.
RCI Colombia, Inc.
RCI General Holdco 2, Inc.
RCI Holiday Network, Inc.
RCI Korea, Inc.
RCI Malaysia , Inc.
RCI Resort Management, Inc.
RCI Technology Corp.
RCI Thailand, Inc.
Real Estate Referral, Inc.
Real Estate Referrals, Inc.
Real Estate Services Of Pennsylvania, Inc.
Real Estate Services, Inc.
Referral Associates International, Inc.
Referral Associates Of California, Inc.
Referral Associates Of Florida, Inc.
Referral Associates Of Illinois, Inc.
Referral Associates Of New England, Inc.
Referral Network, Inc.
Referral Network, Inc.
Relocation Chicago
Rent A Car Company, Inc.
Reserve Claims Management, Inc.
Resolution Credit Corporation
Resort connections, Inc.
Resort Marketing Services, Inc.
Resorts Title, Inc.
RMR Financial Services, Inc.
S, L & M Properties, Inc.
S.D. Shepherd Systems, Inc.
Safecard Services, Incorporated
Sea Gardens Beach and Tennis Resort, Inc.
Secured Land Transfers, Inc.
Serenity Yacht Club, Inc.
Seville Properties, Inc.
Shirley Realty Company
Shoppers Advantage, Inc.
Signature Properties, Inc.
Soleil Florida Corporation
Speedy Title & Appraisal Review Services Corp.
St. Joe Title Services, Inc.
St. Augustine Resort Development Group, Inc.
St. Joe Real Estate Services, Inc.
Sunbelt Lending Services, Inc.
Suntree Development Company
Super 8 Motels, Inc.
Tam-Bay Realty, Inc.
Tax Services of America, Inc.
Team Fleet Financing Corporation
Terramar Guaranty Title & Trust, Inc.
The Corcoran Group downtown, Inc.
The Corcoran Group Eastside, Inc.
The Corcoran Group Rental, Inc.
The Corcoran Group West Side, Inc.
The DeWolfe Companies, Inc.
The DeWolfe Company, Inc.
The Florida Companies
The Miller Group, Inc.
The Pacesetter Group, Inc.
The Residency Clubs Corp.
The Sunshire Group (Florida), Ltd. Corporation
The Sunshire Group, Ltd.
TM Acquisition Corp.
TM Acquisition Sub, Inc.
Travel Industries, Inc.
Travel Rewards, Inc.
Travelodge Hotels, Inc.
Trendwest Funding I, Inc.
Trendwest Funding II, Inc.
Trendwest Real Estate, Inc.
Trendwest Resorts, Inc.
TRI Funding II, Inc.
TRI Funding III, Inc.
TRI Funding IV, Inc.

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ATRIUM INSURANCE CORPORATION

4. INCOME TAXES (Concluded)

TRI Funding V, Inc.
Trip Network, Inc.
Trip.Com, Inc.
Trust International Hotel Reservation Services, Inc.
Trust of New England, Inc.
TW Holdings I, Inc.
TW Holdings II, Inc.
TW Holdings III, Inc.
TWH Funding I, Inc.
United Bank Club Association, Inc.
US Title Guaranty Company, Inc.
US Title Guaranty of St. Charles, Inc.
Vacation Break at Ocean Ranch, Inc.
Vacation Break Management, Inc.
Vacation Break Resorts at Palm Aire, Inc.
Vacation Break Resorts at Star Island, Inc.
Vacation Break Resorts, Inc.
Vacation Break USA, Inc.
Vacation Break Welcome Centers, Inc.
Vacation Care (Israel) Inc.
Valley of California, Inc.
Van Zandt & Associates, Inc.
Villager Franchise Systems, Inc.
VMS Holdings, Inc.
Warranty Escrow Company
West Coast Escrow
West Shell Indiana, Inc.
West Shell, Inc.
Whitfield-Bernhardt, Inc.
Williamsburg Motors, Inc.
Wingate Inns International, Inc.
Wizard Co., Inc.
Wizcom International, Ltd.
Wright Express Financial Services Corporation

5. BENEFIT PLANS

Employees of the Company are participants in two benefit plans: a defined benefit plan of the Parent, and a defined contribution plan of Cendant Corporation. Effective July 1, 1997, new participation was terminated in the Parent's defined benefit plan, therefore, only those pension participants prior to July 1, 1997 remain in the plan. Accumulated plan benefit data is not available for the individual companies participating in the defined benefit plan. Benefit plan expenses are not separately calculated for the Company, but are included in payroll expense per the Service Allocation Agreement.

6. TRUST ACCOUNTS

Under the terms of the Company's reinsurance agreements, the Company is required to maintain a trust account for the benefit of each ceding company. For one cedent, the capital fund portion of the trust account must be maintained at an amount of the greater of (i) ceded risk multiplied by 20% ($149,882,833) or (ii) the contingency reserve. For the other cedent, the capital fund portion of the trust account must be maintained at an amount of the greater of (i) 10% of the aggregate risk exposure ($27,578,392) or (ii) the contingency reserve. At December 31, 2003 and 2002, $181,843,232 and $154,874,477 respectively, was held in the trust. These amounts are recorded in restricted short-term investments on the statutory-basis statements of admitted assets, liabilities, capital and surplus. The Company believes that its trust account balance at December 31, 2003 is sufficient to maintain its reinsurance agreements.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2003 AND 2002

7. LOSS RESERVES

	2003	2002
Balance, January 1	$ 16,741,613	$ 11,801,916
Incurred related to:		
Current year	2,912,000	622,296
Prior years	(13,875,613)	4,317,401
Total incurred	(10,963,613)	4,939,697
Paid related to:		
Current year	-	-
Prior years	-	-
Total paid	-	-
Balance, December 31	$ 5,778,000	$ 16,741,613

Reinsurance expense for prior years decreased by a total of $13,875,613 in 2003 and increased by a total of $4,317,401 in 2002. The decrease in 2003 is attributable to the decrease in risk in the Company's reinsurance pools, as a substantial amount of the underlying mortgages have been paid off over the past year.

8. LEASES

The Company leases office space at a monthly rent expense of $1,882 included in other expenses on the statutory-basis statements of operations. The lease terms are month-to-month with a thirty day written notice of cancellation required.

9. DIVIDEND RESTRICTIONS AND CAPITAL AND SURPLUS

The Company is required by law to maintain certain minimum statutory surplus and is subject to regulations under which payment of a dividend from statutory-basis surplus may require prior approval of the IDSNY. The Company's Reinsurance Agreement prohibits the payment of any dividends until January 1, 2005.

The portion of unassigned funds (surplus) represented or reduced by each item below as of December 31, 2003 and 2002 is as follows:

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ATRIUM INSURANCE CORPORATION

9. DIVIDEND RESTRICTIONS AND CAPITAL AND SURPLUS (Concluded)

	2003	2002
Contingency Reserve	$ 103,783,935	$ 85,441,848
Deferred Tax Asset	1,462,389	869,619
Non-Admitted Assets	441,098	752,747

10. RECONCILIATION TO ANNUAL STATEMENT

	2003	2002
Total capital and surplus per annual statement	$ 63,001,634	$ 51,654,337
Change in income taxes payable to parent	511,774	(281,879)
Change in net deferred tax asset	(441,098)	116,872
Total capital and surplus per statutory financial statements	$ 63,072,310	$ 51,489,330

11. COMMITMENTS AND CONTINGENCIES

Cendant Corporation Class Action Litigation and Government Irregularities

Cendant Corporation is involved in litigation asserting claims associated with the accounting irregularities discovered in other acquired business units outside of the principal common stockholder class action litigation. Cendant does not believe that it is feasible to predict or determine the final outcome or resolution of these unresolved proceedings. An adverse outcome from such unresolved proceedings could be material with respect to earnings in any given reporting period. Cendant does not believe that the impact of such unresolved proceedings should result in a material liability to Cendant in relation to its financial position or liquidity.

