EXHIBIT 61

Atrium Insurance Corporation

Statutory Financial Statements as of and for the Years Ended December 31, 2008 and 2007, Supplemental Information as of and for the Year Ended December 31, 2008 and Independent Auditor's Report

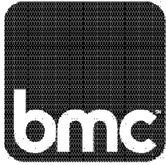
NAIC Company Code #10362

ATRIUM INSURANCE CORPORATION

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
STATUTORY FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007:	
Statutory Balance Sheets	3
Statutory Statements of Operations	4
Statutory Statements of Changes in Capital and Surplus	5
Statutory Statements of Cash Flow	6
Notes to Statutory Financial Statements	7 - 14
SUPPLEMENTARY INFORMATION	
Summary Investment Schedule	15 - 16
Investment Risk Interrogatories	17 - 18
General Reinsurance Risks Interrogatories	19 - 20

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002350



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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, and its results of operations and its cash flow for the years then ended, on the basis of accounting described in Note 1.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002351

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 statutory financial statements. Such information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

Beard Miller Company LLP

Beard Miller Company LLP
Harrisburg, Pennsylvania
May 20, 2009

ATRIUM INSURANCE CORPORATION

STATUTORY BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

	2008	2007
ADMITTED ASSETS		
Cash and cash equivalents	$ 55,188,888	$ 65,575,000
Restricted short-term investments	261,156,994	220,876,891
Premiums in course of collection	12,423,405	10,626,767
Other assets	6,906	11,776
Interest due and accrued	963,877	2,259,707
Federal income taxes receivable from parent	6,699,713	-
Deferred tax asset	40,544	41,122
TOTAL ADMITTED ASSETS	$ 336,480,327	$ 299,391,263
LIABILITIES, CAPITAL AND SURPLUS		
LIABILITIES		
Loss reserves	$ 83,324,956	$ 32,280,240
Statutory contingency reserves	191,577,852	178,832,098
Ceding commissions payable	1,275,602	1,122,097
Unearned premiums	579,359	587,452
Due to affiliates	107,414	-
Other liabilities	107,321	48,568
Federal income taxes payable to parent	-	4,178,151
Total liabilities	276,972,504	217,048,606
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 (deficit) surplus	(22,308,181)	526,653
Total capital and surplus	59,507,823	82,342,657
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$ 336,480,327	$ 299,391,263

See accompanying notes to statutory financial statements.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002353

ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
INCOME		
Premiums earned	$ 37,926,376	$ 32,475,586
Net investment income	6,060,336	13,467,047
Total income	43,986,712	45,942,633
EXPENSES		
Loss provision	51,044,716	15,417,472
Ceding commissions	3,954,652	3,460,728
Payroll expenses	104,888	101,341
Other expenses	678,903	383,112
Total expenses	55,783,159	19,362,653
(LOSS) INCOME BEFORE FEDERAL INCOME TAXES	(11,796,447)	26,579,980
FEDERAL INCOME TAX (BENEFIT) EXPENSE	(1,707,945)	8,563,187
NET (LOSS) INCOME	$ (10,088,502)	$ 18,016,793

See accompanying notes to statutory financial statements.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002354

ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CAPITAL AND SURPLUS, BEGINNING OF YEAR	$ 82,342,657	$ 95,081,001
Net (loss) income	(10,088,502)	18,016,793
Increase in statutory contingency reserves	(12,745,754)	(14,229,111)
Increase (decrease) in deferred tax asset	2,430,187	(750,346)
(Increase) decrease in non-admitted deferred tax asset	(2,430,765)	724,320
Dividend to parent	-	(16,500,000)
Decrease in capital and surplus	(22,834,834)	(12,738,344)
CAPITAL AND SURPLUS, END OF YEAR	$ 59,507,823	$ 82,342,657

See accompanying notes to statutory financial statements.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002355

ATRIUM INSURANCE CORPORATION

STATUTORY STATEMENTS OF CASH FLOW
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Premiums collected	$ 36,121,645	$ 33,542,047
Other underwriting expenses	(4,413,902)	(4,215,622)
Cash from investment income	7,356,166	14,023,705
Taxes paid	(9,169,918)	(19,582,807)
NET CASH FLOWS FROM OPERATING ACTIVITIES	29,893,991	23,767,323
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	29,893,991	7,267,323
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	286,451,891	279,184,568
CASH AND CASH EQUIVALENTS AND RESTRICTED SHORT-TERM INVESTMENTS, END OF YEAR	$ 316,345,882	$ 286,451,891

See accompanying notes to statutory financial statements.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002356

ATRIUM INSURANCE CORPORATION

NOTES TO STATUTORY STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

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.

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"). The IDSNY requires 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, 2008 and 2007.

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;
- 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, which approximates fair value. Accrued interest is recorded using the straight line method.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002357

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 ("IRS"). The ultimate settlement of this liability is dependent upon the ultimate settlement of PHH's tax liability with the IRS.

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.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002358

2. RESTRICTED SHORT-TERM INVESTMENTS

The Company's restricted short-term investments consisted of the following as of December 31, 2008 and 2007:

	2008		2007	
Investment	**Original Cost**	**Fair Value**	**Original Cost**	**Fair Value**
6 Month U.S. Treasury Bills	$ 180,633,510	$ 180,633,510	$ 155,983,532	$ 155,983,532
Money Market Fund	80,523,484	80,523,484	64,893,359	64,893,359
	$ 261,156,994	$ 261,156,994	$ 220,876,891	$ 220,876,891

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, 2008 and 2007, premiums in course of collection were $12,423,405 and $10,626,767, respectively.

In February 2008, Freddie Mac announced that for mortgage loans closed after June 1, 2008, it was changing its eligibility requirements to prohibit approved private mortgage insurers from ceding more than 25% of gross premiums to captive reinsurance companies.

The Company assumes premiums from a total of four cedents. To comply with new eligibility requirements described above, certain reinsurance agreements were amended or placed into runoff during 2008. If the agreement was placed into runoff, the Company will continue to collect premiums and have risk of loss on the current population of loans reinsured but may not add new loans to that population. A summary of the Company's current reinsurance agreements are described below.

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 through May 2008, less a ceding commission of 11.1%. As of December 31, 2008, this reinsurance agreement is inactive and was placed into runoff beginning on June 1, 2008.

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 through May 2008,

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002359

less a ceding commission of 11.1%. During June 2008, an amendment to the reinsurance agreement was executed whereby the Company is entitled to receive 25% of the gross written premiums for polices with effective dates on or after June 1, 2008. There will be no ceding commission applied to new policies with effective dates on or after June 1, 2008.

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 through May 2008. As of December 31, 2008, this reinsurance agreement is inactive and was placed into runoff beginning on June 1, 2008.

The Company assumes premiums from the 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 through December 2008. As of December 31, 2008, this reinsurance agreement is inactive and was placed into runoff at the end of 2008.

4. INCOME TAXES

The Company had no permanent differences between pre-tax book income and taxable income per the tax return for the year ended December 31, 2007. For the year ended December 31, 2008, the Company had permanent differences between pre-tax book income and taxable income per the tax return of $3,298 which related to non-deductible interest and penalties paid during the year.

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:

2008	$ 0
2007	$ 8,563,187

During the year ended December 31, 2008, the Company incurred a pre-tax loss in the amount of $(11,796,447), which allowed the Company to recoup $1,707,945 of previously incurred federal income taxes.

The components of net deferred tax assets at December 31, 2008 and 2007 are as follows:

	2008	2007
Total deferred tax assets	$ 3,387,151	$ 956,964
Non-admitted deferred tax assets	3,346,607	915,842
Net admitted deferred tax assets	$ 40,544	$ 41,122
Increase (decrease) in nonadmitted deferred tax assets	$ 2,430,765	$ (724,320)

The change in main components of deferred tax assets and deferred tax liabilities arising from temporary differences at December 31, 2008 and 2007 are as follows:

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002360

	2008	2007	Change
Deferred tax assets			
Discounting of loss reserves	$ 3,346,607	$ 915,842	$ 2,430,765
Unearned premiums	40,544	41,122	(578)
Total deferred tax assets	3,387,151	956,964	2,430,187
Non-admitted deferred tax assets	(3,346,607)	(915,842)	(2,430,765)
Net admitted deferred tax assets	$ 40,544	$ 41,122	$ (578)

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 IRS. The ultimate settlement of this liability is dependent upon the ultimate settlement of PHH tax liability with the IRS.

The Company received approval for a change in accounting method from the IRS 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 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% ($71,358,043 at December 31, 2008) 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 ($85,656,146 at December 31, 2008). 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 ($57,163,971 at December 31, 2008) 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 ($13,505,177 at December 31, 2008) plus (ii) loss reserves

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002361

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 ($10,530,750 at December 31, 2008), or (ii) the required reserves which represent the sum of contingency reserves, loss reserves, and unearned premium reserves. At December 31, 2008 and 2007, $261,156,994 and $222,050,724 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, 2008 and 2007 are sufficient to maintain its reinsurance agreements.

7. LOSS RESERVES

Activity in the Company's loss reserves is as follows:

	2008	2007
Balance, January 1	$ 32,280,240	$ 16,862,768
Incurred related to:		
Current year	83,324,956	32,280,240
Prior years	(32,280,240)	(16,862,768)
Total incurred	51,044,716	15,417,472
Paid related to:		
Current year	-	-
Prior years	-	-
Total paid	-	-
Balance, December 31	$ 83,324,956	$ 32,280,240

As the Company paid no losses in 2007 and prior years, the prior years' loss reserves were reversed out in the current year in 2008 and 2007, respectively.

During 2008, the Company was negatively impacted by an increase in incurred losses due to increasing delinquencies in its mortgage loans subject to reinsurance and declining home values throughout 2008. These trends coupled with a continued deterioration in economic conditions could adversely impact borrowers' ability to repay mortgage loans. While there were no paid losses under reinsurance agreements during 2008 or 2007, loss reserves increased reflective of the recent trends.

8. LEASES

The Company leases office space at a monthly rent expense of $2,302 which is included in other expenses on the statutory statements of operations. The Company signed a 24-month lease term which commenced on June 1, 2008 with a ninety day written notice of cancellation required.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002362

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 portion of unassigned surplus represented or (reduced) by each item below as of December 31, 2008 and 2007 is as follows:

	2008	2007
Contingency reserve	$ 191,577,852	$ 178,832,098
Deferred tax asset	3,387,151	956,964
Non-admitted assets	(3,346,607)	(915,842)

10. RECONCILIATION TO ANNUAL STATEMENT

The differences between the annual statements and the audited statutory financial statements as of December 31, 2008 and 2007 are as follows:

	2008	2007
Total capital and surplus per statutory annual statements	$ 59,507,823	$ 82,353,197
Decrease in income taxes payable to parent	-	(10,540)
Total capital and surplus per the audited statutory financial statements	$ 59,507,823	$ 82,342,657

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 $104,888 and $101,341, respectively, for the years ended December 31, 2008 and 2007. 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 receivable from (payable to) PHH were $6,699,713 and $(4,178,151) as of December 31, 2008 and 2007, 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 declared during 2008.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002363

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.

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 PHH's officers and Directors and their affiliates) holding PHH's Common stock. In support of their request for injunctive and other relief, the plaintiffs alleged, among other matters, that the members of PHH's 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 PHH'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.

*****

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002364

ATRIUM INSURANCE CORPORATION

SUMMARY INVESTMENT SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008

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	-	-	-	-

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002365

ATRIUM INSURANCE CORPORATION

SUMMARY INVESTMENT SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008

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	80,523,484	25%	80,523,484	25%
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	235,822,398	75%	235,822,398	75%
Write-in for Invested Assets	-	-	-	-
Total Invested Assets	$ 316,345,882	100%	$ 316,345,882	100%

*Gross Investment Holdings as valued in compliance with *NAIC Accounting Practices and Procedures Manual.*

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002366

ATRIUM INSURANCE CORPORATION

INVESTMENT RISK INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2008

1. The Company's total admitted assets reported in the statutory balance sheet is $336,480,327 at December 31, 2008.

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, 2008 is as 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, 2008 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, 2008 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, 2008) are as follows: None.

13. The amounts and percentages of admitted assets held in the largest 10 equity interests (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, 2008 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, 2008 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, 2008 are as follows: None.

16. The amounts and percentages of the Company's total admitted assets held in mortgage loans at December 31, 2008 are as follows: None, therefore, detail not required for interrogatories 16 and 17.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002367

ATRIUM INSURANCE CORPORATION

INVESTMENT RISK INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008 are as follows: None.

19. The amounts and percentages of the Company's total admitted assets held in mezzanine real estate loans: None.

20. 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.

21. The amounts and percentages of warrants not attached to other financial instruments, options, caps, and floors at December 31, 2008 are as follows: None.

22. The amounts and percentages of potential exposure for collars, swaps, and forwards at December 31, 2008 are as follows: None.

23. The amounts and percentages of potential exposure for futures contracts at December 31, 2008 are as follows: None.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002368

ATRIUM INSURANCE CORPORATION

GENERAL REINSURANCE RISKS INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2008

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
The Company 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 ☒

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002369

ATRIUM INSURANCE CORPORATION

GENERAL REINSURANCE RISKS INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2008

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 ☒

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-002370

EXHIBIT 62

Atrium Insurance Corporation

Statutory Financial Statements as of and for the Years Ended December 31, 2010 and 2009, Supplemental Information as of and for the Year Ended December 31, 2010
(With Independent Auditors' Report Thereon)

NAIC Company Code #10362

CONFIDENTIAL
PHH BOGANSKY CFPB 008910

ATRIUM INSURANCE CORPORATION

Table of Contents

	Page
Independent Auditors' Report	1
Statutory Financial Statements as of and for the Years Ended December 31, 2010 and 2009	
Statutory Balance Sheets	3
Statutory Statements of Operations	4
Statutory Statements of Changes in Capital and Surplus	5
Statutory Statements of Cash Flow	6
Notes to Statutory Financial Statements	7
Supplemental Information:	
Summary Investment Schedule	15
Investment Risk Interrogatories	17
General Reinsurance Risk Interrogatories	19

Independent Auditors' Report

To the Board of Directors
Atrium Insurance Corporation

We have audited the accompanying statutory balance sheets of Atrium Insurance Corporation (the Company) as of December 31, 2010 and 2009, and the related statutory statements of operations, changes in capital and surplus, and cash flows 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, 2010 and 2009, or the results of its operations or its cash flow for the years then ended.

However, in our opinion, the 2010 and 2009 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, 2010 and 2009, and its results of operations and its cash flow for the years then ended, on the basis of accounting described in Note 1.

CONFIDENTIAL
PHH BOGANSKY CFPB 008912

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 statutory financial statements. Such information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

ParenteBeard LLC

Harrisburg, Pennsylvania
May 16, 2011

CONFIDENTIAL
PHH BOGANSKY CFPB 008913

ATRIUM INSURANCE CORPORATION
STATUTORY BALANCE SHEETS

	As of December 31,	
	2010	**2009**
ADMITTED ASSETS		
Cash and cash equivalents	$ 1,882,335	$ 45,426,853
Restricted short-term investments	—	281,007,160
Premiums in course of collection	—	7,095,596
Interest due and accrued	—	155,090
Due from affiliates	—	33,414
Other assets	7,516	6,906
Federal income taxes receivable from parent	48,939	—
Deferred tax asset	—	5,800,318
Total admitted assets	$ 1,938,790	$ 339,525,337
LIABILITIES, CAPITAL AND SURPLUS		
Loss reserves	$ —	$ 108,470,632
Statutory contingency reserves	—	131,310,504
Ceding commissions payable	—	712,173
Unearned premiums	—	460,007
Due to affiliates	248	—
Other liabilities	3,000	87,344
Federal income taxes payable to parent	—	2,126,023
Total liabilities	3,248	243,166,683
CAPITAL AND SURPLUS		
Common capital stock; ($15,625 par value, 64 shares authorized, issued and outstanding as of December 31, 2010; $1,000 par value, 1,000 shares authorized, issued and outstanding as of December 31, 2009)	1,000,000	1,000,000
Paid-in and contributed surplus	1,025,968	80,816,004
Unassigned (deficit) surplus	(90,426)	14,542,560
Total capital and surplus	1,935,542	96,358,654
Total liabilities, capital and surplus	$ 1,938,790	$ 339,525,337

See accompanying Notes to Statutory Financial Statements.

CONFIDENTIAL
PHH BOGANSKY CFPB 008914

ATRIUM INSURANCE CORPORATION
STATUTORY STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2010	**2009**
INCOME		
Premiums earned	$ —	$ 32,996,201
Net investment income	210	880,355
Total income	210	33,876,556
EXPENSES		
Loss provision	—	35,081,194
Ceding commissions	—	3,295,709
Payroll expenses	—	123,500
Other expenses	139,327	701,907
Total expenses	139,327	39,202,310
Loss before federal income taxes	(139,117)	(5,325,754)
Federal income tax (benefit) expense	(48,691)	4,600,537
Net loss	$ (90,426)	$ (9,926,291)

See accompanying Notes to Statutory Financial Statements.

CONFIDENTIAL
PHH BOGANSKY CFPB 008915

ATRIUM INSURANCE CORPORATION
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

	Year Ended December 31,	
	2010	**2009**
CAPITAL AND SURPLUS, beginning of year,	$ 96,358,654	$ 59,507,823
Capital and surplus transferred as a result of the novation agreements[(1)]	(47,266,479)	—
Net loss	(90,426)	(9,926,291)
Decrease in statutory contingency reserves	—	60,267,348
(Decrease) increase in deferred tax asset	(9,851,653)	6,464,502
Decrease (increase) in nonadmitted deferred tax asset	4,051,335	(704,728)
Redemption of common capital stock	(29,265,889)	—
Dividend to parent	(12,000,000)	(19,250,000)
(Decrease) increase in capital and surplus	(94,423,112)	36,850,831
CAPITAL AND SURPLUS, end of year,	$ 1,935,542	$ 96,358,654

(1) See Note 1 – Summary of Significant Accounting Policies for more information related to the novation agreements and related capital and surplus transferred effective January 1, 2010.

See accompanying Notes to Statutory Financial Statements.

CONFIDENTIAL
PHH BOGANSKY CFPB 008916

ATRIUM INSURANCE CORPORATION
STATUTORY STATEMENTS OF CASH FLOW

	Year Ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums collected	$ —	$ 38,204,659
Losses paid and commuted	—	(9,935,518)
Other underwriting expenses paid	—	(4,845,350)
Net investment income received	210	1,689,142
Other expenses paid	(152,816)	—
Taxes (paid) recovered	(2,126,023)	4,225,198
Net cash (used in) provided by operating activities	(2,278,629)	29,338,131
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of common capital stock	(29,265,889)	—
Dividend to parent	(12,000,000)	(19,250,000)
Net cash used in financing activities	(41,265,889)	(19,250,000)
Net (decrease) increase in cash and cash equivalents and restricted short-term investments	(43,544,518)	10,088,131
Cash and cash equivalents and restricted short-term investments, beginning of year	326,434,013	316,345,882
Cash and cash equivalents and restricted short-term investments transferred as a result of the novation agreements [1]	(281,007,160)	—
Cash and cash equivalents and restricted short-term investments, end of year	$ 1,882,335	$ 326,434,013

[1] See Note 1 – Summary of Significant Accounting Policies for more information related to the novation agreements and related capital and surplus transferred effective January 1, 2010.

See accompanying Notes to Statutory Financial Statements.

CONFIDENTIAL
PHH BOGANSKY CFPB 008917

ATRIUM INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Ownership and Basis of Presentation

Atrium Insurance Corporation ("the Company") is a wholly-owned subsidiary of PHH Corporation ("Parent" or "PHH"). The Company is incorporated under the laws of the State of New York and commenced operations on November 9, 1995. Prior to January 1, 2010, the Company assumed 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 was primarily on mortgage loans originated by affiliates of PHH.

On February 9, 2010 and March 1, 2010, the Company executed Reinsurance Assumption and Novation Agreements (the "Agreement") with two primary mortgage insurers in which it had outstanding reinsurance agreements and Atrium Reinsurance Corporation ("Atrium Re"), a wholly-owned subsidiary of PHH incorporated under the laws of the State of Vermont. All past, present and future liabilities and obligations arising under the reinsurance agreements were transferred to Atrium Re effective January 1, 2010. The Company also transferred to Atrium Re its rights and obligations as grantor of the trusts pursuant to the Trust Agreements. The Company received a non-disapproval letter from the Insurance Department of the State of New York (the "Department") related to the execution of the Agreements discussed above.

The following table details the assets and liabilities which were transferred effective on January 1, 2010 as a result of the Agreements discussed above:

Restricted short-term investments	$ (281,007,160)
Premiums in course of collection	(7,095,596)
Interest due and accrued	(155,090)
Loss reserves	108,470,632
Statutory contingency reserves	131,310,504
Ceding commissions payable	712,173
Unearned premiums	460,007
Other liabilities	38,051
Net capital and surplus transferred effective on January 1, 2010	$ (47,266,479)

Since the reinsurance agreements were novated effective January 1, 2010 as discussed above, balances as of December 31, 2010 will not be presented in the Notes to the Statutory Financial Statements unless required by New York State Insurance Law.

The Company's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Department. The Department requires insurance companies domiciled in the State of New York to 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 Department 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, 2010 and 2009.

Statutory accounting practices and procedures of the NAIC as prescribed or permitted by the Department ("SAP") comprise a comprehensive basis of accounting other than 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 "nonadmitted" assets are excluded through a charge against surplus, while under GAAP, "nonadmitted assets" are reinstated to the balance sheet, net of any valuation allowance;

CONFIDENTIAL
PHH BOGANSKY CFPB 008918

- 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 financial statements as required by GAAP;
- 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;
- The statement of cash flow does not provide for a reconciliation of indirect cash flows.

USE OF ESTIMATES

The preparation of financial statements in conformity with SAP requires management to make certain estimates and assumptions that affect the reported amounts of admitted assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Marketable securities with original maturities of three months or less are included in cash equivalents.

RESTRICTED SHORT-TERM INVESTMENTS

Restricted short-term investments include money market funds and U.S. Treasury Bills held in trust with original maturities of three months or less. Investments in short-term securities are carried at original cost, which approximates fair value. Accrued interest is recorded using the straight line method. Investments in money market funds are carried at original cost, which approximates fair value.

PREMIUMS EARNED AND RELATED COSTS

Premiums written are recognized as revenue on a pro-rata basis over the policy term, generally one year. Unearned premiums are deferred and represent the portion of premiums assumed which are applicable to the unexpired period of policies in force. Ceding commissions are expensed as incurred.

PREMIUM DEFICIENCY RESERVE

A premium deficiency reserve is recognized when the anticipated losses, commissions and other acquisitions costs, and other maintenance costs exceed the recorded loss reserve and any future installment premiums on existing policies. If a premium deficiency exists, a premium deficiency reserve is recognized by recording an additional liability for the deficiency, with a corresponding charge which would be recorded in the Statutory Statements of Operations. When evaluating whether to recognize a premium deficiency, the Company considers each ceding primary mortgage insurer independently and aggregates book years of business for each as well as considers any contingency reserves discussed below. The Company does not consider anticipated investment income when determining if a premium deficiency exists. There is no premium deficiency reserve as of December 31, 2010 or 2009.

LOSS RESERVES

The liability for loss reserves is determined based upon an actuarial analysis of loans subject to mortgage reinsurance that considers current and projected delinquency rates, home prices and the credit characteristics of the underlying loans including credit score and loan-to-value ratios. This actuarial analysis is updated on a quarterly basis and projects the future reinsurance losses over the term of the reinsurance contract as well as the estimated incurred and incurred but not reported losses as of the end of each reporting period. In addition to the actuarial analysis, the incurred and incurred but not reported losses provided by the primary mortgage insurance

CONFIDENTIAL
PHH BOGANSKY CFPB 008919

companies for loans subject to reinsurance are evaluated to assess the estimate of the actuarial-based reserve. The Company does not discount loss reserves.

The estimate of loss reserves is subject to inherent uncertainty and requires significant judgment by the Company. The actual amount of the claim payments may be substantially different than the Company's loss reserve estimates.

CONTINGENCY RESERVES

The Company has established a contingency reserve. This is a special statutory reserve designed to protect policyholders against loss during a period of extreme economic contraction. The Company sets aside fifty cents of each premium dollar earned and maintains the contingency reserve for a period of ten years, regardless of the length of coverage of the particular policy for which premium was paid, except as permitted by applicable state law of New York. Upon approval by the Department, contingency reserves may be released on a first-in, first-out basis to the extent losses incurred exceed 35% of earned premium.

FEDERAL INCOME TAXES

The Company is included in the consolidated federal income tax return of PHH. 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 ("IRS"). The ultimate settlement of this liability is dependent upon the ultimate settlement of PHH's tax liability with the IRS.

Deferred income taxes are recorded in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 10R, Income Taxes ("SSAP 10R"). Changes in deferred tax assets and liabilities are recorded as a component of unassigned surplus. The Company is not subject to the Risk-Based Capital rules described in SSAP No. 10R and is unable to elect the expanded deferred tax asset admissibility under SSAP No. 10R, paragraph 10(e) and as such, the manner in which the Company has recognized the deferred tax assets has not changed. The Company did not record a valuation allowance against its gross deferred tax assets at December 31, 2009.

DIVIDENDS TO SHAREHOLDER

The Company is subject to the insurance statutes of the Department, which provide that the Company may require approval from the Department in order to pay any dividends. Such dividends are accounted for as distributions of unassigned surplus to the extent unassigned surplus exceeds zero at the time the dividend is declared. The Company does not declare dividends in excess of unassigned surplus at the time of declaration.

SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 16, 2011, which is the date the Statutory Financial Statements were available to be issued.

CONFIDENTIAL
PHH BOGANSKY CFPB 008920

2. Restricted Short-Term Investments

Restricted short-term investments at December 31, 2009 consisted of the following:

	Original Cost	Fair Value
6 Month U.S Treasury Bills	$ 201,191,466	$ 201,191,466
Money Market Fund	79,815,694	79,815,694
Total	$ 281,007,160	$ 281,007,160

The money market fund invests in short term treasury securities that generally maintain a dollar weighted average maturity of sixty days or less. All of the short-term investments are restricted.

See Note 1 – Summary of Significant Accounting Policies for a description of the Assumption and Novation Agreements entered into during 2010.

3. Reinsurance Activity and Trust Accounts

The Company does not write any direct insurance, however is a reinsurer of a portion of the ultimate net losses on mortgage insurance policies underwritten by third parties. As of December 31, 2009, the Company assumed premiums from two primary mortgage insurance companies under excess of loss reinsurance agreements which are inactive and in runoff. At December 31, 2009 premiums in course of collection were $7,095,596. The table below provides a summary of the reinsurance agreements at December 31, 2009:

	Primary Mortgage Insurer 1		Primary Mortgage Insurer 2	
Effective Dates	Gross Written Premium	Ceding Commission	Gross Written Premium	Ceding Commission
October 1993 – March 1997	25%	—	—	—
April 1997 – December 1999	45%	19%	—	—
January 2000 – May 2008	45%	11.1%	45%	11.1%
June 2008 – December 2008	—	—	25%	—
March 2009 – December 2009	25%	—	—	—

Throughout 2010, the Company had no reinsurance activity; however continued to maintain an active license and incurred expenses related to maintaining corporate formalities.

Under the terms of the reinsurance agreements, the Company is required to establish and maintain a trust account for the benefit of each ceding company. Trust accounts are restricted and the amount of securities held in trust is contractually specified in the reinsurance agreements and is based on the original risk assumed under the contracts and the incurred losses to date. All premiums and losses, as well as capital deposits, pursuant to the reinsurance agreements, are paid to and from the applicable trust accounts. At December 31, 2009 a total of $281,007,160 was held in the trust accounts.

During 2009, the Company executed Commutation and Release Agreements (the "Commutations") with two primary mortgage insurers. The Commutations terminated the previous Reinsurance and Trust Agreements and removed any future obligations and liabilities which existed for either party. The Company is no longer at risk for any losses nor entitled to receive any future premiums. As a result of the Commutations, the Company paid $7,680,091 which reduced restricted short-term investments and transferred loss reserves of $7,680,091 to the primary mortgage insurers. No gain or loss was recognized on the Commutations.

CONFIDENTIAL
PHH BOGANSKY CFPB 008921

ATRIUM INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS

The table below provides a summary of the excess of loss reinsurance agreements commuted during the year ended December 31, 2009:

	Primary Mortgage Insurer 1		Primary Mortgage Insurer 2	
Effective Dates	**Gross Written Premium**	**Ceding Commission**	**Gross Written Premium**	**Ceding Commission**
July 2004 – May 2008	40%	—	—	—
February 2006 – December 2008....	—	—	25%	—

See Note 1 – Summary of Significant Accounting Policies for a description of the Assumption and Novation Agreements entered into during 2010.

4. Loss Reserves

The Company assumed exposure to losses through reinsurance contracts based on mortgage loans pooled by year of origination. A summary of the activity in loss reserves for the year end December 31, 2009 is as follows:

Loss reserves, beginning of year	$ 83,324,956
Incurred losses:	
Incurred for insured events of the current year	75,285,388
Incurred for insured events of the prior years	(40,204,194)
Total incurred losses	35,081,194
Payments and Commutations	
Losses for insured events of the prior years[1]	(9,935,518)
Total payments and commutations	(9,935,518)
Loss reserves, end of year	$ 108,470,632

(1) During the year ended December 31, 2009, the Company paid losses of $2,255,427 and commuted reserves of $7,680,091.

See Note 1 – Summary of Significant Accounting Policies for a description of the Assumption and Novation Agreements entered into during 2010.

CONFIDENTIAL
PHH BOGANSKY CFPB 008922

5. Income Taxes

The following is a reconciliation of the federal statutory income tax rate to the effective tax rate:

	Years Ended December 31,			
	2010		2009	
	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Loss before federal income taxes	$ (139,117)		$ (5,325,754)	
Benefit computed at statutory rate	(48,691)	35.00 %	(1,864,014)	35.00 %
Nondeductible penalties and interest	—	—	59	0.00 %
Other	—	—	(10)	(0.00)%
Total federal statutory income tax benefit	$ (48,691)	35.00 %	$ (1,863,965)	35.00 %

	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Current federal income tax (benefit) expense	$ (48,691)	35.00 %	$ 4,600,537	(86.4)%
Change in deferred income tax	—	—	(6,464,502)	121.4 %
Total federal statutory income tax benefit	$ (48,691)	35.00 %	$ (1,863,965)	35.00 %

The current tax recoverable due from PHH related to the 2009 tax year was $2,394,650 that would be available for recoupment in the event of future losses.

All of the Company's deferred taxes were ordinary. There were no deferred tax assets as of December 31, 2010. The Company's net admitted adjusted deferred tax asset as of December 31, 2009 is as follows:

Gross deferred tax asset	$ 9,851,653
Valuation allowance	—
Adjusted gross deferred tax asset	$ 9,851,653
Admitted adjusted deferred tax asset:	
Federal income taxes recoverable in year [a]	$ 2,443,204
10% of adjusted surplus [b]	3,357,114
Gross tax liabilities [c]	—
Total admitted adjusted deferred asset	$ 5,800,318
Gross deferred tax liabilities	$ —
Net admitted adjusted deferred tax asset	5,800,318
Nonadmitted deferred tax asset	$ 4,051,335

(a) Admitted adjusted deferred tax asset amount to federal income taxes paid prior to 2009 that can be recovered through loss carrybacks for existing temporary differences that reverse by December 31, 2010.