Other Pending Litigation

The Company is involved in litigation arising in the normal course of business. Although the amount of any ultimate liability arising from these matters cannot presently be determined, the Company does not anticipate that any such liability will have a material effect on the Company's statutory-basis financial position, results of operations or cash flows.

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
SUMMARY INVESTMENT SCHEDULE
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003

Investment Categories	Gross Investment Holdings*	Admitted Assets as Reported in the Annual Statement
Bonds:		
U.S. treasury securities		
U.S. government agency and corporate obligations (excluding mortgage-backed securities):		
Issued by U.S. government agencies		
Issued by U.S. government-sponsored agencies		
Foreign government (including Canada, excluding mortgage-backed securities)		
Securities issued by states, territories and possessions and political subdivisions in the U.S.:		
State, territory and possession general obligations		
Political subdivisions of states, territories and possessions political subdivisions general obligations		
Revenue and assessment obligations		
Industrial development and similar obligations		
Mortgage-backed securities (includes residential and commercial MBS):		
Pass-through securities:		
Guaranteed by GNMA		
Issued by FNMA and FHLMC		
Privately issued		
CMOs and REMICs		
Issued by FNMA and FHLMC		
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, FHLMC		
All other privately issued		
Other debt and other fixed income securities (excluding short term):		
Unaffiliated domestic securities (Includes credit tenant loans rated by the SVO)		
Unaffiliated foreign securities		
Affiliated securities		
Equity interests:		
Investments in mutual funds		
Preferred stocks:		
Affiliated		
Unaffiliated		
Publicly traded equity securities (excluding preferred stocks):		
Affiliated		
Unaffiliated	$ 26,657,922	$ 26,657,922
Other equity securities:		
Affiliated		
Unaffiliated		
Other equity interests including tangible personal property under lease:		
Affiliated		
Unaffiliated		

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
SUMMARY INVESTMENT SCHEDULE
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003

Investment Categories	Gross Investment Holdings*	Admitted Assets as Reported in the Annual Statement
Mortgage Loans:		
Construction and land development		
Agricultural		
Single family residential properties		
Multifamily residential properties		
Commercial loans		
Real Estate Investments:		
Property occupied by company		
Property held for production of income		
Property held for sale		
Collaterial loans		
Policy loans		
Receivables for securities		
Cash and short-term investments	$157,248,235	$157,248,235
Write-in for invested assets		
Total invested assets	$183,906,157	$183,906,157

* Gross Investment Holdings as valued in compliance with *NAIC Accounting Practices and Procedures Manual.*

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
INVESTMENT RISK INTERROGATORIES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003

The Company's total admitted assets reported in the statutory statements of admitted assets, liabilities, capital and surplus is $194,809,391 at December 31, 2003.

1. The 10 largest exposures to a single issuer/borrower/investment, by investment category excluding: (i) U.S. government, U.S. government agency securities and those U.S. Government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Company, and (iii) policy loans at December 31, 2003 is a follows: None.

2. The amounts and percentages of the Company's total admitted assets held in bonds by NAIC rating is as follows: None.

3. The amounts and percentages of the Company's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investment denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge), including (i) foreign-currency-denominated investments of $0 supporting insurance liabilities denominated in that same foreign currency of $0 and excluding (ii) Canadian investments and currency exposure of $0 at December 31, 2003 is as follows: None.

4. The amounts and percentages of the Company's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency denominated investments of $0 supporting Canadian-denominated insurance liabilities of $0 at December 31, 2003 are as follows: None.

5. The aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days at December 31, 2003) are as follows: None.

6. The amounts and percentages of admitted assets held in the largest 10 equity interest (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to *SVO Practices and Procedures Manual* as exempt of Class 1) at December 31, 2003 are as follows:

Institutional Money Market Fund	$26,657,922	14.5%

7. Nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions at December 31, 2003 totaled $0, which represents 0% of total admitted assets.

8. The amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities) at December 31, 2003 are as follows: None.

9. The amounts and percentages of the reporting entity's total admitted assets held in mortgage loans at December 31, 2003 are as follows: None.

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ATRIUM INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA – STATUTORY BASIS
INVESTMENT RISK INTERROGATORIES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2003

10. The amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate, excluding property occupied by the Company at December 31, 2003 are as follows: None.

11. The amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements are as follow:

	At Year-End	Percentage of Total	At End of Each Quarter		
	Amount	Admitted Assets	2nd Quarter Amount	3rd Quarter Amount	4th Quarter Amount
Securities lending (do not include assets	$ -	% -	$ -	$ -	$ -
held as collaterial for such transactions)	-	-	-	-	-
Repurchase agreements	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-
Dollar repurchase agreements	-	-	-	-	-
Dollar reverse repurchase agreements	-	-	-	-	-

12. The amounts and percentages of warrants not attached to other financial instruments, options, caps, and floors at December 31, 2003 are as follows: None.

13. The amounts and percentages of potential exposure *(defined as the amount determined in accordance with the NAIC Annual Statement Instructions)* for collars, swaps, and forwards at December 31, 2003 are as follows: None.

14. The amounts and percentages of potential exposure *defined as the amount determined in accordance with the NAIC Annual Statement Instructions)* for futures contracts at December 31, 2003 are as follows: None.

15. The amounts and percentages of the 10 largest investments included in the Write-ins for Invested Assets category of the Summary Investment Schedule as of December 31, 2003 are as follows: None.

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EXHIBIT 59

Atrium Insurance Corporation

Statutory-Basis Financial Statements as of and for the Years Ended December 31, 2005 and 2004, Supplemental Schedules as of and for the Year Ended December 31, 2005 and Independent Auditor's Report

NAIC Company Code #10362

ATRIUM INSURANCE CORPORATION

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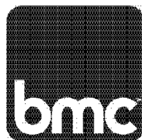

Independent Auditor's Report

To the Board of Directors
Atrium Insurance Corporation
New York, New York

We have audited the accompanying statutory-basis balance sheets of Atrium Insurance Corporation (the Company) as of December 31, 2005 and 2004, and the related statutory-basis statements of operations, changes in capital and surplus, and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the statutory-basis financial statements, these financial statements were prepared using accounting practices prescribed or permitted by the Insurance Department of the State of New York, which is a comprehensive basis of accounting, other than accounting principles generally accepted in the United States of America.

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company at December 31, 2005 and 2004, and its results of operations and its cash flow for the years then ended, in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of New York.

Our audits were conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The supplementary information included in the Summary Investment Schedule and Investment Risk Interrogatories is presented for purposes of additional analysis and is not a required part of the statutory-basis financial statements. Such information has been subjected to the auditing procedures applied in the audits of the statutory-basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors and management of the Company and state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Beard Miller Company LLP

Beard Miller Company LLP
Harrisburg, Pennsylvania
August 11, 2006

ATRIUM INSURANCE CORPORATION

STATUTORY-BASIS BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

	2005	2004
ADMITTED ASSETS		
Cash and cash equivalents	$ 14,793,508	$ 1,801,048
Restricted short-term investments	233,474,509	220,323,272
Premiums in course of collection	12,358,599	13,115,378
Other assets	2,012	-
Interest due and accrued	1,955,354	917,774
Deferred income taxes	34,206	98,110
TOTAL ADMITTED ASSETS	$ 262,618,188	$ 236,255,582
LIABILITIES, CAPITAL AND SURPLUS		
LIABILITIES		
Loss reserves	$ 15,121,303	$ 10,415,688
Statutory contingency reserves	147,204,778	126,246,231
Ceding commissions payable	1,387,580	1,529,463
Unearned premiums	695,924	783,437
Other liabilities	140,980	158,508
Federal income taxes payable to parent	11,509,739	32,813,737
Total liabilities	176,060,304	171,947,064
CAPITAL AND SURPLUS		
Common capital stock ($1,000 par value, 1,000 shares authorized, issued and outstanding)	1,000,000	1,000,000
Gross paid-in and contributed surplus	80,816,005	46,100,000
Unassigned surplus	4,741,879	17,208,518
Total capital and surplus	86,557,884	64,308,518
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$ 262,618,188	$ 236,255,582

See accompanying notes to statutory-basis financial statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY-BASIS STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
INCOME		
Premiums earned	$ 41,989,503	$ 44,924,592
Net investment income	6,909,083	2,530,613
Total income	48,898,586	47,455,205
EXPENSES		
Loss provision	4,705,615	4,637,688
Ceding commissions	4,732,759	5,319,830
Payroll expenses	98,403	111,426
Other expenses	393,041	236,071
Total expenses	9,929,818	10,305,015
INCOME BEFORE INCOME TAXES	38,968,768	37,150,190
FEDERAL INCOME TAXES INCURRED	13,412,956	12,528,505
NET INCOME	$ 25,555,812	$ 24,621,685

See accompanying notes to statutory-basis financial statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
CAPITAL AND SURPLUS, BEGINNING OF YEAR	$ 64,308,518	$ 63,072,310
Net income	25,555,812	24,621,685
Increase in contingency reserve	(20,958,547)	(22,462,296)
Increase (decrease) in deferred tax asset	226,113	(474,061)
Increase in non-admitted deferred tax asset	(290,017)	(449,120)
Contributed surplus	34,716,005	-
Dividend to parent	(17,000,000)	-
Increase in capital and surplus	22,249,366	1,236,208
CAPITAL AND SURPLUS, END OF YEAR	$ 86,557,884	$ 64,308,518

See accompanying notes to statutory-basis financial statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY-BASIS STATEMENTS OF CASH FLOW
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FROM OPERATIONS		
Premiums collected	$ 42,658,769	$ 41,347,768
Other underwriting expenses	(5,385,625)	(5,183,885)
Cash from investment income	5,871,503	2,054,280
Taxes paid	(950)	-
NET CASH FROM OPERATIONS	43,143,697	38,218,163
CASH APPLIED TO FINANCING		
Dividends paid to parent	(17,000,000)	-
Net increase in cash and cash equivalents and restricted short-term investments	26,143,697	38,218,163
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	222,124,320	183,906,157
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, END OF YEAR	$ 248,268,017	$ 222,124,320
NON-CASH ITEM:		
Contributed surplus	$ 34,716,005	$ -

See accompanying notes to statutory-basis financial statements.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Atrium Insurance Corporation ("the Company") is incorporated under the laws of the State of New York. The Company began insurance operations on November 9, 1995. The Company is a wholly-owned subsidiary of PHH Corporation ("Parent", or "PHH"). On January 31, 2005, PHH began operating as a separate publicly traded company subsequent to a spin-off from Cendant Corporation ("Cendant"). Cendant has no continuing ownership in PHH. As a result of the spin-off, Cendant forgave the income taxes payable balances from PHH and its subsidiaries under certain tax sharing agreements, including the Company. The forgiveness of income tax payable was recorded as a capital contribution from the Company's parent.

The Company assumes mortgage insurance reinsurance wherein the ceding company is indemnified, subject to a specified limit, against the amount of loss in excess of a predetermined limit with respect to accumulation of losses. The mortgage insurance assumed is primarily on mortgage loans originated by affiliates of PHH.

Basis of Presentation – The Company's statutory-basis financial statements are presented on the basis of accounting practices prescribed or permitted by the Insurance Department of the State of New York ("IDSNY"). Effective January 1, 2001, the IDSNY required that insurance companies domiciled in the State of New York prepare their statutory-basis financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual with certain modifications. In addition, the Commissioner of the IDSNY has the authority to permit other specific practices that may deviate from prescribed practices. The Company had no such permitted practices during the years ended December 31, 2005 and 2004.

Accounting practices and procedures of the NAIC as prescribed or permitted by the IDSNY ("SAP") comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant differences are as follows:

- Assets are reported under SAP at "admitted-asset" value and "non-admitted" assets are excluded through a charge against surplus while under GAAP, "non-admitted assets" are reinstated to the balance sheet, net of any valuation allowance;

- A predetermined percentage of net premiums earned must be reserved as a contingency reserve under SAP; no such contingency reserve is required to be recorded under GAAP;

- Comprehensive income is not presented in the statutory-basis financial statements as required by Statement of Financial Accounting Standards No. 130;

- Changes in deferred income taxes, except for those relating to unrealized gains and losses on investments, impact earnings under GAAP versus surplus under SAP. There are no specific limitations on gross deferred tax assets under GAAP, whereas limitations are specified under SAP.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents – Marketable securities with original maturities of three months or less are included in cash equivalents.

Restricted Short-Term Investments – Investments in short-term securities are carried at original cost. Accrued interest is recorded using the straight line method. The related amortization or accretion of premiums or discounts is recognized on a straight line basis. Investments in money market funds are carried at original cost which approximates fair value. (See also Note 2 – Restricted Short-Term Investments and Note 6 – Trust Accounts).

Premiums Earned – Premiums are recognized as revenue on a pro rata basis over the policy terms, generally one-year. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums. Premiums in the course of collection represent premiums which have been written and not yet received.

Recognition of Investment Income – Interest on investments is recognized as earned.

Insurance Liabilities – The liability for loss reserves represents an estimate of mortgage credit losses. The Company records its loss reserves based on actuarial assumptions using historical industry loss experience, adjusted for current trends and factors that would modify past experience. The Company believes that the liability for loss reserves is adequate to provide for the ultimate costs of losses, but this liability is based on estimates, and the amount ultimately paid may vary significantly from such estimates. These estimates are subject to the effects of trends in loss severity and frequency. This liability is continually reviewed and changes in estimates are reflected in earnings currently. Such liability is based on estimates and, while management believes that the amount is adequate, the ultimate liability may be different than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current earnings.

The change in the contingency reserve reflects 50% of earned premiums, which accumulates for ten years, in accordance with SAP.

Income Taxes – The Company is included in the consolidated federal income tax return of PHH. The Company files separate state income tax returns. The tax charge or tax refund to the Company under the tax sharing agreement represents an amount that would have been paid or received if it had filed on a separate return basis with the Internal Revenue Service. The ultimate settlement of this liability is dependent upon the ultimate settlement of PHH's tax liability with the Internal Revenue Service.

Expense/Service Allocation – The Company is party to an Expense Allocation Agreement and a Service Allocation Agreement wherein certain goods and services are allocated among PHH subsidiaries. Substantially all payroll and other general and administrative expenses paid were subject to these agreements. Payroll expense is allocated based upon estimated time PHH employees spend performing services for the Company.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Fair Value of Financial Instruments – Cash and cash equivalents and restricted short-term investments are carried at an amount that approximates fair value. There are no financial instruments owned by the Company that are not disclosed in the financial statements.

Use of Estimates – The preparation of financial statements in conformity with the SAP requires management to make certain estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

2. RESTRICTED SHORT-TERM INVESTMENTS

The Company's restricted short-term investments consisted of the following:

Investment	December 31, 2005 Original Cost	December 31, 2005 Fair Value	December 31, 2004 Original Cost	December 31, 2004 Fair Value
6 Month U.S. Treasury Bills	$ 184,475,369	$ 184,475,369	$ 176,603,208	$ 176,603,208
Money Market Fund	48,999,140	48,999,140	43,720,064	43,720,064
	$ 233,474,509	$ 233,474,509	$ 220,323,272	$ 220,323,272

The Money Market Fund invests in short term treasury securities that generally maintain a dollar weighted average maturity of sixty days or less. In accordance with NAIC guidelines, the Company's Money Market Fund is classified as an unaffiliated equity investment on the Supplemental Schedule of Investments. All of the Company's short-term investments are restricted. See Note 6 – Trust Accounts for further details.