(b) Admitted adjusted deferred tax asset amount to the lesser of (i) the amount of adjusted gross deferred tax assets, after the application of (a) expected to be realized in 2010; or (ii) ten percent of the Company's statutory capital and surplus at September 30, 2009 less net deferred tax assets, EDP equipment and operating system software and any net positive goodwill.

(c) Admitted adjusted deferred tax asset amount to adjusted gross deferred tax assets, after the application of (a) and (b) that can be offset against existing gross deferred tax liabilities.

CONFIDENTIAL
PHH BOGANSKY CFPB 008923

The change in the main components of deferred tax assets and deferred tax liabilities arising from temporary differences were:

	December 31,			
	2010	2009	Change	Character
Deferred tax asset				
Discounting of loss reserves	$ —	$ 9,819,452	$ (9,819,452)	Ordinary
Unearned premiums	—	32,201	(32,201)	Ordinary
Total deferred tax asset	—	9,851,653	(9,851,653)	
Nonadmitted deferred tax asset	—	(4,051,335)	4,051,335	
Net admitted deferred tax asset	$ —	$ 5,800,318	$ (5,800,318)	

6. 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.

7. Leases

The Company leases office space at a monthly rent of $2,912 under an agreement which expires on June 30, 2012. Rent expense for the years ended December 31, 2010 and 2009 were $27,986 and $27,624, respectively and were included in Other expenses in the Statutory Statements of Operations. The agreement may be terminated by either party with ninety day written notice.

8. Dividend Restrictions and Capital and Surplus

The Company is required by the Department to maintain a minimum of $500,000 in statutory surplus. At December 31, 2010, the Company was in compliance with the regulatory capital requirements.

During the years ended December 31, 2010 and 2009, the Company paid dividends of $12.0 million and $19.25 million, respectively to PHH.

On July 19, 2010, the Company amended the Charter of Atrium Insurance Corporation (the "Amendment") to (i) reduce the number of authorized shares of common stock from 1,000 shares to 64 shares and (ii) to increase the par value of the remaining shares of the common stock from $1,000 to $15,625 per share. The Amendment was authorized and approved by the Board of Directors and the Company's sole shareholder PHH. The Company redeemed 936 shares of common stock at $31,266.976 for a total purchase price of $29,265,889. The Amendment to the Charter was filed with the Department pursuant to Section 1206(b) of the Insurance Code of the State of New York and on July 26, 2010, the Department approved and placed on file a certified copy.

CONFIDENTIAL
PHH BOGANSKY CFPB 008924

The table below represents the portion of unassigned surplus represented or (reduced) by each item:	December 31,	
	2010	2009
Statutory contingency reserves	$ —	$ 131,310,504
Deferred tax asset	—	9,851,653
Nonadmitted assets	—	(4,051,335)

See Note 1 – Summary of Significant Accounting Policies for a description of the Assumption and Novation Agreements entered into during 2010.

9. Related Party Transactions

PHH Mortgage Corporation ("PMC"), a wholly-owned subsidiary of PHH, provides management and administrative services to the Company. Expenses paid to PMC under the Expense and Service Allocation Agreements were $123,500 for the year ended December 31, 2009. There were no expenses paid to PMC during the year ended December 31, 2010.

The Company is included in the consolidated federal income tax return of PHH. Federal income taxes receivable from (payable to) PHH was $48,939 and ($2,126,023) at December 31, 2010 and 2009, respectively.

CONFIDENTIAL
PHH BOGANSKY CFPB 008925

ATRIUM INSURANCE CORPORATION
SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings *		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
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 and 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	—	—	—	—
CMOs and REMICs	—	—	—	—
Issued by FNMA and FHLMC	—	—	—	—
Privately issued	—	—	—	—
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				
Investment in mutual funds	—	—	—	—
Preferred stocks				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Publicly traded equity securities (excluding preferred stocks)				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Other equity securities				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—

CONFIDENTIAL
PHH BOGANSKY CFPB 008926

ATRIUM INSURANCE CORPORATION
SUMMARY INVESTMENT SCHEDULE

	Gross Investment Holdings *		Admitted Assets as Reported in the Annual Statement	
Investment Categories	**Amount**	**Percentage**	**Amount**	**Percentage**
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 the company	—	—	—	—
Property held for production of income	—	—	—	—
Property held for sale	—	—	—	—
Collateral loans	—	—	—	—
Policy loans	—	—	—	—
Receivables for securities	—	—	—	—
Cash and Short-term investments	1,882,335	100%	1,882,335	100%
Write-in for Invested Assets	—	—	—	—
Total Invested Assets as of December 31, 2010	$ 1,882,335	100%	$ 1,882,335	100%

*Gross Investment Holdings as valued in compliance with *NAIC Accounting Practices and Procedures Manual.*

CONFIDENTIAL
PHH BOGANSKY CFPB 008927

ATRIUM INSURANCE CORPORATION
INVESTMENT RISK INTERROGATORIES

1. The Company's total admitted assets reported in the statutory balance sheet are $1,938,790 at December 31, 2010.

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, 2010 are as follows: None.

3. The amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating are 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, 2010 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, 2010 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, 2010) are as follows: None.

13. The amounts and percentages of admitted assets held in the largest 10 equity interests (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, 2010 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, 2010 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, 2010 are as follows: None.

16. The amounts and percentages of the Company's total admitted assets held in mortgage loans at December 31, 2010 are as follows: None, therefore, detail is not required for interrogatories 16 and 17.

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, 2010 are as follows: None.

19. The amounts and percentages of the Company's total admitted assets held in mezzanine real estate loans: None.

20. 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 follows: None.

CONFIDENTIAL
PHH BOGANSKY CFPB 008928

ATRIUM INSURANCE CORPORATION
INVESTMENT RISK INTERROGATORIES

21. The amounts and percentages of warrants not attached to other financial instruments, options, caps, and floors at December 31, 2010 are as follows: None.

22. The amounts and percentages of potential exposure for collars, swaps, and forwards at December 31, 2010 are as follows: None.

23. The amounts and percentages of potential exposure for futures contracts at December 31, 2010 are as follows: None

CONFIDENTIAL
PHH BOGANSKY CFPB 008929

ATRIUM INSURANCE CORPORATION
GENERAL REINSURANCE RISK INTERROGATORIES

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

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 ☒

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 ☒

ATRIUM INSURANCE CORPORATION
GENERAL REINSURANCE RISK INTERROGATORIES

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 ☒

CONFIDENTIAL
PHH BOGANSKY CFPB 008931

EXHIBIT 63

Atrium Insurance Corporation

Statutory Financial Statements as of and for the Years Ended December 31, 2011 and 2010, Supplemental Information as of December 31, 2011
(With Independent Auditors' Report Thereon)

NAIC Company Code #10362

ATRIUM INSURANCE CORPORATION

Table of Contents

	Page
Independent Auditors' Report	1
Statutory Financial Statements as of and for the Years Ended December 31, 2011 and 2010:	
Statutory Balance Sheets	2
Statutory Statements of Operations	3
Statutory Statements of Changes in Capital and Surplus	4
Statutory Statements of Cash Flow	5
Notes to Statutory Financial Statements:	
1. Summary of Significant Accounting Policies	6
2. Income Taxes	8
3. Commitments and Contingencies	8
4. Leases	8
5. Dividend Restrictions and Capital and Surplus	8
6. Related Party Transactions	9
Supplemental Information:	
Summary Investment Schedule	10
Investment Risks Interrogatories	12
General Reinsurance Risks Interrogatories	14

Independent Auditors' Report

To the Board of Directors
Atrium Insurance Corporation

We have audited the accompanying statutory balance sheets of Atrium Insurance Corporation (the Company) as of December 31, 2011 and 2010, 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, 2011 and 2010, or the results of its operations or its cash flow for the years then ended.

However, in our opinion, the 2011 and 2010 statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2011 and 2010, and the results of its 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 statutory financial statements taken as a whole. The supplementary information included in the Summary Investment Schedule, Investment Risks Interrogatories, and the General Reinsurance Risks Interrogatories is presented for purposes of additional analysis and is not a required part of the statutory financial statements. This information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

ParenteBeard LLC

Malvern, Pennsylvania
May 23, 2012

CONFIDENTIAL
PHH BOGANSKY CFPB 004847

ATRIUM INSURANCE CORPORATION
STATUTORY BALANCE SHEETS

	December 31,	
	2011	2010
ADMITTED ASSETS		
Cash and cash equivalents	$ 1,861,320	$ 1,882,335
Other assets	7,516	7,516
Federal income taxes receivable from parent	27,120	48,939
Total admitted assets	$ 1,895,956	$ 1,938,790
LIABILITIES, CAPITAL AND SURPLUS		
Other liabilities	$ 9,500	$ 3,000
Due to affiliates	—	248
Total liabilities	9,500	3,248
CAPITAL AND SURPLUS		
Common capital stock, $15,625 par value; 64 shares authorized, issued and outstanding as of December 31, 2011 and 2010	1,000,000	1,000,000
Paid-in and contributed surplus	1,025,968	1,025,968
Unassigned deficit	(139,512)	(90,426)
Total capital and surplus	1,886,456	1,935,542
Total liabilities, capital and surplus	$ 1,895,956	$ 1,938,790

See accompanying Notes to Statutory Financial Statements.

CONFIDENTIAL
PHH BOGANSKY CFPB 004848

ATRIUM INSURANCE CORPORATION
STATUTORY STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2011	**2010**
INCOME		
Net investment income	$ 17	$ 210
Total income	17	210
EXPENSES		
Other expenses	75,667	139,327
Total expenses	75,667	139,327
Loss before federal income taxes	(75,650)	(139,117)
Federal income tax benefit	(26,564)	(48,691)
Net loss	$ (49,086)	$ (90,426)

See accompanying Notes to Statutory Financial Statements.

CONFIDENTIAL
PHH BOGANSKY CFPB 004849

ATRIUM INSURANCE CORPORATION
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

	Common Capital Stock	Paid-in and Contributed Surplus	Unassigned Surplus (Deficit)	Total Capital and Surplus
Balance at January 1, 2010	**$ 1,000,000**	**$ 80,816,004**	**$ 14,542,650**	**$ 96,358,654**
Capital and surplus transferred as a result of the novation agreements[(1)]	—	(50,524,147)	3,257,668	(47,266,479)
Net loss	—	—	(90,426)	(90,426)
Redemption of common capital stock	—	(29,265,889)	—	(29,265,889)
Decrease in deferred tax asset	—	—	(9,851,653)	(9,851,653)
Decrease in nonadmitted deferred tax asset	—	—	4,051,335	4,051,335
Dividend to parent	—	—	(12,000,000)	(12,000,000)
Balance at December 31, 2010	**$ 1,000,000**	**$ 1,025,968**	**$ (90,426)**	**$ 1,935,542**
Net loss	—	—	(49,086)	(49,086)
Balance at December 31, 2011	**$ 1,000,000**	**$ 1,025,968**	**$ (139,512)**	**$ 1,886,456**

(1) See Note 1, "Summary of Significant Accounting Policies" for more information related to the novation agreements.

See accompanying Notes to Statutory Financial Statements.

CONFIDENTIAL
PHH BOGANSKY CFPB 004850

ATRIUM INSURANCE CORPORATION
STATUTORY STATEMENTS OF CASH FLOW

	Year Ended December 31, 2011	Year Ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net investment income received	$ 17	$ 210
Other expenses paid	(69,415)	(152,816)
Federal income taxes recovered (paid)	48,383	(2,126,023)
Net cash used in operating activities	(21,015)	(2,278,629)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of common capital stock	—	(29,265,889)
Dividend to parent	—	(12,000,000)
Net cash used in financing activities	—	(41,265,889)
Net decrease in cash and cash equivalents	(21,015)	(43,544,518)
Cash and cash equivalents, beginning of year	1,882,335	326,434,013
Restricted short-term investments transferred as a result of the novation agreements[1]	—	(281,007,160)
Cash and cash equivalents, end of year	$ 1,861,320	$ 1,882,335

(1) See Note 1, "Summary of Significant Accounting Polices" for more information related to the novation agreements.

See accompanying Notes to Statutory Financial Statements.

CONFIDENTIAL
PHH BOGANSKY CFPB 004851

1. Summary of Significant Accounting Policies

OWNERSHIP AND BASIS OF PRESENTATION

Atrium Insurance Corporation ("the Company") is a wholly-owned subsidiary of PHH Corporation ("Parent" or "PHH"). The Company is incorporated under the laws of the State of New York and commenced operations on November 9, 1995. Prior to January 1, 2010, the Company assumed 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 was primarily on mortgage loans originated by affiliates of PHH.

On February 9, 2010 and March 1, 2010, the Company executed Reinsurance Assumption and Novation Agreements (the "Agreements") with two primary mortgage insurers in which it had outstanding reinsurance agreements and Atrium Reinsurance Corporation ("Atrium Re"), a wholly-owned subsidiary of PHH incorporated under the laws of the State of Vermont. All past, present and future liabilities and obligations arising under the reinsurance agreements were transferred to Atrium Re effective January 1, 2010. The Company also transferred to Atrium Re its rights and obligations as grantor of the trusts pursuant to the Trust Agreements. The Company received a non-disapproval letter from the Insurance Department of the State of New York (the "Department") related to the execution of the Agreements. Subsequent to the effective dates of the Agreements, the Company maintained an active license in the State of New York and incurred costs associated with maintaining corporate formalities to remain compliant with state licensing requirements. The Company did not assume premiums or incur losses during the years ended December 31, 2011 and 2010.

The following table summarizes the components of net capital and surplus which were transferred effective January 1, 2010 as a result of the Reinsurance Assumption and Novation Agreements:

Restricted short-term investments	$ (281,007,160)
Premiums in course of collection	(7,095,596)
Interest due and accrued	(155,090)
Loss reserves	108,470,632
Statutory contingency reserves	131,310,504
Ceding commissions payable	712,173
Unearned premiums	460,007
Other liabilities	38,051
Total	$ (47,266,479)

The Company's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Department. The Department requires insurance companies domiciled in the State of New York to 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 Department 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, 2011 and 2010.

CONFIDENTIAL
PHH BOGANSKY CFPB 004852

Statutory accounting practices and procedures of the NAIC as prescribed or permitted by the Department ("SAP") comprise a comprehensive basis of accounting other than 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 "nonadmitted" assets are excluded through a charge against surplus, while under GAAP, "nonadmitted assets" are reinstated to the balance sheet, net of any valuation allowance;
- Comprehensive income is not presented in the statutory financial statements as required by GAAP;
- 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;
- The statement of cash flow does not provide for a reconciliation of indirect cash flows.

Use of Estimates

The preparation of financial statements in conformity with SAP requires management to make certain estimates and assumptions that affect the reported amounts of admitted assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Marketable securities with original maturities of three months or less are included in cash equivalents.

Federal Income Taxes

The Company is included in the consolidated federal income tax return of PHH. 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 ("IRS"). The ultimate settlement of this liability is dependent upon the ultimate settlement of PHH's tax liability with the IRS.

Deferred income taxes are recorded in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 10R, Income Taxes ("SSAP 10R"). Changes in deferred tax assets and liabilities are recorded as a component of unassigned surplus. The Company is not subject to the Risk-Based Capital rules described in SSAP No. 10R and is unable to elect the expanded deferred tax asset admissibility under SSAP No. 10R, paragraph 10(e). There were no deferred tax assets or liabilities as of December 31, 2011 and 2010.