3. REINSURANCE ACTIVITY

The Company does not write any direct insurance. The Company is a reinsurer of a portion of the ultimate net losses on mortgage insurance policies underwritten by third parties. At December 31, 2005 and 2004, premiums receivable were $12,358,599 and $13,115,378, respectively. The Company assumes premiums from a total of three cedents. For the first cedent, the Company assumes premiums under an excess of loss agreement at the rate of 25% of gross written premiums for policies with effective dates of October 1993 through March 1997 and a rate of 45%, less a ceding commission of 19%, for policies with effective dates from April 1997 through December 1999, and a rate of 45% of gross written premiums for policies with effective dates of January 2000 and forward, less a ceding commission of 11.1%. The Company assumes premiums from the second cedent under an excess of

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

3. REINSURANCE ACTIVITY (Concluded)

loss agreement at the rate of 45% of gross written premiums for policies with effective dates of January 2000 and forward, less a ceding commission of 11.1%. The Company assumes premiums from the third cedent under an excess of loss agreement at a net rate of 40% of the gross written premium for policies with effective dates from July 2004.

4. INCOME TAXES

The Company had no permanent differences between pre-tax book income and taxable income per the tax returns for the years ended December 31, 2005 and 2004.

The following are federal income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

2005	$ 13,412,956
2004	$ 12,528,505

The components of net deferred tax assets are as follows:

	December 31, 2005	December 31, 2004
Total deferred tax assets	$ 1,214,441	$ 988,328
Non-admitted deferred tax assets	1,180,235	890,218
Net admitted deferred tax assets	$ 34,206	$ 98,110
Increase in nonadmitted deferred tax assets	$ 290,017	$ 449,120

The change in main components of deferred tax assets and deferred tax liabilities arising from temporary differences are as follows:

	December 31, 2005	December 31, 2004	Change
Deferred tax assets			
Discounting of unpaid losses	$ 1,109,680	$ 890,218	$ 219,462
Unearned premiums	104,761	98,110	6,651
Total deferred tax assets	1,214,441	988,328	226,113
Non-admitted deferred tax assets	(1,180,235)	(890,218)	(290,017)
Net admitted deferred tax assets	$ 34,206	$ 98,110	$ (63,904)

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4. INCOME TAXES (Concluded)

Prior to the spin-off, the Company was included in the consolidated federal income tax return of Cendant along with other Cendant subsidiaries. After the spin-off, the Company is included in the consolidated federal income tax return of PHH along with other PHH subsidiaries. The tax charge or tax refund to the Company under the tax sharing agreement represents an amount that would have been paid or received if it had filed on a separate return basis with the Internal Revenue Service. The ultimate settlement of this liability is dependent upon the ultimate settlement of PHH tax liability with the Internal Revenue Service.

5. BENEFIT PLANS

Employees of the Company are participants in two benefit plans: a defined benefit plan and a defined contribution plan of PHH. Effective July 1, 1997, new participation was terminated in the Parent's defined benefit plan, therefore, only those pension participants prior to July 1, 1997 remain in the plan. Accumulated plan benefit data is not available for the individual companies participating in the defined benefit plan. Benefit plan expenses are not separately calculated for the Company, but are included in payroll expense per the Service Allocation Agreement.

6. TRUST ACCOUNTS

Under the terms of the Company's reinsurance agreements, the Company is required to maintain a trust account for the benefit of each of the three ceding companies. For one cedent, the capital fund portion of the trust account must be maintained at an amount equal to or greater than (i) ceded risk multiplied by 20% ($176,633,101 at December 31, 2005) or (ii) the contingency reserve. For the second cedent, the capital fund portion of the trust account must be maintained at an amount of the greater of (i) 10% of the aggregate risk exposure ($35,541,734 at December 31, 2005) or (ii) the contingency reserve. For the third cedent, the capital fund portion of the trust account must be at least equal to the sum of (i) 10% of the risk in force assumed by the reinsurer ($5,847,499 at December 31, 2005) plus (ii) loss reserves and unearned premium reserves required by Atrium's statutory accounting guidelines. At December 31, 2005 and 2004, $233,474,509 and $220,323,272 respectively, was held in the trust accounts. These amounts are recorded in restricted short-term investments on the statutory-basis balance sheets. The Company believes that its trust account balances at December 31, 2005 and 2004 are sufficient to maintain its reinsurance agreements.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY-BASIS STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

7. LOSS RESERVES

Activity in the loss reserves in 2005 and 2004 is as follows:

	2005	2004
Balance, January 1	$ 10,415,688	$ 5,778,000
Incurred related to:		
Current year	15,121,303	10,415,688
Prior years	(10,415,688)	(5,778,000)
Total incurred	4,705,615	4,637,688
Paid related to:		
Current year	-	-
Prior years	-	-
Total paid	-	-
Balance, December 31	$ 15,121,303	$ 10,415,688

As the Company incurred no losses in 2004 and prior years, the prior years' loss reserves were reversed out in the current year in 2005 and 2004, respectively.

8. LEASES

The Company leases office space at a monthly rent expense of $2,012 included in other expenses on the statutory-basis statements of operations. The lease terms are month-to-month with a ninety day written notice of cancellation required.

9. DIVIDEND RESTRICTIONS AND CAPITAL AND SURPLUS

The Company is required by law to maintain a minimum statutory surplus of at least $500,000 and is subject to regulations under which payment of a dividend from statutory-basis surplus may require prior approval of the IDSNY. The Company's Reinsurance Agreement prohibited the payment of any dividends until January 1, 2005.

The portion of unassigned surplus represented or reduced by each item below as of December 31, 2005 and 2004 is as follows:

	2005	2004
Contingency reserve	$ 147,204,778	$ 126,246,231
Deferred tax asset	1,214,441	988,328
Non-admitted assets	(1,180,235)	(890,218)

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ATRIUM INSURANCE CORPORATION

10. RECONCILIATION TO ANNUAL STATEMENT

	2005	2004
Total capital and surplus per statutory statements	$ 85,606,401	$ 64,687,682
Change in income taxes payable to parent	2,131,718	511,054
Change in net non-admitted deferred tax assets	(1,180,235)	(890,218)
Total capital and surplus per the audited statutory-basis financial statements	$ 86,557,884	$ 64,308,518

The Company's parent does not allocate tax amounts back to its subsidiaries until after the annual statement is filed thus creating differences between the annual statements and the audited statutory-basis financial statements.

11. RELATED PARTY TRANSACTIONS

PHH Mortgage Corporation ("PHH Mortgage"), a wholly-owned subsidiary of PHH, provides management and administrative services to the Company. Expenses paid to PHH Mortgage under Expense and Service Allocation Agreements for these services were $98,403 and $111,426 for the years ended December 31, 2005 and 2004 respectively. The Company is included in the consolidated tax return of PHH. The tax charge or refund under the tax sharing agreements represents the amount that would have been paid or received if it had filed a separate tax return. Federal income taxes payable to PHH and Cendant were $11,509,739 and $32,813,737 as of December 31, 2005 and 2004 respectively.

During the year ended December 31, 2005, the Company paid dividends to PHH in the amount of $17,000,000.

12. COMMITMENTS AND CONTINGENCIES

The Company is involved in litigation arising in the normal course of business. Although the amount of any ultimate liability arising from these matters cannot presently be determined, the Company does not anticipate that any such liability will have a material effect on the Company's statutory-basis financial position, results of operations or cash flow.

13. SUBSEQUENT EVENT

During March 2006, the Company withdrew $12,300,000 of excess funds from its trust accounts and paid a dividend of $12,439,115 to PHH.

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ATRIUM INSURANCE CORPORATION

SUMMARY INVESTMENT SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement	
	$	%	$	%
Bonds				
U.S. treasury securities	-	-	-	-
U.S. government agency and corporate obligations (excluding mortgage-backed securities)				
Issued by U.S. government agencies	-	-	-	-
Issued by U.S. government-sponsored agencies	-	-	-	-
Foreign government (including Canada, excluding mortgage-backed securities)	-	-	-	-
Securities issued by states, territories and possessions and political subdivisions in the U.S.				
State, territory and possession general obligations	-	-	-	-
Political subdivisions of states, territories and possessions political subdivisions general obligations	-	-	-	-
Revenue and assessment obligations	-	-	-	-
Industrial development and similar obligations	-	-	-	-
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities				
Guaranteed by GNMA	-	-	-	-
Issued by FNMA and FHLMC	-	-	-	-
Privately issued	-	-	-	-
CMOs and REMICs	-	-	-	-
Issued by FNMA and FHLMC	-	-	-	-
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, FHLMC	-	-	-	-
All other privately issued	-	-	-	-
Other debt and other fixed income securities (excluding short term)				
Unaffiliated domestic securities (Includes credit tenant loans rated by the SVO)	-	-	-	-
Unaffiliated foreign securities	-	-	-	-
Affiliated securities	-	-	-	-

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ATRIUM INSURANCE CORPORATION

SUMMARY INVESTMENT SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement	
	$	%	$	%
Equity interests				
Investments in mutual funds	-	-	-	-
Preferred stocks				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Publicly traded equity securities (excluding preferred stocks)				
Affiliated	-	-	-	-
Unaffiliated	48,999,140	20%	48,999,140	20%
Other equity securities				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Other equity interests including tangible personal property under lease				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Mortgage loans				
Construction and land development	-	-	-	-
Agricultural	-	-	-	-
Single family residential properties	-	-	-	-
Multifamily residential properties	-	-	-	-
Commercial loans	-	-	-	-
Real Estate Investments				
Property occupied by company	-	-	-	-
Property held for production of income	-	-	-	-
Property held for sale	-	-	-	-
Collateral loans	-	-	-	-
Policy loans	-	-	-	-
Receivables for securities	-	-	-	-
Cash and Short term Investments	199,268,877	80%	199,268,877	80%
Write-in for Invested Assets	-	-	-	-
Total Invested Assets	$248,268,017	100%	$248,268,017	100%

* Gross Investment Holdings as valued in compliance with *NAIC Accounting Practices and Procedures Manual.*

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ATRIUM INSURANCE CORPORATION

INVESTMENT RISK INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2005

1. The Company's total admitted assets reported in the statutory statements of admitted assets, liabilities, capital and surplus is $262,618,188 at December 31, 2005.

2. The 10 largest exposures to a single issuer/borrower/investment, by investment category excluding: (i) U.S. government, U.S. government agency securities and those U.S. Government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Company, and (iii) policy loans at December 31, 2005 is a follows: None.

3. The amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating is as follows: None.

4. The amounts and percentages of the Company's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investment denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge), including (i) foreign-currency-denominated investments of $0 supporting insurance liabilities denominated in that same foreign currency of $0 and excluding (ii) Canadian investments and currency exposure of $0 at December 31, 2005 is as follows: None, therefore detail not required for interrogatories 5-10.

11. The amounts and percentages of the Company's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency denominated investments of $0 supporting Canadian-denominated insurance liabilities of $0 at December 31, 2005 are as follows: None.

12. The aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days at December 31, 2005) are as follows: None.

13. The amounts and percentages of admitted assets held in the largest 10 equity interest (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to *SVO Practices and Procedures Manual* as exempt of Class 1) at December 31, 2005 are as follows: None.

14. Nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions at December 31, 2005 totaled $0, which represents 0% of total admitted assets.

15. The amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities) at December 31, 2005 are as follows: None.

16. The amounts and percentages of the reporting entity's total admitted assets held in mortgage loans at December 31, 2005 are as follows: None, therefore, detail not required for interrogatories 16 and 17.

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ATRIUM INSURANCE CORPORATION

INVESTMENT RISK INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2005

18. The amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate, excluding property occupied by the Company at December 31, 2005 are as follows: None.

19. The amounts and percentages of the reporting entity's total admitted assets subject to securities lending, repurchase agreements, reverse repurchase agreements, dollar repurchase agreements and dollar reverse repurchase agreements are as follow: None.

20. The amounts and percentages of warrants not attached to other financial instruments, options, caps, and floors at December 31, 2005 are as follows: None.

21. The amounts and percentages of potential exposure for collars, swaps, and forwards at December 31, 2005 are as follows: None.

22. The amounts and percentages of potential exposure for futures contracts at December 31, 2005 are as follows: None.

23. The amounts and percentages of the entity's total admitted assets held in mezzanine real estate loans: None.

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EXHIBIT 60

Atrium Insurance Corporation

Statutory Financial Statements as of and for the Years Ended December 31, 2007 and 2006, Supplemental Information as of and for the Year Ended December 31, 2007 and Independent Auditor's Report

NAIC Company Code #10362

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ATRIUM INSURANCE CORPORATION

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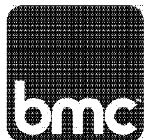

Independent Auditor's Report

To the Board of Directors
Atrium Insurance Corporation
New York, New York

We have audited the accompanying statutory balance sheets of Atrium Insurance Corporation (the Company) as of December 31, 2007 and 2006, and the related statutory statements of operations, changes in capital and surplus, and cash flow for the years then ended. These statutory financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statutory financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the statutory financial statements, these statutory financial statements were prepared using accounting practices prescribed or permitted by the New York State Insurance Department, which is a comprehensive basis of accounting, other than accounting principles generally accepted in the United States of America. The effects on the statutory financial statements of the variances between accounting principles prescribed or permitted by the New York State Insurance Department and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Atrium Insurance Corporation as of December 31, 2007 and 2006, or the results of its operations or its cash flow for the years then ended.

However, in our opinion, such statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company at December 31, 2007 and 2006, and its results of operations and its cash flow for the years then ended, on the basis of accounting described in Note 1.

Our audits were conducted for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The supplementary information included in the Summary Investment Schedule, Investment Risk Interrogatories, and the General Reinsurance Risks Interrogatories is presented for purposes of additional analysis and is not a required part of the 2007 statutory financial statements. Such information has been subjected to the auditing procedures applied in the audits of the 2007 statutory financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 statutory financial statements taken as a whole.

Beard Miller Company LLP

Beard Miller Company LLP
Harrisburg, Pennsylvania
May 20, 2008

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ATRIUM INSURANCE CORPORATION

STATUTORY BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	2007	2006
ADMITTED ASSETS		
Cash and cash equivalents	$ 65,575,000	$ 25,833,629
Restricted short-term investments	220,876,891	253,350,939
Premiums in course of collection	10,626,767	11,724,716
Other assets	11,776	11,517
Interest due and accrued	2,259,707	2,816,365
Deferred tax asset	41,122	67,148
TOTAL ADMITTED ASSETS	$ 299,391,263	$ 293,804,314
LIABILITIES, CAPITAL AND SURPLUS		
LIABILITIES		
Loss reserves	$ 32,280,240	$ 16,862,768
Statutory contingency reserves	178,832,098	164,602,987
Ceding commissions payable	1,122,097	1,306,029
Unearned premiums	587,452	618,940
Other liabilities	48,568	134,818
Federal income taxes payable to parent	4,178,151	15,197,771
Total liabilities	217,048,606	198,723,313
CAPITAL AND SURPLUS		
Common capital stock ($1,000 par value, 1,000 shares authorized, issued and outstanding)	1,000,000	1,000,000
Paid-in and contributed surplus	80,816,004	80,816,004
Unassigned surplus	526,653	13,264,997
Total capital and surplus	82,342,657	95,081,001
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$ 299,391,263	$ 293,804,314

See accompanying notes to statutory financial statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
INCOME		
Premiums earned	$ 32,475,586	$ 36,180,041
Net investment income	13,467,047	12,207,884
Total income	45,942,633	48,387,925
EXPENSES		
Loss provision	15,417,472	1,741,465
Ceding commissions	3,460,728	4,047,583
Payroll expenses	101,341	101,341
Other expenses	383,112	429,017
Total expenses	19,362,653	6,319,406
INCOME BEFORE FEDERAL INCOME TAXES	26,579,980	42,068,519
FEDERAL INCOME TAXES INCURRED	8,563,187	16,180,135
NET INCOME	$ 18,016,793	$ 25,888,384

See accompanying notes to statutory financial statements.