Dividends to Shareholder

The Company is subject to the insurance statutes of New York State, and the rules and regulations of the Department, which provide that the Company obtain approval from the Department in order to pay dividends. Dividends are accounted for as distributions of unassigned surplus to the extent unassigned surplus exceeds zero at the time the dividend is declared. The Company does not declare dividends in excess of unassigned surplus at the time of declaration.

Subsequent Events

The Company has evaluated subsequent events through May 23, 2012, which is the date the Statutory Financial Statements were available to be issued.

CONFIDENTIAL
PHH BOGANSKY CFPB 004853

2. Income Taxes

The following table provides a reconciliation of the federal statutory income tax rate to the effective tax rate:

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Amount	Effective Tax Rate	Amount	Effective Tax Rate
Loss before federal income taxes	$ (75,650)		$ (139,117)	
Total federal statutory income tax benefit	(26,478)	35.00 %	(48,691)	35.00 %
Current federal income tax benefit	$ (26,564)	35.11 %	$ (48,691)	35.00 %
Other	86	(0.11)%	—	—
Total federal statutory income tax benefit	$ (26,478)	35.00 %	$ (48,691)	35.00 %

3. 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.

4. Leases

The Company leases office space at a monthly rent of $2,912 under an agreement which expires on June 30, 2012. On March 21, 2012, the Company extended its lease agreement for 6 months through December 31, 2012. Rent expense for the years ended December 31, 2011 and 2010 was $34,944 and $27,986, respectively and was included in Other expenses in the Statutory Statements of Operations. The agreement may be terminated by either party with ninety day written notice.

5. Dividend Restrictions and Capital and Surplus

The Company is required by the Department to maintain a minimum of $500,000 in statutory surplus. As of December 31, 2011, the Company was in compliance with the regulatory capital requirements.

During the year ended December 31, 2010, the Company paid a dividend of $12,000,000 to PHH. There were no dividends declared or paid to PHH during 2011.

On July 19, 2010, the Company amended the Charter of Atrium Insurance Corporation (the "Amendment") to (i) reduce the number of authorized shares of common capital stock from 1,000 shares to 64 shares and (ii) to increase the par value of the common capital stock from $1,000 to $15,625 per share. The Amendment was authorized and approved by the Board of Directors and the Company's sole shareholder PHH. The Company redeemed 936 shares of common capital stock at $31,266.976 per share for a total purchase price of $29,265,889. The Amendment to the Charter was filed with the Department pursuant to Section 1206(b) of the Insurance Code of the State of New York and on July 26, 2010, the Department approved and placed on file a certified copy.

See Note 1, "Summary of Significant Accounting Policies" for a description of the Assumption and Novation Agreements entered into during 2010.

CONFIDENTIAL
PHH BOGANSKY CFPB 004854

6. Related Party Transactions

The Company is included in the consolidated federal income tax return of PHH. Federal income taxes receivable from PHH were $27,120 and $48,939 as of December 31, 2011 and 2010, respectively. The Company settles its income tax liability with PHH on an annual basis pursuant to the tax sharing agreement which resulted in $48,633 of cash received from PHH during 2011 and $2,126,023 of cash paid to PHH during 2010.

PHH Mortgage Corporation, an affiliate of PHH, processes payments to vendors on behalf of the Company. The Company settles its intercompany liability to PHH Mortgage on a quarterly basis. As of December 31, 2010 amounts due to PHH Mortgage were $248. The Company had no amounts due to PHH Mortgage as of December 31, 2011.

CONFIDENTIAL
PHH BOGANSKY CFPB 004855

ATRIUM INSURANCE CORPORATION
SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings[1]		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
Bonds:				
U.S. Treasury securities	$ —	—	$ —	—
U.S. government agency obligations (excluding mortgage-backed securities):				
Issued by U.S. government agencies	—	—	—	—
Issued by U.S. government sponsored agencies	—	—	—	—
Non-U.S. government (including Canada, excluding mortgage-backed securities)	—	—	—	—
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
States, territories and possessions general obligations	—	—	—	—
Political subdivisions of states, territories and possessions and political subdivisions general obligations	—	—	—	—
Revenue and assessment obligations	—	—	—	—
Industrial development and similar obligations	—	—	—	—
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	—	—	—	—
Issued or guaranteed by FNMA and FHLMC	—	—	—	—
All other	—	—	—	—
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	—	—	—	—
Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown above	—	—	—	—
All other	—	—	—	—
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	—	—	—	—
Unaffiliated non-U.S. securities (including Canada)	—	—	—	—
Affiliated securities	—	—	—	—
Equity interests:				
Investment in mutual funds	—	—	—	—
Preferred stocks:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Publicly traded equity securities (excluding preferred stocks):				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Other equity securities:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—

CONFIDENTIAL
PHH BOGANSKY CFPB 004856

ATRIUM INSURANCE CORPORATION
SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings[1]		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
Other equity interest including tangible personal property under lease:				
Affiliated	$ —	—	$ —	—
Unaffiliated	—	—	—	—
Mortgage loans:				
Construction and land development	—	—	—	—
Agricultural	—	—	—	—
Single family residential properties	—	—	—	—
Multifamily residential properties	—	—	—	—
Commercial loans	—	—	—	—
Mezzanine real estate loans	—	—	—	—
Real estate investments:				
Property occupied by the company	—	—	—	—
Property held for the production of income	—	—	—	—
Property held for sale	—	—	—	—
Contract loans	—	—	—	—
Derivatives	—	—	—	—
Receivables for securities	—	—	—	—
Securities lending	—	—	—	—
Cash, cash equivalents and short-term investments	1,861,320	100 %	1,861,320	100 %
Other invested assets	—	—	—	—
Total	$ 1,861,320	100 %	$ 1,861,320	100 %

[1] As valued under the *NAIC Accounting Practices and Procedures Manual*

CONFIDENTIAL
PHH BOGANSKY CFPB 004857

ATRIUM INSURANCE CORPORATION
INVESTMENT RISKS INTERROGATORIES

1. The Company's total admitted assets reported in the statutory balance sheet are $1,895,956 as of December 31, 2011.

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 as of December 31, 2011 are as follows: None.

3. As of December 31, 2011, the amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating are 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 as of December 31, 2011 are as follows: None, therefore detail is 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 as of December 31, 2011 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 as of December 31, 2011) are as follows: None.

13. The amounts and percentages of admitted assets held in the largest 10 equity interests (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) as of December 31, 2011 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 as of December 31, 2011 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) as of December 31, 2011 are as follows: None.

16. The amounts and percentages of the Company's total admitted assets held in mortgage loans as of December 31, 2011 are as follows: None, therefore, detail is not required for interrogatories 16 and 17.

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 as of December 31, 2011 are as follows: None.

19. The amounts and percentages of the Company's total admitted assets held in mezzanine real estate loans: None.

20. 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 follows: None.

21. The amounts and percentages of warrants not attached to other financial instruments, options, caps, and floors as of December 31, 2011 are as follows: None.

CONFIDENTIAL
PHH BOGANSKY CFPB 004858

22. The amounts and percentages of potential exposure for collars, swaps, and forwards as of December 31, 2011 are as follows: None.

23. The amounts and percentages of potential exposure for futures contracts as of December 31, 2011 are as follows: None.

CONFIDENTIAL
PHH BOGANSKY CFPB 004859

ATRIUM INSURANCE CORPORATION
GENERAL REINSURANCE RISKS INTERROGATORIES

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

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 ☒

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 31 of SSAP No. 62R, Property and Casualty Reinsurance, has the Company ceded any risk under any

CONFIDENTIAL
PHH BOGANSKY CFPB 004860

	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 ☒

CONFIDENTIAL
PHH BOGANSKY CFPB 004861

Atrium Insurance Corporation
Underwriting Expense and Profit Margin Ratios

	1996 Y	1997 Y	1998 Y
Period Ended	12/31/1996	12/31/1997	12/31/1998
Data displayed in $000 unless otherwise noted			
(1) Net Premiums Written	1,599	4,232	12,461
(2) Other Underwriting Expense Incurred	378	512	1,976
(3) Ceding Commission	n/a	n/a	n/a
(4) Underwriting Expense Less Ceding Commission	n/a	n/a	n/a
(5) Net Underwriting Gain (Loss)	795	2,709	8,003
(6) Ceding Commission Ratio = (3) / (1)			
(7) Other Expense Ratio (4) / (1)			
(8) Underwriting Profit Margin = (5) / (1)	50%	64%	64%

Source : Atrium Insurance Corporation's 1996-2009 Annual Statements, accessed through www.snl.com.

1999 Y	2000 Y	2001 Y	2002 Y	2003 Y	2004 Y
12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004
24,369	34,620	45,859	48,378	36,542	45,023
5,229	6,377	7,170	7,071	4,027	5,667
n/a	n/a	6,880	6,647	3,670	5,320
n/a	n/a	290	424	357	347
19,054	24,799	33,849	36,161	43,621	34,620
		15%	14%	10%	12%
		1%	1%	1%	1%
78%	72%	74%	75%	119%	77%

2005 Y	**2006 Y**	**2007 Y**	**2008 Y**	**2009 Y**
12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009
41,902	36,103	32,444	37,918	26,271
5,224	4,578	3,945	4,738	5,014
4,733	4,048	3,461	3,955	3,296
491	530	484	783	1,718
32,060	29,861	13,113	(17,857)	(6,025)
11%	11%	11%	10%	13%
1%	2%	2%	2%	7%
77%	83%	40%	-47%	-23%

Atrium Insurance Corporation
P&C Income Statement

Period Ended	1996 Y 12/31/1996	1997 Y 12/31/1997	1998 Y 12/31/1998	1999 Y 12/31/1999	2000 Y 12/31/2000	2001 Y 12/31/2001	2002 Y 12/31/2002	2003 Y 12/31/2003	2004 Y 12/31/2004	2005 Y 12/31/2005	2006 Y 12/31/2006	2007 Y 12/31/2007	2008 Y 12/31/2008	2009 Y 12/31/2009	2010 Y 12/31/2010	2011 Y 12/31/2011	2012 Y 12/31/2012
Data displayed in $000 unless otherwise noted																	
Underwriting Revenue																	
Personal P&C Direct Premiums	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commercial P&C Direct Premiums	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accident & Health Direct Premiums	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Direct Premiums Written	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Reinsurance Premiums	1,599	4,232	12,461	24,369	34,620	45,859	48,378	36,542	45,023	41,902	36,103	32,444	37,918	26,271	0	0	0
Net Premiums Written	1,599	4,232	12,461	24,369	34,620	45,859	48,378	36,542	45,023	41,902	36,103	32,444	37,918	26,271	0	0	0
Change in U/E Premiums Reserve	215	214	26	(172)	32	184	206	(143)	98	(88)	(77)	(31)	(8)	(119)	0	0	0
Net Premiums Earned	1,384	4,017	12,435	24,541	34,588	45,675	48,172	36,684	44,925	41,990	36,180	32,476	37,926	26,390	0	0	0
Underwriting Deductions																	
Net Losses Paid - Personal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Losses Paid - Commercial	0	0	0	0	0	0	0	0	0	0	0	0	0	2,255	0	0	0
Net Losses Paid - A&H	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Losses Paid	0	0	0	0	0	0	0	0	0	0	0	0	0	2,255	0	0	0
Net LAE Paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Loss Reserves - Personal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Loss Reserves - Commercial	211	796	2,456	257	3,412	4,655	4,940	(10,964)	4,638	4,706	1,741	15,417	51,045	25,146	0	0	0
Change in Loss Reserves - A&H	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in LAE Reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Change in Loss and LAE Reserves	211	796	2,456	257	3,412	4,655	4,940	(10,964)	4,638	4,706	1,741	15,417	51,045	25,146	0	0	0
Losses and LAE Incurred	211	796	2,456	257	3,412	4,655	4,940	(10,964)	4,638	4,706	1,741	15,417	51,045	27,401	0	0	0
Other Underwriting Expense Incurred	378	512	1,976	5,229	6,377	7,170	7,071	4,027	5,667	5,224	4,578	3,945	4,738	5,014	139	76	54
Other Underwriting Deductions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income Protected Cells	NA	NA	NA	NA	NA	NA	0	0	0	0	0	0	0	0	0	0	0
Net Underwriting Gain (Loss)	795	2,709	8,003	19,054	24,799	33,849	36,161	43,621	34,620	32,060	29,861	13,113	(17,857)	(6,025)	(139)	(76)	(54)
Policyholder Dividends (PHD)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investment Income																	
Net Investment Income	293	380	557	1,367	3,946	4,556	2,655	1,943	2,531	6,909	12,208	13,467	6,060	699	0	0	0
Net Realized Capital Gains (Losses)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Income																	
Finance Service Charges	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
All Other Income	0	0	0	0	0	0	0	113	0	0	0	0	0	0	0	0	0
Net Income																	
Net Income after capital gains (loss) before tax	1,088	3,089	8,560	20,422	28,745	38,406	38,817	45,677	37,150	38,969	42,069	26,580	(11,796)	(5,326)	(139)	(76)	(54)
Federal Income Tax	460	1,250	2,050	7,485	10,117	13,420	14,388	15,988	13,002	13,639	15,070	8,711	(1,697)	4,601	(49)	(27)	(19)
Net Income	628	1,839	6,510	12,937	18,628	24,985	24,429	29,689	24,148	25,330	26,999	17,869	(10,099)	(9,926)	(90)	(49)	(35)
Pre-tax Operating Income	1,088	3,089	8,560	20,422	28,745	38,406	38,817	45,677	37,150	38,969	42,069	26,580	(11,796)	(5,326)	(139)	(76)	(54)
Memo: Total Revenue	1,677	4,397	12,992	25,908	38,534	50,231	50,827	38,740	47,455	48,899	48,388	45,943	43,987	27,089	0	0	0
Memo: Paid Expenses	236	177	1,264	3,981	6,103	6,285	6,806	5,948	5,184	5,384	4,666	4,215	4,414	5,738	153	69	60
Change In Capital and Surplus																	
Capital & Surplus, Beginning of Period	4,964	4,900	4,730	5,023	10,329	28,663	33,811	51,654	63,002	64,688	85,606	95,244	82,353	59,508	96,359	1,936	1,886
Net Income	628	1,839	6,510	12,937	18,628	24,985	24,429	29,689	24,148	25,330	26,999	17,869	(10,099)	(9,926)	(90)	(49)	(35)
Net Unrealized Capital Gains (Losses)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Surplus Notes	NA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Changes & Surplus Adj	0	0	0	4,600	17,000	3,000	17,500	0	0	34,716	0	0	0	0	(29,266)	0	0
Dividends to Stockholders	0	0	0	0	0	0	0	0	0	(17,000)	0	(16,500)	0	(19,250)	(12,000)	0	0
All Other Changes in Surplus	NA	(2,009)	(6,217)	(12,231)	(17,294)	(22,837)	(24,086)	(18,342)	(22,462)	(22,127)	(17,361)	(14,259)	(12,746)	66,027	(53,067)	0	0
Policyholders Surplus, Current Period Ended	4,900	4,730	5,023	10,329	28,663	33,811	51,654	63,002	64,688	85,606	95,244	82,353	59,508	96,359	1,936	1,886	1,852