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ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CAPITAL AND SURPLUS, BEGINNING OF YEAR	$ 95,081,001	$ 86,557,884
Net income	18,016,793	25,888,384
Increase in statutory contingency reserves	(14,229,111)	(17,398,209)
(Decrease) increase in deferred tax asset	(750,346)	492,869
Decrease (increase) in non-admitted deferred tax asset	724,320	(459,927)
Dividend to parent	(16,500,000)	-
(Decrease) increase in capital and surplus	(12,738,344)	8,523,117
CAPITAL AND SURPLUS, END OF YEAR	$ 82,342,657	$ 95,081,001

See accompanying notes to statutory financial statements.

ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF CASH FLOW
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES		
Premiums collected	$ 33,542,047	$ 36,736,940
Other underwriting expenses	(4,215,622)	(4,675,159)
Cash from investment income	14,023,705	11,346,873
Taxes paid	(19,582,807)	(12,492,103)
NET CASH FLOWS FROM OPERATING ACTIVITIES	23,767,323	30,916,551
CASH FLOW APPLIED TO FINANCING ACTIVITIES		
Dividend paid to parent	(16,500,000)	-
Net increase in cash and cash equivalents and restricted short-term investments	7,267,323	30,916,551
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	279,184,568	248,268,017
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, END OF YEAR	$ 286,451,891	$ 279,184,568

See accompanying notes to statutory financial statements.

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ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Atrium Insurance Corporation ("the Company") is incorporated under the laws of the State of New York. The Company began insurance operations on November 9, 1995. The Company is a wholly-owned subsidiary of PHH Corporation ("Parent", or "PHH"). On January 31, 2005, PHH began operating as a separate publicly traded company subsequent to a spin-off from Cendant Corporation ("Cendant"). Cendant has no continuing ownership in PHH.

The Company assumes mortgage insurance premiums under the terms of reinsurance agreements wherein the ceding company is indemnified, subject to a specified limit, against the amount of loss in excess of a predetermined limit with respect to accumulation of losses. The mortgage insurance assumed is primarily on mortgage loans originated by affiliates of PHH.

On March 15, 2007, PHH entered into a definitive agreement (the "Merger Agreement") with General Electric Capital Corporation ("GE") and its wholly owned subsidiary, Jade Merger Sub, Inc. to be acquired (the "Merger"). In conjunction with the Merger, GE entered into an agreement (the "Mortgage Sale Agreement") to sell the mortgage operations of PHH (the "Mortgage Sale") to Pearl Mortgage Acquisition 2 L.L.C. ("Pearl Acquisition"), an affiliate of The Blackstone Group ("Blackstone"), a global investment and advisory firm.

On September 26, 2007, the Merger and the Merger Agreement were approved by the PHH's stockholders.

On January 1, 2008, PHH gave a notice of termination to GE pursuant to the Merger Agreement because the Merger was not completed by December 31, 2007. On January 2, 2008, PHH received a notice of termination from Pearl Acquisition pursuant to the Mortgage Sale Agreement.

Basis of Presentation – The Company's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the New York State Insurance Department ("IDSNY"). Effective January 1, 2001, the IDSNY required that insurance companies domiciled in the State of New York prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual with certain modifications. In addition, the Commissioner of the IDSNY has the authority to permit other specific practices that may deviate from prescribed practices. The Company had no such permitted practices during the years ended December 31, 2007 and 2006.

Statutory accounting practices and procedures of the NAIC as prescribed or permitted by the IDSNY ("SAP") comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant differences are as follows:

- Assets are reported under SAP at "admitted-asset" value and "non-admitted" assets are excluded through a charge against surplus while under GAAP, "non-admitted assets" are reinstated to the balance sheet, net of any valuation allowance;
- A predetermined percentage of net premiums earned must be reserved as a contingency reserve under SAP; no such contingency reserve is required to be recorded under GAAP;

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- Comprehensive income is not presented in the statutory financial statements as required by Statement of Financial Accounting Standards No. 130;
- Ceding commissions are expensed as incurred under SAP, while under GAAP ceding commissions are deferred and amortized over the life of the contracts.
- Changes in deferred income taxes, except for those relating to unrealized gains and losses on investments, impact earnings under GAAP versus unassigned surplus under SAP. There are no specific limitations on gross deferred tax assets under GAAP, whereas limitations are specified under SAP.

Cash and Cash Equivalents – Marketable securities with original maturities of three months or less are included in cash equivalents.

Restricted Short-Term Investments – Investments in short-term securities are carried at original cost. Accrued interest is recorded using the straight line method. Investments in money market funds are carried at original cost which approximates fair value. (See also Note 2 – Restricted Short-Term Investments and Note 6 – Trust Accounts).

Premiums Earned – Premiums are recognized as revenue on a pro rata basis over the policy terms, generally one-year. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums. Premiums in the course of collection represent premiums which have been written and not yet received.

Recognition of Investment Income – Interest on investments is recognized as earned.

Insurance Liabilities – The liability for loss reserves represents an estimate of mortgage credit losses. The Company records its loss reserves based on actuarial assumptions using historical industry loss experience, adjusted for current trends and factors that would modify past experience. The Company believes that the liability for loss reserves is adequate to provide for the ultimate costs of losses, but this liability is based on estimates, and the amount ultimately paid may vary significantly from such estimates. These estimates are subject to the effects of trends in loss severity and frequency. This liability is continually reviewed and changes in estimates are reflected in earnings currently. Such liability is based on estimates and, while management believes that the amount is adequate, the ultimate liability may be different than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current earnings.

The change in the contingency reserve reflects 50% of earned premiums, which accumulates for ten years, in accordance with SAP.

Income Taxes – The Company is included in the consolidated federal income tax return of PHH. The Company files separate state income tax returns. The tax charge or tax refund to the Company under the tax sharing agreement represents an amount that would have been paid or received if it had filed on a separate return basis with the Internal Revenue Service. The ultimate settlement of this liability is dependent upon the ultimate settlement of PHH's tax liability with the Internal Revenue Service.

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Expense/Service Allocation – The Company is party to an Expense Allocation Agreement and a Service Allocation Agreement wherein certain goods and services are allocated among PHH subsidiaries. Substantially all payroll and other general and administrative expenses paid were subject to these agreements. Payroll expense is allocated based upon estimated time PHH employees spend performing services for the Company.

Fair Value of Financial Instruments – Cash and cash equivalents and restricted short-term investments are carried at an amount that approximates fair value.

Use of Estimates – The preparation of financial statements in conformity with the SAP requires management to make certain estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

2. RESTRICTED SHORT-TERM INVESTMENTS

The Company's restricted short-term investments consisted of the following as of December 31, 2007 and 2006:

	2007		2006	
Investment	**Original Cost**	**Fair Value**	**Original Cost**	**Fair Value**
6 Month U.S. Treasury Bills	$ 155,983,532	$ 155,983,532	$ 196,169,970	$ 196,169,970
Money Market Fund	64,893,359	64,893,359	57,180,969	57,180,969
	$ 220,876,891	$ 220,876,891	$ 253,350,939	$ 253,350,939

The Money Market Fund invests in short term treasury securities that generally maintain a dollar weighted average maturity of sixty days or less. In accordance with NAIC guidelines, the Company's Money Market Fund is classified as an unaffiliated equity investment on the Supplemental Schedule of Investments. All of the Company's short-term investments are restricted. See Note 6 – Trust Accounts for further details.

3. REINSURANCE ACTIVITY

The Company does not write any direct insurance. The Company is a reinsurer of a portion of the ultimate net losses on mortgage insurance policies underwritten by third parties. At December 31, 2007 and 2006, premiums receivable were $10,626,767 and $11,724,716, respectively.

The Company assumes premiums from a total of four cedents. For the first cedent, the Company assumes premiums under an excess of loss agreement at the rate of 25% of gross written premiums for policies with effective dates of October 1993 through March 1997 and a rate of 45%, less a ceding commission of 19%, for policies with effective dates from April 1997 through December 1999, and a rate of 45% of gross written premiums for policies with effective dates of January 2000 and forward,

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less a ceding commission of 11.1%. The Company assumes premiums from the second cedent under an excess of loss agreement at the rate of 45% of gross written premiums for policies with effective dates of January 2000 and forward, less a ceding commission of 11.1%. The Company assumes premiums from the third cedent under an excess of loss agreement at a net rate of 40% of the gross written premium for policies with effective dates from July 2004 and forward.

During December 2006, the Company executed a reinsurance agreement with a fourth cedent under an excess of loss agreement at a net rate of 25% of the gross written premium for policies with effective dates from February 2006 and forward. There were no premiums or losses recorded under this agreement for the year ended December 31, 2006.

4. INCOME TAXES

The Company had no permanent differences between pre-tax book income and taxable income per the tax returns for the years ended December 31, 2007 and 2006.

The following are federal income taxes incurred in the current and prior years that would be available for recoupment in the event of future net losses:

2007	$ 8,563,187
2006	$ 16,180,135

The components of net deferred tax assets at December 31, 2007 and 2006 are as follows:

	2007	2006
Total deferred tax assets	$ 956,964	$ 1,707,310
Non-admitted deferred tax assets	915,842	1,640,162
Net admitted deferred tax assets	$ 41,122	$ 67,148
(Decrease) increase in nonadmitted deferred tax assets	$ (724,320)	$ 459,927

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The change in main components of deferred tax assets and deferred tax liabilities arising from temporary differences at December 31, 2007 and 2006 are as follows:

	2007	2006	Change
Deferred tax assets			
Discounting of loss reserves	$ 915,842	$ 1,640,162	$ (724,320)
Unearned premiums	41,122	67,148	(26,026)
Total deferred tax assets	956,964	1,707,310	(750,346)
Non-admitted deferred tax assets	(915,842)	(1,640,162)	724,320
Net admitted deferred tax assets	$ 41,122	$ 67,148	$ (26,026)

Prior to the spin-off, the Company was included in the consolidated federal income tax return of Cendant along with other Cendant subsidiaries. After the spin-off, the Company is included in the consolidated federal income tax return of PHH along with other PHH subsidiaries. The tax charge or tax refund to the Company under the tax sharing agreement represents an amount that would have been paid or received if it had filed on a separate return basis with the Internal Revenue Service. The ultimate settlement of this liability is dependent upon the ultimate settlement of PHH tax liability with the Internal Revenue Service.

The Company received approval for a change in accounting method from the Internal Revenue Service with respect to the Company's calculation of premiums earned and discounted unpaid losses for the year ended December 31, 2007. The Company has recorded the effect of the adjustment of $856,672 in the Company's computation of the 2007 statutory federal income tax.

5. BENEFIT PLANS

Employees of the Company are participants in two benefit plans: a defined benefit plan and a defined contribution plan of PHH. Effective July 1, 1997, new participation was terminated in the Parent's defined benefit plan, therefore, only those pension participants prior to July 1, 1997 remain in the plan. Accumulated plan benefit data is not available for the individual companies participating in the defined benefit plan. Benefit plan expenses are not separately calculated for the Company, but are included in payroll expense per the Service Allocation Agreement.

6. TRUST ACCOUNTS

Under the terms of the Company's reinsurance agreements, the Company is required to maintain a trust account for the benefit of each of the four ceding companies. For one cedent, the capital fund portion of the trust account was amended on February 1, 2007. For policy years 2002 and later, the capital fund portion of the trust account must be maintained at an amount equal to or greater than (i) ceded risk multiplied by 20% ($64,600,272 at December 31, 2007) or (ii) the contingency reserve. For policy years 2001 and prior, the capital fund portion of the trust account must be maintained at an amount equal to the contingency reserve ($89,034,907 at December 31, 2007). For the second cedent, the capital fund portion of the trust account must be maintained at an amount of the greater of (i) 10% of

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the aggregate risk exposure ($47,147,881 at December 31, 2007) or (ii) the contingency reserve. For the third cedent, the capital fund portion of the trust account must be at least equal to the sum of (i) 10% of the risk in force assumed by the reinsurer ($12,075,870 at December 31, 2007) plus (ii) loss reserves and unearned premium reserves required by Atrium's statutory accounting guidelines. For the fourth cedent, the capital fund portion of the trust account must be maintained at an amount of the greater of (i) 10% of the risk in force assumed by the reinsurer ($8,080,377 at December 31, 2007, or (ii) the required reserves which represent the sum of contingency reserves, loss reserves, and unearned premium reserves. At December 31, 2007 and 2006, $222,050,724 and $253,350,939 respectively, was held in the trust accounts. These amounts are recorded in restricted short-term investments on the statutory balance sheets. The Company believes that its trust account balances at December 31, 2007 and 2006 are sufficient to maintain its reinsurance agreements.

7. LOSS RESERVES

Activity in the Company's loss reserves is as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Balance, January 1	$ 16,862,768	$ 15,121,303
Incurred related to:		
Current year	32,280,240	16,862,768
Prior years	(16,862,768)	(15,121,303)
Total incurred	15,417,472	1,741,465
Paid related to:		
Current year	-	-
Prior years	-	-
Total paid	-	-
Balance, December 31	$ 32,280,240	$ 16,862,768

As the Company paid no losses in 2006 and prior years, the prior years' loss reserves were reversed out in the current year in 2007 and 2006, respectively.

8. LEASES

The Company leases office space at a monthly rent expense of $2,302 included in other expenses on the statutory statements of operations. The lease terms are month-to-month with a ninety day written notice of cancellation required.

9. DIVIDEND RESTRICTIONS AND CAPITAL AND SURPLUS

The Company is required by law to maintain a minimum statutory surplus of at least $500,000 and is subject to regulations under which payment of a dividend from statutory surplus may require prior approval of the IDSNY. The Company's reinsurance agreement prohibited the payment of any dividends until January 1, 2005.

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The portion of unassigned surplus represented or (reduced) by each item below as of December 31, 2007 and 2006 is as follows:

	2007	2006
Contingency reserve	$ 178,832,098	$ 164,602,987
Deferred tax asset	956,964	1,707,310
Non-admitted assets	(915,842)	(1,640,162)

10. RECONCILIATION TO ANNUAL STATEMENT

The Company's parent does not allocate tax amounts back to its subsidiaries until after the annual statement is filed thus creating differences between the annual statements and the audited statutory financial statements. The differences as of December 31, 2007 and 2006 are as follows:

	2007	2006
Total capital and surplus per statutory financial statements	$ 82,353,197	$ 95,243,500
Decrease in income taxes payable to parent	(10,540)	(158,712)
Decrease in net non-admitted deferred tax assets	-	(3,787)
Total capital and surplus per the audited statutory financial statements	$ 82,342,657	$ 95,081,001

11. RELATED PARTY TRANSACTIONS

PHH Mortgage Corporation ("PHH Mortgage"), a wholly-owned subsidiary of PHH, provides management and administrative services to the Company. Expenses paid to PHH Mortgage under Expense and Service Allocation Agreements for these services were $101,341 for both years ended December 31, 2007 and 2006. The Company is included in the consolidated tax return of PHH. The tax charge or refund under the tax sharing agreements represents the amount that would have been paid or received if it had filed a separate tax return. Federal income taxes payable to PHH were $4,178,151 and $15,197,771 as of December 31, 2007 and 2006 respectively.

During the year ended December 31, 2007, the Company paid dividends to PHH in the amount of $16,500,000. There were no dividends paid during 2006.

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12. COMMITMENTS AND CONTINGENCIES

From time to time, the Company is involved in litigation arising from the normal course of business. The Company is not aware of any pending legal proceedings that it believes could have, individually or in the aggregate, a material adverse effect on its business, statutory financial position, results of operations or cash flows.

In March and April 2006, several purported class actions were filed against PHH, its Chief Executive Officer and its former Chief Financial Officer in the U.S. District Court for the District of New Jersey. The plaintiffs seek to represent an alleged class consisting of all persons (other than the Company's officers and Directors and their affiliates) who purchased PHH's Common stock during certain time periods beginning March 15, 2005 in one case and May 12, 2005 in the other cases and ending March 1, 2006. The plaintiffs allege, among other matters, that the defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended and Rule 10b-5 thereunder. Each of these purported class actions has since been voluntarily dismissed by the plaintiffs. Additionally, two derivative actions were filed in the U.S. District Court for the District of New Jersey against the Company, its former Chief Financial Officer and each member of its Board of Directors. Both of these derivative actions have since been voluntarily dismissed by the plaintiffs.