Copyright 2014, SNL Financial LC

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1	2	3	4
		Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	3,295,709	0	3,295,709
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	3,295,709	0	3,295,709
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	0	0	0
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	0	0	0
8	Salary and related items:				
	8.1 Salaries	0	95,000	0	95,000
	8.2 Payroll taxes	0	9,500	0	9,500
9	Employee relations and welfare	0	19,000	0	19,000
10	Insurance	0	0	0	0
11	Directors' fees	0	15,000	0	15,000
12	Travel and travel items	0	0	0	0
13	Rent and rent items	0	27,624	0	27,624
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	0	0	0	0
16	Printing and stationery	0	0	0	0
17	Postage, telephone and telegraph, exchange and express	0	773	0	773
18	Legal and auditing	0	411,962	0	411,962
19	Totals (Lines 3 to 18)	0	578,859	0	578,859
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	2	0	2
	20.2 Insurance department licenses and fees	0	500	0	500
	20.3 Gross guaranty association assessments	0	3,600	0	3,600
	20.4 All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	4,102	0	4,102
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	1,135,428	0	1,135,428
25	Total expenses incurred	0	5,014,098	0	(a) 5,014,098
26	Less unpaid expenses - current year	0	770,973	0	770,973
27	Add unpaid expenses - prior year	0	1,495,208	0	1,495,208
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	5,738,332	0	5,738,332

(a) Includes management fees of $0 to affiliates and $0 to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1	2	3	4
		Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	3,954,652	0	3,954,652
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	3,954,652	0	3,954,652
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	0	0	0
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	0	0	0
8	Salary and related items:				
	8.1 Salaries	0	80,659	0	80,659
	8.2 Payroll taxes	0	8,076	0	8,076
9	Employee relations and welfare	0	16,153	0	16,153
10	Insurance	0	0	0	0
11	Directors' fees	0	15,000	0	15,000
12	Travel and travel items	0	0	0	0
13	Rent and rent items	0	27,306	0	27,306
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	0	0	0	0
16	Printing and stationery	0	0	0	0
17	Postage, telephone and telegraph, exchange and express	0	353	0	353
18	Legal and auditing	0	367,845	0	367,845
19	Totals (Lines 3 to 18)	0	515,392	0	515,392
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2 Insurance department licenses and fees	0	107,397	0	107,397
	20.3 Gross guaranty association assessments	0	3,600	0	3,600
	20.4 All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	110,997	0	110,997
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	157,403	0	157,403
25	Total expenses incurred	0	4,738,444	0	(a) 4,738,444
26	Less unpaid expenses - current year	0	1,495,208	0	1,495,208
27	Add unpaid expenses - prior year	0	1,170,666	0	1,170,666
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	4,413,902	0	4,413,902

(a) Includes management fees of $0 to affiliates and $0 to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1	2	3	4
		Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	3,460,728	0	3,460,728
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	3,460,728	0	3,460,728
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	0	0	0
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	0	0	0
8	Salary and related items:				
	8.1 Salaries	0	77,955	0	77,955
	8.2 Payroll taxes	0	7,795	0	7,795
9	Employee relations and welfare	0	15,591	0	15,591
10	Insurance	0	0	0	0
11	Directors' fees	0	15,000	0	15,000
12	Travel and travel items	0	0	0	0
13	Rent and rent items	0	27,104	0	27,104
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	0	0	0	0
16	Printing and stationery	0	0	0	0
17	Postage, telephone and telegraph, exchange and express	0	302	0	302
18	Legal and auditing	0	215,153	0	215,153
19	Totals (Lines 3 to 18)	0	358,900	0	358,900
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2 Insurance department licenses and fees	0	3,600	0	3,600
	20.3 Gross guaranty association assessments	0	0	0	0
	20.4 All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	3,600	0	3,600
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	121,953	0	121,953
25	Total expenses incurred	0	3,945,182	0	(a) 3,945,182
26	Less unpaid expenses - current year	0	1,170,666	0	1,170,666
27	Add unpaid expenses - prior year	0	1,440,847	0	1,440,847
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	4,215,362	0	4,215,362

(a) Includes management fees of $0 to affiliates and $0 to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1	2	3	4
		Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	4,047,583	0	4,047,583
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	4,047,583	0	4,047,583
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	0	0	0
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	0	0	0
8	Salary and related items:				
	8.1 Salaries	0	77,955	0	77,955
	8.2 Payroll taxes	0	7,795	0	7,795
9	Employee relations and welfare	0	15,591	0	15,591
10	Insurance	0	0	0	0
11	Directors' fees	0	15,000	0	15,000
12	Travel and travel items	0	80	0	80
13	Rent and rent items	0	21,852	0	21,852
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	0	0	0	0
16	Printing and stationery	0	0	0	0
17	Postage, telephone and telegraph, exchange and express	0	300	0	300
18	Legal and auditing	0	266,294	0	266,294
19	Totals (Lines 3 to 18)	0	404,866	0	404,866
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2 Insurance department licenses and fees	0	3,600	0	3,600
	20.3 Gross guaranty association assessments	0	0	0	0
	20.4 All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	3,600	0	3,600
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	121,892	0	121,892
25	Total expenses incurred	0	4,577,941	0	(a) 4,577,941
26	Less unpaid expenses - current year	0	1,440,847	0	1,440,847
27	Add unpaid expenses - prior year	0	1,528,561	0	1,528,561
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	4,665,655	0	4,665,655

(a) Includes management fees of $0 to affiliates and $0 to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

			1	2	3	4
			Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:					
	1.1	Direct	0	0	0	0
	1.2	Reinsurance assumed	0	0	0	0
	1.3	Reinsurance ceded	0	0	0	0
	1.4	Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:					
	2.1	Direct, excluding contingent	0	0	0	0
	2.2	Reinsurance assumed, excluding contingent	0	4,732,759	0	4,732,759
	2.3	Reinsurance ceded, excluding contingent	0	0	0	0
	2.4	Contingent - direct	0	0	0	0
	2.5	Contingent - reinsurance assumed	0	0	0	0
	2.6	Contingent - reinsurance ceded	0	0	0	0
	2.7	Policy and membership fees	0	0	0	0
	2.8	Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	4,732,759	0	4,732,759
3	Allowances to managers and agents		0	0	0	0
4	Advertising		0	0	0	0
5	Boards, bureaus and associations		0	0	0	0
6	Surveys and underwriting reports		0	0	0	0
7	Audit of assureds' records		0	0	0	0
8	Salary and related items:					
	8.1	Salaries	0	75,695	0	75,695
	8.2	Payroll taxes	0	7,569	0	7,569
9	Employee relations and welfare		0	15,139	0	15,139
10	Insurance		0	0	0	0
11	Directors' fees		0	30,000	0	30,000
12	Travel and travel items		0	0	0	0
13	Rent and rent items		0	21,667	0	21,667
14	Equipment		0	0	0	0
15	Cost or depreciation of EDP equipment and software		0	0	0	0
16	Printing and stationery		0	0	0	0
17	Postage, telephone and telegraph, exchange and express		0	1,011	0	1,011
18	Legal and auditing		0	205,622	0	205,622
19	Totals (Lines 3 to 18)		0	356,704	0	356,704
20	Taxes, licenses and fees:					
	20.1	State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2	Insurance department licenses and fees	0	3,790	0	3,790
	20.3	Gross guaranty association assessments	0	0	0	0
	20.4	All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5	Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	3,790	0	3,790
21	Real estate expenses		0	0	0	0
22	Real estate taxes		0	0	0	0
23	Reimbursements by uninsured plans		0	0	0	0
24	Aggregate write-ins for miscellaneous expenses		0	130,950	0	130,950
25	Total expenses incurred		0	5,224,203	0	(a) 5,224,203
26	Less unpaid expenses - current year		0	1,528,561	0	1,528,561
27	Add unpaid expenses - prior year		0	1,687,970	0	1,687,970
28	Amounts receivable relating to uninsured plans, prior year		0	0	0	0
29	Amounts receivable relating to uninsured plans, current year		0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)		0	5,383,613	0	5,383,613

(a) Includes management fees of $0 to affiliates and $0 to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1	2	3	4
		Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	0	0	0
	2.3 Reinsurance ceded, excluding contingent	0	(5,319,830)	0	(5,319,830)
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	5,319,830	0	5,319,830
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	0	0	0
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	0	0	0
8	Salary and related items:				
	8.1 Salaries	0	85,712	0	85,712
	8.2 Payroll taxes	0	10,286	0	10,286
9	Employee relations and welfare	0	15,428	0	15,428
10	Insurance	0	0	0	0
11	Directors' fees	0	0	0	0
12	Travel and travel items	0	0	0	0
13	Rent and rent items	0	22,686	0	22,686
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	0	0	0	0
16	Printing and stationery	0	0	0	0
17	Postage, telephone and telegraph, exchange and express	0	1,399	0	1,399
18	Legal and auditing	0	135,504	0	135,504
19	Totals (Lines 3 to 18)	0	271,015	0	271,015
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2 Insurance department licenses and fees	0	3,790	0	3,790
	20.3 Gross guaranty association assessments	0	0	0	0
	20.4 All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	3,790	0	3,790
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	72,691	0	72,691
25	Total expenses incurred	0	5,667,327	0	(a) 5,667,327
26	Less unpaid expenses - current year	0	1,687,970	0	1,687,970
27	Add unpaid expenses - prior year	0	1,204,529	0	1,204,529
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	5,183,885	0	5,183,885

(a) Includes management fees of $0 to affiliates and $0 to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	3,669,721	0	3,669,721
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	3,669,721	0	3,669,721
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	0	0	0
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	0	0	0
8	Salary and related items:				
	8.1 Salaries	0	85,707	0	85,707
	8.2 Payroll taxes	0	10,287	0	10,287
9	Employee relations and welfare	0	15,424	0	15,424
10	Insurance	0	0	0	0
11	Directors' fees	0	0	0	0
12	Travel and travel items	0	500	0	500
13	Rent and rent items	0	21,551	0	21,551
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	0	0	0	0
16	Printing and stationery	0	0	0	0
17	Postage, telephone and telegraph, exchange and express	0	1,085	0	1,085
18	Legal and auditing	0	132,000	0	132,000
19	Totals (Lines 3 to 18)	0	266,556	0	266,556
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2 Insurance department licenses and fees	0	0	0	0
	20.3 Gross guaranty association assessments	0	0	0	0
	20.4 All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	0	0	0
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	90,290	0	90,290
25	Total expenses incurred	0	4,026,567	0	(a) 4,026,567
26	Less unpaid expenses - current year	0	1,204,529	0	1,204,529
27	Add unpaid expenses - prior year	0	3,126,090	0	3,126,090
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	5,948,128	0	5,948,128

(a) Includes management fees of $0 to affiliates and $0 to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1	2	3	4
		Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	6,646,788	0	6,646,788
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	6,646,788	0	6,646,788
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	0	0	0
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	0	0	0
8	Salary and related items:				
	8.1 Salaries	0	85,716	0	85,716
	8.2 Payroll taxes	0	10,284	0	10,284
9	Employee relations and welfare	0	15,432	0	15,432
10	Insurance	0	0	0	0
11	Directors' fees	0	0	0	0
12	Travel and travel items	0	1,115	0	1,115
13	Rent and rent items	0	25,292	0	25,292
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	0	0	0	0
16	Printing and stationery	0	420	0	420
17	Postage, telephone and telegraph, exchange and express	0	764	0	764
18	Legal and auditing	0	185,606	0	185,606
19	Totals (Lines 3 to 18)	0	324,629	0	324,629
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2 Insurance department licenses and fees	0	0	0	0
	20.3 Gross guaranty association assessments	0	0	0	0
	20.4 All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	0	0	0
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	99,446	0	99,446
25	Total expenses incurred	0	7,070,863	0	(a) 7,070,863
26	Less unpaid expenses - current year	0	3,126,090	0	3,126,090
27	Add unpaid expenses - prior year	0	2,861,263	0	2,861,263
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	6,806,036	0	6,806,036

(a) Includes management fees of $0 to affiliates and $0 to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	6,879,518	0	6,879,518
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	6,879,518	0	6,879,518
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	13,577	0	13,577
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	84,674	0	84,674
8	Salary and related items:				
	8.1 Salaries	0	85,716	0	85,716
	8.2 Payroll taxes	0	10,284	0	10,284
9	Employee relations and welfare	0	16,332	0	16,332
10	Insurance	0	0	0	0
11	Directors' fees	0	0	0	0
12	Travel and travel items	0	0	0	0
13	Rent and rent items	0	25,471	0	25,471
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	0	0	0	0
16	Printing and stationery	0	0	0	0
17	Postage, telephone and telegraph, exchange and express	0	467	0	467
18	Legal and auditing	0	0	0	0
19	Totals (Lines 3 to 18)	0	236,521	0	236,521
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2 Insurance department licenses and fees	0	0	0	0
	20.3 Gross guaranty association assessments	0	0	0	0
	20.4 All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	0	0	0
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	53,844	0	53,844
25	Total expenses incurred	0	7,169,883	0	(a) 7,169,883
26	Less unpaid expenses - current year	0	2,861,263	0	2,861,263
27	Add unpaid expenses - prior year	0	1,976,696	0	1,976,696
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	6,285,316	0	6,285,316

(a) Includes management fees of $0 to affiliates and $0 to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1	2	3	4
		Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	6,155,024	0	6,155,024
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	6,155,024	0	6,155,024
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	19,210	0	19,210
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	53,344	0	53,344
8	Salary and related items:				
	8.1 Salaries	0	85,715	0	85,715
	8.2 Payroll taxes	0	10,284	0	10,284
9	Employee relations and welfare	0	15,431	0	15,431
10	Insurance	0	0	0	0
11	Directors' fees	0	0	0	0
12	Travel and travel items	0	427	0	427
13	Rent and rent items	0	25,264	0	25,264
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	NA	NA	NA	NA
16	Printing and stationery	0	0	0	0
17	Postage, telephone and telegraph, exchange and express	0	337	0	337
18	Legal and auditing	0	0	0	0
19	Totals (Lines 3 to 18)	0	210,012	0	210,012
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2 Insurance department licenses and fees	0	0	0	0
	20.3 Gross guaranty association assessments	0	0	0	0
	20.4 All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	0	0	0
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	12,027	0	12,027
25	Total expenses incurred	0	6,377,063	0	(a) 6,377,063
26	Less unpaid expenses - current year	0	2,783,790	0	2,783,790
27	Add unpaid expenses - prior year	0	2,509,413	0	2,509,413
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	6,102,686	0	6,102,686

(a) Includes management fees of $NA to affiliates and $NA to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1	2	3	4
		Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	4,244,188	0	4,244,188
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	4,244,188	0	4,244,188
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	6,596	0	6,596
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	21,996	0	21,996
8	Salary and related items:				
	8.1 Salaries	0	88,740	0	88,740
	8.2 Payroll taxes	0	10,644	0	10,644
9	Employee relations and welfare	0	15,972	0	15,972
10	Insurance	0	0	0	0
11	Directors' fees	0	0	0	0
12	Travel and travel items	0	0	0	0
13	Rent and rent items	0	15,000	0	15,000
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	NA	NA	NA	NA
16	Printing and stationery	0	0	0	0
17	Postage, telephone and telegraph, exchange and express	0	1,168	0	1,168
18	Legal and auditing	0	0	0	0
19	Totals (Lines 3 to 18)	0	160,116	0	160,116
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	770,130	0	770,130
	20.2 Insurance department licenses and fees	0	0	0	0
	20.3 Gross guaranty association assessments	0	0	0	0
	20.4 All other (excluding federal and foreign income and real estate)	0	0	0	0
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	770,130	0	770,130
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	54,847	0	54,847
25	Total expenses incurred	0	5,229,281	0	(a) 5,229,281
26	Less unpaid expenses - current year	0	2,509,413	0	2,509,413
27	Add unpaid expenses - prior year	0	1,260,861	0	1,260,861
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	3,980,729	0	3,980,729

(a) Includes management fees of $NA to affiliates and $NA to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1	2	3	4
		Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	1,712,415	0	1,712,415
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	1,712,415	0	1,712,415
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	1,281	0	1,281
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	0	0	0
8	Salary and related items:				
	8.1 Salaries	0	85,632	0	85,632
	8.2 Payroll taxes	0	10,272	0	10,272
9	Employee relations and welfare	0	15,408	0	15,408
10	Insurance	0	0	0	0
11	Directors' fees	0	0	0	0
12	Travel and travel items	0	0	0	0
13	Rent and rent items	0	15,000	0	15,000
14	Equipment	0	0	0	0
15	Cost or depreciation of EDP equipment and software	NA	NA	NA	NA
16	Printing and stationery	0	189	0	189
17	Postage, telephone and telegraph, exchange and express	0	21,996	0	21,996
18	Legal and auditing	0	0	0	0
19	Totals (Lines 3 to 18)	0	149,778	0	149,778
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2 Insurance department licenses and fees	0	0	0	0
	20.3 Gross guaranty association assessments	0	0	0	0
	20.4 All other (excluding federal and foreign income and real estate)	0	111,783	0	111,783
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	111,783	0	111,783
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	2,004	0	2,004
25	Total expenses incurred	0	1,975,980	0	(a) 1,975,980
26	Less unpaid expenses - current year	0	1,260,861	0	1,260,861
27	Add unpaid expenses - prior year	0	548,850	0	548,850
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	1,263,969	0	1,263,969

(a) Includes management fees of $NA to affiliates and $NA to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

			1	2	3	4
			Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:					
	1.1	Direct	0	0	0	0
	1.2	Reinsurance assumed	0	0	0	0
	1.3	Reinsurance ceded	0	0	0	0
	1.4	Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:					
	2.1	Direct, excluding contingent	0	0	0	0
	2.2	Reinsurance assumed, excluding contingent	0	0	0	0
	2.3	Reinsurance ceded, excluding contingent	0	0	0	0
	2.4	Contingent - direct	0	0	0	0
	2.5	Contingent - reinsurance assumed	0	0	0	0
	2.6	Contingent - reinsurance ceded	0	0	0	0
	2.7	Policy and membership fees	0	0	0	0
	2.8	Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	0	0	0
3	Allowances to managers and agents		0	0	0	0
4	Advertising		0	0	0	0
5	Boards, bureaus and associations		0	8,959	0	8,959
6	Surveys and underwriting reports		0	0	0	0
7	Audit of assureds' records		0	0	0	0
8	Salary and related items:					
	8.1	Salaries	0	50,725	0	50,725
	8.2	Payroll taxes	0	5,223	0	5,223
9	Employee relations and welfare		0	0	0	0
10	Insurance		0	0	0	0
11	Directors' fees		0	0	0	0
12	Travel and travel items		0	0	0	0
13	Rent and rent items		0	11,569	0	11,569
14	Equipment		0	0	0	0
15	Cost or depreciation of EDP equipment and software		NA	NA	NA	NA
16	Printing and stationery		0	1,414	0	1,414
17	Postage, telephone and telegraph, exchange and express		0	639	0	639
18	Legal and auditing		0	23,000	0	23,000
19	Totals (Lines 3 to 18)		0	101,529	0	101,529
20	Taxes, licenses and fees:					
	20.1	State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2	Insurance department licenses and fees	0	0	0	0
	20.3	Gross guaranty association assessments	0	0	0	0
	20.4	All other (excluding federal and foreign income and real estate)	0	409,993	0	409,993
	20.5	Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	409,993	0	409,993
21	Real estate expenses		0	0	0	0
22	Real estate taxes		0	0	0	0
23	Reimbursements by uninsured plans		0	0	0	0
24	Aggregate write-ins for miscellaneous expenses		0	0	0	0
25	Total expenses incurred		0	511,522	0	(a) 511,522
26	Less unpaid expenses - current year		0	548,850	0	548,850
27	Add unpaid expenses - prior year		0	214,731	0	214,731
28	Amounts receivable relating to uninsured plans, prior year		0	0	0	0
29	Amounts receivable relating to uninsured plans, current year		0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)		0	177,403	0	177,403

(a) Includes management fees of $NA to affiliates and $NA to non-affiliates.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

		1	2	3	4
		Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1	Claim adjustment services:				
	1.1 Direct	0	0	0	0
	1.2 Reinsurance assumed	0	0	0	0
	1.3 Reinsurance ceded	0	0	0	0
	1.4 Net claim adjustment services (1.1+1.2-1.3)	0	0	0	0
2	Commission and brokerage:				
	2.1 Direct, excluding contingent	0	0	0	0
	2.2 Reinsurance assumed, excluding contingent	0	0	0	0
	2.3 Reinsurance ceded, excluding contingent	0	0	0	0
	2.4 Contingent - direct	0	0	0	0
	2.5 Contingent - reinsurance assumed	0	0	0	0
	2.6 Contingent - reinsurance ceded	0	0	0	0
	2.7 Policy and membership fees	0	0	0	0
	2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	0	0	0	0
3	Allowances to managers and agents	0	0	0	0
4	Advertising	0	0	0	0
5	Boards, bureaus and associations	0	870	0	870
6	Surveys and underwriting reports	0	0	0	0
7	Audit of assureds' records	0	8,000	0	8,000
8	Salary and related items:				
	8.1 Salaries	0	87,959	0	87,959
	8.2 Payroll taxes	0	8,257	0	8,257
9	Employee relations and welfare	0	0	0	0
10	Insurance	0	0	0	0
11	Directors' fees	0	0	0	0
12	Travel and travel items	0	0	0	0
13	Rent and rent items	0	10,404	0	10,404
14	Equipment	0	925	0	925
15	Cost or depreciation of EDP equipment and software	NA	NA	NA	NA
16	Printing and stationery	0	37	0	37
17	Postage, telephone and telegraph, exchange and express	0	932	0	932
18	Legal and auditing	0	3,599	0	3,599
19	Totals (Lines 3 to 18)	0	120,984	0	120,984
20	Taxes, licenses and fees:				
	20.1 State and local insurance taxes deducting guaranty association credits $0	0	0	0	0
	20.2 Insurance department licenses and fees	0	0	0	0
	20.3 Gross guaranty association assessments	0	0	0	0
	20.4 All other (excluding federal and foreign income and real estate)	0	256,871	0	256,871
	20.5 Total taxes, licenses and fees (20.1+20.2+20.3+20.4)	0	256,871	0	256,871
21	Real estate expenses	0	0	0	0
22	Real estate taxes	0	0	0	0
23	Reimbursements by uninsured plans	0	0	0	0
24	Aggregate write-ins for miscellaneous expenses	0	0	0	0
25	Total expenses incurred	0	377,855	0	(a) 377,855
26	Less unpaid expenses - current year	0	214,731	0	214,731
27	Add unpaid expenses - prior year	0	72,890	0	72,890
28	Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29	Amounts receivable relating to uninsured plans, current year	0	0	0	0
30	TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	0	236,014	0	236,014

(a) Includes management fees of $NA to affiliates and $NA to non-affiliates.

EXHIBIT 67

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY

ANALYSIS OF EXCESS-OF-LOSS REINSURANCE PROGRAM 40% NET PREMIUM FOR 5.25% TO 15.25% LAYER ATRIUM INSURANCE CORPORATION

Prepared By: Michael C. Schmitz, F.C.A.S., M.A.A.A.
Consulting Actuary

Milliman, Inc.
Brookfield, Wisconsin
(262) 784-2250

February 2, 2007

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY

ANALYSIS OF EXCESS-OF-LOSS REINSURANCE PROGRAM 40% NET PREMIUM FOR 5.25% TO 15.25% LAYER ATRIUM INSURANCE CORPORATION

TABLE OF CONTENTS

Section	*Page*
INTRODUCTION	**1**
PERMISSIBILITY OF LENDER CAPTIVE REINSURANCE ARRANGEMENTS	**2**
DESCRIPTION OF THE REINSURANCE STRUCTURE	**7**
SUMMARY AND CONCLUSIONS	**9**
TRANSFER OF RISK ANALYSIS	**10**
COMPENSATION COMMENSURATE WITH THE RISK ANALYSIS	**14**
QUALIFICATIONS AND LIMITATIONS	**19**
LIMITED DISTRIBUTION OF RESULTS	**22**

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY

ANALYSIS OF EXCESS-OF-LOSS REINSURANCE PROGRAM 40% NET PREMIUM FOR 5.25% TO 15.25% LAYER ATRIUM INSURANCE CORPORATION

INTRODUCTION

United Guaranty Residential Insurance Company and United Guaranty Mortgage Indemnity Company (UGRIC/UGMIC) provide private mortgage insurance through their affiliated licensed monoline insurance companies. Mortgage insurance protects an investor holding a mortgage loan against default by the mortgagor. Banks and mortgage lenders generally require that borrowers obtain mortgage insurance from third-party mortgage insurers on low down payment loans. These same banks and mortgage lenders reinsure mortgage insurance risk by operating reinsurance companies and assuming reinsurance business from a primary insurer such as UGRIC/UGMIC. Under the structure reviewed by Milliman, Atrium Insurance Corporation (the Reinsurer) enters into an excess-of-loss reinsurance agreement with UGRIC/UGMIC. UGRIC/UGMIC issues mortgage insurance on mortgage loans originated or purchased by affiliate lenders of the Reinsurer. The Reinsurer is therefore agreeing to accept from UGRIC/UGMIC a portion of the risk of default in return for a share of the premium paid.

Milliman, Inc. (Milliman) has been retained by UGRIC/UGMIC to independently assess the likelihood that a particular captive mortgage reinsurance structure with the Reinsurer would meet two tests specified in the August 6, 1997 letter of the Department of Housing and Urban Development with respect to compliance of captive mortgage reinsurance arrangements with the Real Estate Settlement Procedures Act.

DRAFT

PERMISSIBILITY OF LENDER CAPTIVE REINSURANCE ARRANGEMENTS

On August 6, 1997 the Department of Housing and Urban Development (the "Department") issued a letter (the "HUD Letter") detailing the facts concerning captive reinsurance programs, relevant law, and how the Department will scrutinize lender captive reinsurance arrangements to determine whether any specific captive reinsurance program is permissible under the Real Estate Settlement Procedures Act ("RESPA"), specifically paragraph 8 (c) (2) of RESPA, 12 U.S.C. & 2607 (c) (2). For reasons set forth in the HUD Letter, the Department concluded that, so long as payments for reinsurance arrangements are solely "payments for goods or services actually performed," these arrangements are permissible under RESPA. We understand that you are familiar with the HUD Letter, and we have attached a copy of the letter to this report (Attachment A).

For reasons set forth in the HUD Letter, the Department's view of captive reinsurance is that the arrangements are permissible under RESPA if the payments to the reinsurer: (1) are for reinsurance services actually furnished or for services performed and (2) are bona fide compensation that does not exceed the value of such services. Where the Department scrutinizes a captive reinsurance arrangement, the letter states that the Department will apply the following two-part test to determine if the arrangement complies with RESPA:

1) Determine whether reinsurance is actually being provided in return for the compensation (Section II (B) (1) of the HUD Letter); and
2) Determine whether the compensation exceeds the value of the reinsurance (Section II (B) (2) of the HUD Letter).

CONFIDENTIAL

To facilitate its analysis, the Department may use information obtained from the lender, the primary insurer, the captive reinsurer, or other sources, including data on the rate, magnitude, and timing of the default losses and mortgage insurance payments and any other information to undertake the analysis.

Transfer of Risk

To determine that a real service, or reinsurance is actually being performed by the reinsurer for which it may legally be compensated (the first test, Section II (B) (1)), the Department states that there must be a real transfer of risk. The Department specifically indicates that the requirement for a real transfer of risk would be clearly satisfied by a quota share arrangement, under which the reinsurer is bound to participate pro rata in every claim. The Department also states that the requirement for a real transfer of risk could also be met by excess loss arrangements, if the band of the reinsurer's potential exposure is such that a reasonable business justification would motivate a decision to reinsure that band. Milliman, in the course of providing its opinion addresses this requirement and the results for this test are found in the Transfer of Risk section of the report.

As part of the first test described above, the Department details additional requirements that must be satisfied which are **not** addressed in Milliman's opinion as follows:

- There must be a legally binding contract for the reinsurance with terms and conditions conforming to industry standards; and
- The reinsurer must post capital and reserves satisfying the laws of the state in which it is chartered and the reinsurance contract between the primary insurer and the reinsurer must provide for the establishment of adequate reserves to ensure that, when a claim against the reinsurer is made, funds will exist to satisfy the claim.

Compensation Commensurate with the Risk

If the requirements in Section II (B) (1) for determining that reinsurance is actually being provided in return for the compensation are met, the Department will then determine whether the compensation paid for the reinsurance does not exceed the value of the reinsurance (Section II (B) (2)). The Department will evaluate whether the compensation is commensurate with the risk and, where warranted, administration costs. The specific points within the Department's evaluation requirements which **are** addressed in the Compensation Commensurate with the Risk section of Milliman's opinion include the following:

- Compare, using relevant mathematical models, the risk borne by the captive reinsurer with payments provided by the primary insurer;
- Analyze the likelihood of losses occurring, the magnitude and volatility of possible losses, the amount of payments received, the timing of the payments and potential losses, current market discount rates, and other relevant factors; and
- Take into account the relative risk exposure of the primary lender (Milliman interprets this as referring to the primary insurer) and the captive reinsurer.

ECX 0177

CONFIDENTIAL CFPB-PHH-00871514

As part of the second test described above, the Department details additional requirements that may be evaluated which are **not** addressed in Milliman's opinion as follows:

- Consider the extent to which the lender of the firm controlling the captive reinsurer is shielded from potential losses by inadequate reserves and a corporate structure that segregates risk;
- Examine other financial transactions between the lender, primary insurer, and captive reinsurer to determine whether they are related to the reinsurance agreement; and
- Examine whether the ceding commission (if applicable) is commensurate with administrative costs assumed by the primary insurer.

Milliman's Analysis

It is our understanding that the tests, requirements and areas of evaluation are the Department's interpretation of various federal laws and regulations. Furthermore, the Department may consider items not specifically addressed in our tests in determining the permissibility of a particular captive reinsurance arrangement. We are not lawyers, and nothing in this report is intended to provide legal assurance that the requirements of these laws are met. We are also not accountants or auditors. We therefore do not offer opinions as to whether there is compliance with any applicable accounting or auditing standards. The tests addressed by Milliman involve financial and actuarial analysis and judgment. Our opinions are from those perspectives. Also, we are not opining on the capital adequacy or financial condition of the Reinsurer.

Specifically, in analyzing whether the transfer of risk test is satisfied, Milliman reviews whether there is a reasonable probability (at least 10%) of a loss (present value loss ratio in excess of 100%) to the reinsurer under the agreement. Milliman's analysis compares the reinsurers' present value loss ratio at a 10% probability level to a 110% loss ratio in order to assess whether this test is met. The 10% probability level is the outcome at which 10% of the simulated scenarios generate higher loss levels. As part of this test, UGRIC/UGMIC has also asked Milliman to assess whether there is at least a 115% present value loss ratio at the 15% probability level.

In analyzing whether the second pricing test is satisfied, Milliman reviews whether the premium ceded by UGRIC/UGMIC to the Reinsurer is reasonable in relation to the reinsured risk. Milliman formulates its opinion by analyzing whether:

- The cumulative return on capital for the reinsurer is reasonable relative to returns on capital for primary mortgage insurers; and
- The average reinsurance underwriting results as measured by loss ratios are reasonable in relation to those of primary mortgage insurers.

This report presents the results of our analysis.

DESCRIPTION OF THE REINSURANCE STRUCTURE

Under the excess layer reinsurance agreement for prospective book year 2006 reviewed by Milliman, UGRIC/UGMIC will cede to the Reinsurer 45.0% of the gross written premium to reinsure 10.0% of the original risk insured. In return for underwriting, loss mitigation and other operational services, the Reinsurer will provide UGRIC/UGMIC 11.1% of its gross premium as a ceding commission. The resulting net premium percentage for the Reinsurer will be 40.0%.