Following the announcement of the Merger in March 2007, two purported class actions were filed against PHH and each member of its Board of Directors in the Circuit Court for Baltimore County, Maryland (the "Court"). The first of these actions also named GE and Blackstone as defendants. The plaintiffs sought to represent an alleged class consisting of all persons (other than the Company's officers and Directors and their affiliates) holding the PHH's Common stock. In support of their request for injunctive and other relief, the plaintiffs alleged, among other matters, that the members of the Board of Directors breached their fiduciary duties by failing to maximize stockholder value in approving the Merger Agreement. On or about April 10, 2007, the claims against Blackstone were dismissed without prejudice. On May 11, 2007, the Court consolidated the two cases into one action. On July 27, 2007, the plaintiffs filed a consolidated amended complaint. This pleading did not name GE or Blackstone as defendants. It essentially repeated the allegations previously made against the members of the Company's Board of Directors and added allegations that the disclosures made in the preliminary proxy statement filed with the SEC on June 18, 2007 omitted certain material facts. On August 7, 2007, the Court dismissed the consolidated amended complaint on the ground that the plaintiffs were seeking to assert their claims directly, whereas, as a matter of Maryland law, claims that directors have breached their fiduciary duties can only be asserted by a stockholder derivatively. The plaintiffs have the right to appeal this decision.

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ATRIUM INSURANCE CORPORATION

SUMMARY INVESTMENT SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement	
	$	%	$	%
Bonds				
U.S. treasury securities	$ -	-	$ -	-
U.S. government agency and corporate obligations (excluding mortgage-backed securities)				
Issued by U.S. government agencies	-	-	-	-
Issued by U.S. government-sponsored agencies	-	-	-	-
Foreign government (including Canada, excluding mortgage-backed securities)	-	-	-	-
Securities issued by states, territories and possessions and political subdivisions in the U.S.				
State, territory and possession general obligations	-	-	-	-
Political subdivisions of states, territories and possessions political subdivisions general obligations	-	-	-	-
Revenue and assessment obligations	-	-	-	-
Industrial development and similar obligations	-	-	-	-
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities				
Guaranteed by GNMA	-	-	-	-
Issued by FNMA and FHLMC	-	-	-	-
Privately issued	-	-	-	-
CMOs and REMICs	-	-	-	-
Issued by FNMA and FHLMC	-	-	-	-
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, FHLMC	-	-	-	-
All other privately issued	-	-	-	-
Other debt and other fixed income securities (excluding short term)				
Unaffiliated domestic securities (Includes credit tenant loans rated by the SVO)	-	-	-	-
Unaffiliated foreign securities	-	-	-	-
Affiliated securities	-	-	-	-

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ATRIUM INSURANCE CORPORATION

SUMMARY INVESTMENT SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement	
	$	%	$	%
Equity interests				
Investments in mutual funds	$ -	-	$ -	-
Preferred stocks				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Publicly traded equity securities (excluding preferred stocks)				
Affiliated	-	-	-	-
Unaffiliated	64,893,359	23%	64,893,359	23%
Other equity securities				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Other equity interests including tangible personal property under lease				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Mortgage loans				
Construction and land development	-	-	-	-
Agricultural	-	-	-	-
Single family residential properties	-	-	-	-
Multifamily residential properties	-	-	-	-
Commercial loans	-	-	-	-
Real Estate Investments				
Property occupied by company	-	-	-	-
Property held for production of income	-	-	-	-
Property held for sale	-	-	-	-
Collateral loans	-	-	-	-
Policy loans	-	-	-	-
Receivables for securities	-	-	-	-
Cash and Short term Investments	221,558,532	77%	221,558,532	77%
Write-in for Invested Assets	-	-	-	-
Total Invested Assets	$286,451,891	100%	$286,451,891	100%

*Gross Investment Holdings as valued in compliance with *NAIC Accounting Practices and Procedures Manual.*

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ATRIUM INSURANCE CORPORATION

INVESTMENT RISK INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2007

1. The Company's total admitted assets reported in the statutory balance sheet is $299,391,263 at December 31, 2007.

2. The 10 largest exposures to a single issuer/borrower/investment, by investment category excluding: (i) U.S. government, U.S. government agency securities and those U.S. Government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Company, and (iii) policy loans at December 31, 2007 is a follows: None.

3. The amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating is as follows: None.

4. The amounts and percentages of the Company's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investment denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge), including (i) foreign-currency-denominated investments of $0 supporting insurance liabilities denominated in that same foreign currency of $0 and excluding (ii) Canadian investments and currency exposure of $0 at December 31, 2007 is as follows: None, therefore detail not required for interrogatories 5-10.

11. The amounts and percentages of the Company's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency denominated investments of $0 supporting Canadian-denominated insurance liabilities of $0 at December 31, 2007 are as follows: None.

12. The aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days at December 31, 2007) are as follows: None.

13. The amounts and percentages of admitted assets held in the largest 10 equity interest (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to *SVO Practices and Procedures Manual* as exempt of Class 1) at December 31, 2007 are as follows: None.

14. Nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions at December 31, 2007 totaled $0, which represents 0% of total admitted assets.

15. The amounts and percentages of the Company's total admitted assets held in general partnership interests (included in other equity securities) at December 31, 2007 are as follows: None.

16. The amounts and percentages of the Company's total admitted assets held in mortgage loans at December 31, 2007 are as follows: None, therefore, detail not required for interrogatories 16 and 17.

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ATRIUM INSURANCE CORPORATION

INVESTMENT RISK INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2007

18. The amounts and percentages of the Company's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate, excluding property occupied by the Company at December 31, 2007 are as follows: None.

19. The amounts and percentages of the Company's total admitted assets subject to securities lending, repurchase agreements, reverse repurchase agreements, dollar repurchase agreements and dollar reverse repurchase agreements are as follow: None.

20. The amounts and percentages of warrants not attached to other financial instruments, options, caps, and floors at December 31, 2007 are as follows: None.

21. The amounts and percentages of potential exposure for collars, swaps, and forwards at December 31, 2007 are as follows: None.

22. The amounts and percentages of potential exposure for futures contracts at December 31, 2007 are as follows: None.

23. The amounts and percentages of the Company's total admitted assets held in mezzanine real estate loans: None.

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ATRIUM INSURANCE CORPORATION

GENERAL REINSURANCE RISKS INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2007

7.1 Has the Company reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes ☐ No ☒

7.2 The Company has no contracts containing such provisions described in interrogatory 7.1; therefore, detail not included for this interrogatory.

7.3 The Company has no contracts containing such provisions described in interrogatory 7.1; therefore, detail not included for this interrogatory.

8.1 Has the Company reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? Yes ☒ No ☐

8.2 If yes, give full information
Atrium is a reinsurer of a portion of the ultimate net losses on mortgage insurance policies underwritten by four third party ceding companies.

9.1 Has the Company ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
(c) Aggregate stop loss reinsurance coverage;
(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes ☐ No ☒

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ATRIUM INSURANCE CORPORATION

GENERAL REINSURANCE RISKS INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2007

9.2 Has the Company during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:
(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract — Yes ☐ No ☒

9.3 The Company has no contracts containing such provisions described in interrogatory 9.1 and 9.2; therefore, detail not included for this interrogatory.

9.4 Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, Property and Casualty Reinsurance, has the Company ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? — Yes ☐ No ☒

9.5 The Company has no contracts containing such provisions described in interrogatory 9.4; therefore, detail not included for this interrogatory.

9.6 The Company is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:
(a) The entity does not utilize reinsurance; or — Yes ☐ No ☒
(b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or — Yes ☐ No ☒
(c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement — Yes ☐ No ☒

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