In return for the premium, the Reinsurer under the defined excess-of-loss structure will reinsure a second loss position of 10.0% of the original book risk for each book year of business. The reinsured second loss position will begin after UGRIC/UGMIC pays the first loss position of 5.25% of the aggregate book risk for each book year of business.

The reinsurance period for each individual loan in each book year of business is 10 years, and the Reinsurer supports the reinsurance with capital and the ceded net written premium deposited into a trust. If trust funds are depleted such that the Reinsurer's capital is below the required capital, the Reinsurer can infuse additional funds in order to continue reinsuring business [the Reinsurer must maintain total capital of at least 10% of reinsured risk (i.e., a risk to capital ratio of 10 to 1)]. However, the Reinsurer has no liability beyond the funds available in the trust. The trust associated with this structure also supports previous books of business with UGRIC/UGMIC. The previous books of business will run-off under their existing terms with the exception of 2001 and prior, which UGRIC/UGMIC has directed us to remove from the trust due to a potential commutation of these books. With the exception of the commuted books of business discussed above, the capital in the trust may be used for all reinsurance structures, but

ECX 0177

CONFIDENTIAL CFPB-PHH-00871517

must meet the 10% capital maintenance requirements referred to above for all book years.

Releases of capital from the trust to the Reinsurer are allowed beginning January 1, 2005, but only if the assets in the trust exceed 102% of the sum of the loss reserve, the unearned premium reserve and the greater of:

- 20% of the reinsured risk (i.e., a risk to capital ratio of 5 to 1); or
- The contingency reserve.

In our analysis, we have assumed that future fixed annual administrative expenses paid with trust funds will be limited to $100,000. Additionally, we have assumed a 35% federal income tax may be paid with trust funds. As a note, the Reinsurer is a New York domiciled captive insurance company, and therefore, it is our understanding they incur no state premium taxes. We have reflected this accordingly in our modeling of the trust.

Our review is based on an assumption that the Reinsurer assumes risks of a national lender with average loss experience and a risk profile similar to that provided to Milliman by UGRIC/UGMIC. Furthermore, we have assumed that annual insured loan volume will be consistent with the level reflected in our analysis which was also provided to Milliman by UGRIC/UGMIC. To the extent that the Reinsurer's annual insured loan volume, trust account balance, risk profile or claims experience differs from our assumptions, the results of our analysis may not be appropriate.

SUMMARY AND CONCLUSIONS

Based on representations by UGRIC/UGMIC and our review of UGRIC/UGMIC's captive reinsurance program with the Reinsurer for prospective book year 2006 as defined by among other things:

- A net ceded premium equal to 40.0% of the primary mortgage insurance premium (a 45.0% gross premium cede with a 11.1% ceding commission);
- A risk layer beginning at 5.25% of original risk insured;
- Annual insured loan volume, a distribution of insurance by loan to value and instrument type generally similar to that represented to Milliman by UGRIC/UGMIC;
- A maximum risk layer of 10.0% of the original risk insured; and
- Minimum capital requirements, expense provisions, and restrictions on the release of trust assets as outlined above,

Milliman is of the opinion that, from an actuarial and financial point of view, this reinsurance agreement:

(A) Has a reasonable probability of a loss to the reinsurer, which likely satisfies the transfer of risk test in the HUD Letter; and

(B) Has a net ceded premium which is reasonably related to the ceded risk, which likely satisfies the test in the HUD Letter that the compensation paid does not exceed the value of the reinsurance.

Milliman has also concluded that the captive reinsurance program provides a way of increasing the management of risk by providing the lender with an incentive for better loan originations.

TRANSFER OF RISK ANALYSIS

To determine that a real service, or reinsurance is actually being performed by the reinsurer for which it may legally be compensated (the first test, Section II (B) (1)), the Department states that there must be a real transfer of risk. The Department specifically indicates that the requirement for a real transfer of risk would be clearly satisfied by a quota share arrangement, under which the reinsurer is bound to participate pro rata in every claim. The Department also states that the requirement for a real transfer of risk could also be met by excess loss arrangements, if the band of the reinsurer's potential exposure is such that a reasonable business justification would motivate a decision to reinsure that band.

Specifically, in analyzing whether the transfer of risk test is satisfied, Milliman reviews whether there is a reasonable probability (at least 10%) of a loss (present value loss ratio in excess of 100%) to the reinsurer under the agreement. Milliman's analysis compares the reinsurers' present value loss ratio at a 10% probability level to a 110% loss ratio in order to assess whether this test is met. The 10% probability level is the outcome at which 10% of the simulated scenarios generate higher loss levels.

Based on our analysis of the projected financial performance under the reinsurance contract, Milliman believes that the proposed reinsurance agreement likely satisfies the transfer of risk test in the HUD Letter in that there is a reasonable probability of a loss to the reinsurer.

In reaching this conclusion, we simulated the pro-forma financial statements for the Reinsurer for all in force book years (under the existing structures) as well as the prospective 2006 book year (under the current structure) under various performance scenarios. We then compared the net present value of the Reinsurer's cash flows for the prospective 2006 book year and calculated a discounted loss ratio. The present value loss ratio is defined for the prospective 2006 book year as the ratio of the present value of paid losses to the present value of premiums received recognizing that both cash flows are cut-off if the Reinsurer's capital is depleted.

As a note, our transfer of risk test focuses on the premium and losses for the prospective 2006 book year (under the proposed terms). However, we have also projected the performance for the previous book years due to the trust fund providing cross-collateralized security for the previous and prospective book years. The performance of previous book years affects the ability of the trust to meet reinsured obligations for the prospective 2006 book year and thus affects transfer of risk on the prospective 2006 book year. Our projections reflect the loss rate correlation between consecutive book years.

The Reinsurer incurs significant losses in many of the scenarios. Furthermore, approximately 10% of the scenarios generated a loss outcome at or above the stress scenario illustrated on Exhibit 1, which results in a 176% present value loss ratio. As a technical note, this stress scenario assumes an ultimate loss rate (i.e., reflecting frequency and severity: gross paid losses divided by original risk insured) of approximately 16.1% of original risk insured for the prospective 2006 book year and loss rates as displayed on Exhibit 2 for prior book years. The loss rates for recent book years are projected to be consistent with the stressed prospective 2006 book year (due to the correlation referenced above).

We believe that this 76% loss in excess of premiums demonstrates a loss under a reasonably possible scenario. The net premiums and losses to the Reinsurer are displayed on Exhibit 1. Premiums and losses in Exhibit 1 are adjusted to recognize that the contract is cut-off if the Reinsurer's assets are depleted (i.e., no future premiums are ceded to the Reinsurer subsequent to cut-off). The premiums received through cut-off and reinsured losses satisfied by the Reinsurer for the prospective 2006 book year are discounted to their present value at the beginning of the book year based on a 4.5% assumed yield. The selection of 4.5% is based on the 10-year treasury yields during 2006. Due to the strong cross-collateralization of the Reinsurer's trust funds, our scenario does not result in a cut-off of premium and losses.

As mentioned above, our analysis has conservatively focused on the performance of the prospective 2006 book year and prior book years since the contract may be put into run-off after the prospective 2006 book year (i.e., the prospective 2006 book year would continue to be reinsured for its 11-year term, but no subsequent book years would be reinsured - i.e., the 11-year book year term ends 10 years after the origination date of the last loan in the book year). However, in a scenario with more book years and additional capital from contingency reserves, retained earnings, and potential capital contributions for subsequent book years, it becomes more likely that all (or a greater portion) of the reinsured losses will be satisfied under the stress scenario due to cross-collateralization. Cross-collateralization refers to the ability to utilize capital and retained earnings from profitable book years to satisfy losses of unprofitable book years. Therefore, a multiple book year scenario, with additional book years, increases the likelihood of all or a greater portion of the reinsured losses being satisfied.

Additionally, Milliman was asked by UGRIC/UGMIC to perform a similar transfer of risk test to the one mentioned above. Specifically, Milliman was asked to compare the Reinsurer's present value loss ratio at a 15% probability level to a 115% loss ratio in order to assess whether this test is met. Approximately 15% of the scenarios generated a loss outcome at or above this stress scenario, which results in a 135% present value loss ratio. Therefore, our analysis indicates that the 2006 book year would also meet the test that there be at least a 15% chance of a 15% loss.

The projected financial statements used to derive the cash flow analysis on Exhibit 1 are displayed on Exhibits 2 through 5. The exhibits contain the following:

- Exhibit 2 – The assumptions underlying the stress scenario;
- Exhibit 3 – The pro-forma statutory balance sheet for the stress scenario;
- Exhibit 4 – The pro-forma statutory statement of income for the stress scenario; and
- Exhibit 5 – The pro-forma change in assets/cash flow statement for the stress scenario.

COMPENSATION COMMENSURATE WITH THE RISK ANALYSIS

In analyzing whether the second pricing test is satisfied, Milliman reviews whether the premium ceded by UGRIC/UGMIC to the Reinsurer is reasonable in relation to the reinsured risk. Milliman formulates its opinion by analyzing whether:

- The cumulative return on capital for the reinsurer is reasonable relative to returns on capital for primary mortgage insurers; and
- The average reinsurance underwriting results as measured by loss ratios are reasonable in relation to those of primary mortgage insurers.

Our analysis of the reasonableness of the price in relation to the reinsured risk also relies on our simulation of projected financial results for the Reinsurer. However, the analysis focuses exclusively on the prospective 2006 book year. We estimated the expected financial performance under the contract based on the average penetration of losses into the reinsured layer under the projected scenarios. The pro-forma financial statements for the expected performance are displayed on Exhibits 6 through 9 (which are similar in format to Exhibits 2 through 5).

We have concluded that the 40.0% net ceded premium is reasonable in relation to the ceded risk given the following:

- The internal rate of return (IRR) of the expected dividend stream of 21% and the cumulative return on capital of 11% over the term of the run-off are reasonable relative to returns on capital for primary mortgage insurers; and

- The average reinsurance underwriting results as measured by loss ratios (on both a nominal and present value basis) are reasonable in relation to those of the primary company on a gross and net basis (i.e., before and after the reinsurance contract).

As a technical note, our analysis assumes that the gross mortgage insurance rates are reasonable relative to the risk of the primary insurer. However, we have not conducted an independent review of the primary rates.

Rate of Return Comparison

The Reinsurer's returns were measured on two bases to compare the primary company's returns:

- The internal rate of return of dividends was measured; and
- The cumulative average return on capital was measured.

The internal rate of return of the expected dividend stream is 21% as displayed on Exhibit 7. The internal rate of return is the rate of return which equates the present value of the contributed capital to the flow of dividends. A final dividend at the end of the run-off (year 11) is calculated to liquidate the trust. This final dividend is equal to the remaining investable assets less the unearned premium reserve and loss reserve.

The cumulative return on average capital of 11% is also displayed at the bottom of Exhibit 7. The return on capital for a calendar year is calculated by dividing net income by the average capital during the year (including the contingency reserve). A cumulative return on capital is then calculated over the term of the contract for one book year.

The 21% IRR and 11% return on capital can be compared to the return on capital for the active primary mortgage insurance industry. The returns on average capital for the last twenty-nine years are displayed on Exhibit 10. The returns are calculated in a manner similar to the return on average capital calculation described above and are based on several industry sources.

We believe that the projected returns under the reinsurance structure are reasonable given that they are consistent with those experienced by the industry.

Loss Ratio Comparison

The expected underwriting performance under the reinsurance contract was compared to that of the primary insurer as an additional test of the reasonableness of the ceded premium relative to the risk. The expected loss ratio was projected from our simulation of financial performance separately on a gross basis (i.e., the direct experience of the primary company) and on a ceded basis (i.e., the reinsurer's share of losses) over the term of the reinsurance contract for one book year. Expected net results were then calculated by subtraction. Present value loss ratios were also projected due to the later payout of reinsured losses.

The following table shows the results of our loss ratio analysis which is also outlined on Exhibit 11:

	United Guaranty Residential Insurance Company Atrium Insurance Corporation Expected Loss Ratio Comparison 45% Gross Premium with 11.1% Ceding Commission – 40% Net	
	Nominal	**Present Value**[1]
Gross (UGRIC/UGMIC)	49%	46%
Ceded (the Reinsurer)	41	37
Net (UGRIC/UGMIC)	55	53

[1] Based on a 4.5% yield

We believe that the reinsurance premium is reasonable in relation to the reinsured risk since the projected expected loss ratios for the Reinsurer are reasonable in relation to the loss ratios for the primary insurer (UGRIC/UGMIC). The reinsurance coverage provides the primary company with significant reinsurance protection attaching at profitable levels for the primary company and reducing volatility in the years with above average losses.

The table below demonstrates the reinsurer's more volatile performance by showing the loss ratios at various probability levels:

	United Guaranty Residential Insurance Company Atrium Insurance Corporation Loss Ratio Comparison at Probability Levels 40% Net Ceded Premium	
Probability Level	**Net Primary Insurer**	**Ceded**[1]
50%	54%	0%
60	61	17
70	63	49
80	65	98
90	78	176
95	136	191

[1] Net of ceding commission

The interpretation of the probability levels above is that they represent the probability that a single book year has a projected loss ratio at or below the indicated level. For example, the primary insurer's net loss ratio is 136% at the 95% probability level while the reinsurer's loss ratio is 191%. There is a 95% chance that the reinsurer will have a loss ratio at or below 191%. Therefore, there is a 5% chance (i.e., 1.0 - 95%) that the reinsurer's loss ratio will be higher than 191%. As demonstrated above, the reinsurance provides significant protection above the 70% probability level which significantly reduces the volatility of the primary insurer's loss ratio. As a technical note, the table above assumes that all reinsured losses are satisfied through sufficient capital and cross-collateralization.

CONFIDENTIAL

QUALIFICATIONS AND LIMITATIONS

It is our understanding that the tests, requirements and areas of evaluation outlined in the HUD Letter are the Department's interpretation of various federal laws and regulations. Furthermore, the Department may consider items not specifically addressed in our tests in determining the permissibility of a particular captive reinsurance arrangement. We are not lawyers, and nothing in this report is intended to provide legal assurance that the requirements of these laws are met. We are also not accountants or auditors. We therefore do not offer opinions as to whether there is compliance with any applicable accounting or auditing standards. The tests addressed by Milliman involve financial and actuarial analysis and judgment. Our opinions are from those perspectives. Also, we are not opining on the capital adequacy or financial condition of the Reinsurer.

In performing this analysis, we have relied on data and other information provided and represented to us by UGRIC/UGMIC. We have not audited, verified, or reviewed this data and other information for reasonableness and consistency. Such a review is beyond the scope of our assignment. If the underlying data or information is inaccurate or incomplete, our analysis may likewise be inaccurate or incomplete.

Any study of future operating results involves estimates of future contingencies. While our analysis represents our best professional judgment, arrived at after careful analysis of the available information, it is important to note that a significant degree of variation from our projections is not only possible, but is in fact probable. The sources of this variation are numerous: future national or regional economic conditions, mortgage prepayment speeds, and

legislative changes affecting the program are examples. Furthermore, we have assumed average nationwide claim experience provided by UGRIC/UGMIC is appropriate. This experience has substantial geographical and lender diversification. To the extent that a lender's insured loan volume, trust account balance, risk profile or claims experience differs significantly from our assumptions, the results of our analysis may not be appropriate (in general, we believe the risk and variability increases as a lender's operations get more regionally concentrated than inherently diverse national experience, and higher variability makes it easier to satisfy the tests described herein). Also, we have assumed that UGRIC/UGMIC's current primary mortgage insurance rates are reasonable relative to their risk, although we have not conducted an independent review of primary rates.

Our analysis assumes the Reinsurer's books of business terminate at their natural expiration (i.e., either at cut-off or at the end of run-off) and does not take into account any possible commutation of insured books. It is possible that a commutation could materially impact Milliman's opinions with regard to the transfer of risk and the compensation commensurate with the risk. Furthermore, it is likely that any commutation would affect the cross-collateralization between book years referenced in the Transfer of Risk Analysis section of this report.

In evaluating whether the ceded premium is reasonable relative to the ceded risk, Milliman determines whether the ceded premium is within a range of reasonable prices based on a simulation of projected financial results for the reinsurer. Milliman estimates the expected financial performance under the contract based on the average penetration of losses into the reinsured layer under the projected scenarios and compares the underwriting performance and

returns to those of the primary insurers. As a neutral party providing our opinion, Milliman does not determine whether a particular deal is more advantageous for the ceding company or the reinsurer. Many factors affect a company's decision to enter into particular reinsurance contracts (e.g., risk appetite, capital, earnings volatility, and risk management considerations are several examples). It is UGRIC/UGMIC's ultimate decision as to whether or not they enter into any particular reinsurance agreement.

LIMITED DISTRIBUTION OF RESULTS

This report has been prepared for the use of and is only to be relied upon by the management of UGRIC/UGMIC. No portion of this report may be provided to any other party without Milliman's prior written consent. In the event such consent is provided, the report must be provided in its entirety. This report may not be filed with the SEC or other securities regulatory bodies. In the event Milliman's work is distributed to other parties due to statute or regulations, or by agreement of Milliman and UGRIC/UGMIC, Milliman requires that its work be distributed in its entirety, and that any recipient be advised to have their own actuary review the work. Milliman does not intend to benefit any third party recipient of its work product or create any legal duty from Milliman to a third party even if Milliman consents to the release of its work product to such third party.

Any reader of this report must possess a certain level of expertise in areas relevant to this analysis to appreciate the significance of the assumptions and the impact of these assumptions on the illustrated results. The reader should be advised by, among other experts, actuaries or other professionals competent in the area of actuarial projections of the type in this report, so as to properly interpret the projection results.

We hereby agree that copies of this report may be given to UGRIC/UGMIC's accounting auditors, UGRIC/UGMIC's attorneys and the relevant insurance regulatory authorities, provided that they agree not to distribute it further unless required to do so by law.

♦ ♦ ♦ ♦ ♦

ECX 0177

CONFIDENTIAL CFPB-PHH-00871532

If you should have any questions with regard to this analysis or would like to have us consider additional information, please do not hesitate to contact us. We appreciate the opportunity to work with United Guaranty Residential Insurance Company on this assignment.

Respectfully submitted,

Michael C. Schmitz, F.C.A.S., M.A.A.A.
Consulting Actuary

MCS/bas

February 2, 2007

H:\CLIENT\106-UGC\2007\Feb07\Report-Return-40% Net-5 25 15 25 Layer.doc

Exhibit 1
Stress Scenario

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
(Atrium Insurance Corporation -- Reinsurer)
Premium and Loss Analysis - For All Book Years

	Present Value Loss Ratio	Present Value Prems / Losses [1]	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total Prems / Losses
Net Premiums		93,778	4,480	9,926	14,276	17,708	17,437	14,918	11,359	8,435	6,189	4,515	3,105	1,950	980	332	65	0	115,675
Net Premiums Received		93,778	4,480	9,926	14,276	17,708	17,437	14,918	11,359	8,435	6,189	4,515	3,105	1,950	980	332	65	0	115,675
Paid Losses		63,822	0	0	0	0	0	0	3,550	22,895	24,071	18,514	11,817	7,256	4,645	1,633	383	0	94,765
Paid Losses Satisfied	68%	63,816	0	0	0	0	0	0	3,550	22,895	24,071	18,514	11,817	7,256	4,645	1,633	372	0	94,753

[1] Based on 10 year treasury yield for previous calendar years and a 4.5% assumed yield for prospective calendar years. Present valued to the beginning of the contract.

Premium and Loss Analysis - For Prospective Year

	Present Value Loss Ratio	Present Value Prems / Losses [1]	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total Prems / Losses
Net Premiums		9,616	0	0	0	0	1,445	2,592	2,100	1,568	1,126	785	538	370	259	184	65	0	11,033
Net Premiums Received		9,616	0	0	0	0	1,445	2,592	2,100	1,568	1,126	785	538	370	259	184	65	0	11,033
Paid Losses		16,918	0	0	0	0	0	0	0	503	7,033	5,850	4,384	2,433	1,575	0	0	0	21,778
Paid Losses Satisfied	176%	16,918	0	0	0	0	0	0	0	503	7,033	5,850	4,384	2,433	1,575	0	0	0	21,778

[1] Based on a 4.5% assumed yield
Note: Amounts discounted to beginning of prospective calendar year.

ECX 0177

Exhibit 2
Stress Scenario

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
(Atrium Insurance Corporation -- Reinsurer)

		2002 Book Year 1	2003 Book Year 2	2004 Book Year 3	2005 Book Year 4	2006 Book Year 5
Assumed Reinsurance Structure						
Premium	Gross Premium	45.0%	45.0%	45.0%	45.0%	45.0%
	Ceding Commission 1st Year	11.1%	11.1%	11.1%	11.1%	11.1%
	Renewal	11.1%	11.1%	11.1%	11.1%	11.1%
	Net Premium 1st Year	40.0%	40.0%	40.0%	40.0%	40.0%
	Net Premium Renewal	40.0%	40.0%	40.0%	40.0%	40.0%
1st Reinsured Risk Layer	Start (% of Original Risk)	4.0%	4.0%	4.0%	4.0%	5.25%
	End (% of Original Risk)	14.0%	14.0%	14.0%	14.0%	15.25%
	Percentage of Layer Assumed	100.0%	100.0%	100.0%	100.0%	100.0%
	Term of Contract (Years of run-off after initial book year)	10	10	10	10	10
Assumptions						
	Claim Severity incl. loss adjustment (% of coverage)	100%	100%	100%	100%	100%
	Approximate Average Rate (Years 1 through 10)	0.687%	0.750%	0.843%	0.882%	1.006%
	Approximate Average Rate (Years 11 through Term)	0.200%	0.200%	0.200%	0.200%	0.200%
	Approximate Average Coverage	28.42%	28.58%	29.72%	29.66%	29.38%
	PSA	375%	375%	375%	375%	375%
	Loan Volume ($000's)	3,362,552	1,849,507	2,876,544	1,574,656	741,265
	Average Loan ($000's)	139	143	144	155	157
	Loan Counts	24,156	12,931	19,936	10,133	4,727
	Ultimate Loss Rate - Stress Scenario	1.70%	3.87%	7.65%	12.95%	16.12%

		Calendar Year-End														
	Initial Value	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Other Expenses	0	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Capital Contributions	28,970,000	15,500,000	0	0	(16,800,000)	0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Investment Yield	4.57%	5.04%	4.05%	4.15%	4.22%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

Statutory Capital Contribution (Also Minimum Statutory Surplus)	0
Dividend Year	3
Tax Rate	35%
Premium Tax Rate	0.000%
Statutory/Partner Risk To Capital Ratio - Cash	10 to 1
Statutory/Partner Risk To Capital Ratio - Cash for Dividend	5 to 1

ECX 0177

CONFIDENTIAL

Exhibit 3
Stress Scenario

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
(Atrium Insurance Corporation -- Reinsurer)
Pro Forma Statutory Balance Sheet
Multiple Book
(Dollars in 000's)

	Year-End 0	Year-End 1	Year-End 2	Year-End 3	Year-End 4	Year-End 5	Year-End 6	Year-End 7	Year-End 8	Year-End 9	Year-End 10	Year-End 11	Year-End 12	Year-End 13	Year-End 14	Year-End 15
Assets																
Investable Assets	28,970	48,452	56,275	67,280	64,021	62,493	65,932	79,712	72,744	57,631	45,808	33,220	18,247	3,006	398	(12)
Tax and Loss Bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Assets	28,970	48,452	56,275	67,280	64,021	62,493	65,932	79,712	72,744	57,631	45,808	33,220	18,247	3,006	398	(12)
Liabilities																
Unearned Premium Reserve	0	407	518	810	841	789	609	455	335	245	178	115	70	26	7	0
Loss Reserve	0	0	0	0	0	0	3,550	22,895	24,071	18,514	11,817	7,256	4,645	1,633	383	0
Contingency Reserve	0	2,316	7,843	15,727	25,671	35,504	43,984	32,080	16,177	3,657	0	0	0	0	0	40
Total Liabilities	0	2,723	8,362	16,537	26,512	36,293	48,143	55,431	40,583	22,416	11,995	7,372	4,715	1,659	391	40
Surplus (Before Capital Contribution)	28,970	30,229	47,913	50,743	54,309	41,109	27,218	24,281	32,161	35,215	33,813	31,488	24,471	13,560	1,319	(52)
Capital (Surplus + Cont. Rsv.)		32,545	55,756	66,470	79,980	76,613	71,202	56,361	48,338	38,872	33,813	31,488	24,471	13,560	1,319	(12)
Reinsured Risk		95,564	148,423	233,914	280,618	302,396	302,396	298,846	275,951	251,880	233,366	125,986	65,870	6,444	0	0
Risk-to-Capital Ratio		2.9	2.7	3.5	3.5	3.9	4.2	5.3	5.7	6.5	6.9	4.0	2.7	0.5	0.0	NA
Capital Constraints																
Required Risk-to-Capital Ratio		10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Required Risk Capital		9,556	14,842	23,391	28,062	30,240	30,240	29,885	27,595	25,188	23,337	12,599	6,587	644	0	0
Statutory Capital Requirement (including Contingency Reserve)		2,316	7,843	15,727	25,671	35,504	43,984	32,080	16,177	3,657	0	0	0	0	0	40
Capital "Deficiency (Excess)"		(22,989)	(40,914)	(43,079)	(51,918)	(41,109)	(27,218)	(24,281)	(20,743)	(13,684)	(10,476)	(18,889)	(17,884)	(12,916)	(1,319)	52
Dividend Required Risk-to-Capital		5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
102% of the Dividend Required Risk Capital Requirement		19,910	30,807	48,545	58,104	62,494	65,931	84,782	81,188	70,518	59,841	33,220	18,247	3,007	398	0
102% of the Contingency Reserve Capital Requirement		2,778	8,529	16,868	27,042	37,019	49,106	56,540	41,395	22,865	12,235	7,519	4,809	1,692	398	41
Cash Capital Support / (Dividend)		15,500	0	0	(16,800)	(14,908)	(9,430)	0	0	0	0	(5,639)	(10,939)	(12,212)	(1,311)	0
Surplus After Capital Contribution / Dividend	28,970	45,729	47,913	50,743	37,509	26,200	17,788	24,281	32,161	35,215	33,813	25,848	13,532	1,347	7	(52)
Cumulative 15 Year Capital Contributions		(26,770)														

ECX 0177

Exhibit 4
Stress Scenario

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
(Atrium Insurance Corporation -- Reinsurer)
Pro Forma Statutory Income Statement
Multiple Book
(Dollars in 000's)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Total
Gross Written Premiums (Gross of Ceding Com.)	5,040	11,165	16,059	19,919	19,614	16,781	12,777	9,489	6,962	5,078	3,492	2,193	1,103	373	74	130,119
Ceded Written Premium (Gross of Ceding Com.)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Net Written Premium (Gross of Ceding Com.)	5,040	11,165	16,059	19,919	19,614	16,781	12,777	9,489	6,962	5,078	3,492	2,193	1,103	373	74	130,119
Earned Premiums (Gross of Ceding Com.)	4,633	11,054	15,767	19,888	19,666	16,961	12,931	9,609	7,052	5,145	3,556	2,238	1,146	392	81	130,119
Incurred Losses [1]	0	0	0	0	0	3,550	22,895	24,071	18,514	11,817	7,256	4,645	1,633	383	0	94,765
Ceding Commission	559	1,239	1,783	2,211	2,177	1,863	1,418	1,053	773	564	388	243	122	41	8	14,443
Premium Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Expenses	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	1,500
Total Underwriting Expenses	659	1,339	1,883	2,311	2,277	1,963	1,518	1,153	873	664	488	343	222	141	108	15,943
Underwriting Income	3,973	9,715	13,884	17,577	17,389	11,448	(11,482)	(15,615)	(12,335)	(7,335)	(4,189)	(2,750)	(709)	(133)	(27)	19,411
Investment Income	1,570	2,161	2,630	3,211	3,271	3,146	3,140	3,259	2,869	2,276	1,863	1,373	736	104	9	31,619
Other Income (Expenses)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pre-Tax Net Income	5,544	11,876	16,514	20,788	20,660	14,593	(8,342)	(12,355)	(9,466)	(5,059)	(2,325)	(1,377)	28	(29)	(19)	51,029
Pre-Tax NI After Net Contingency Reserve Contribution	3,227	6,349	8,630	10,844	10,827	6,113	3,562	3,548	3,054	(1,402)	(2,325)	(1,377)	28	(29)	(59)	50,989
Calculated Federal Income Tax [2]	1,969	4,164	5,800	7,278	7,227	5,095	(2,930)	(4,333)	(3,319)	(1,775)	(818)	(485)	7	(11)	(7)	17,860
Cumulative Tax Credit Carry-back Available	0	1,969	6,133	9,965	13,078	14,505	12,322	5,095	0	0	0	0	0	0	0	
Cumulative Tax Credit Carry-forward Available	0	0	0	0	0	0	0	0	0	3,319	5,095	5,913	6,398	6,392	6,403	
Calendar Year Tax Credit Utilized	0	0	0	0	0	0	2,930	4,333	0	0	0	0	7	0	0	
Federal Tax Incurred	1,969	4,164	5,800	7,278	7,227	5,095	(2,930)	(4,333)	0	0	0	0	0	0	0	24,270
Net Income	3,575	7,711	10,714	13,510	13,432	9,498	(5,412)	(8,023)	(9,466)	(5,059)	(2,325)	(1,377)	28	(29)	(19)	26,759
Cumulative Net Income [3]	3,575	11,286	22,000	35,510	48,943	58,441	53,029	45,007	35,541	30,482	28,156	26,779	26,807	26,778	26,759	
Increase in Contingency Reserve	2,316	5,527	7,883	9,944	9,833	8,480	(11,904)	(15,903)	(12,520)	(3,657)	0	0	0	0	40	
Increase In Surplus (Excluding Capital Contribution)	1,259	2,185	2,830	3,566	3,600	1,018	6,492	7,880	3,054	(1,402)	(2,325)	(1,377)	28	(29)	(59)	26,719

[1] Based on the assumed ultimate loss rates displayed on the assumptions sheet.
[2] Without recognizing the tax deductibility of contingency reserve contributions. Recognizing the taxation of 20% of the increase in the unearned premium reserve.
[3] This does not reflect a deduction for contributions to the contingency reserve.

ECX 0177

Exhibit 5
Stress Scenario

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
(Atrium Insurance Corporation -- Reinsurer)
Pro Forma Projections (Statutory)
Cash Flows, Changes In Assets and Investment Income
Multiple Book
(Dollars in 000's)

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
A	Beginning Assets	28,970	48,452	56,275	67,280	64,021	62,493	65,932	79,712	72,744	57,631	45,808	33,220	18,247	3,006	398
B	Net Written Premium	5,040	11,165	16,059	19,919	19,614	16,781	12,777	9,489	6,962	5,078	3,492	2,193	1,103	373	74
C	Paid Losses	0	0	0	0	0	0	3,550	22,895	24,071	18,514	11,817	7,256	4,645	1,633	383
D	Underwriting Expenses	659	1,339	1,883	2,311	2,277	1,963	1,518	1,153	873	664	488	343	222	141	108
E	Net Underwriting Cash Flow (B - C - D)	4,380	9,826	14,176	17,608	17,337	14,818	7,709	(14,560)	(17,982)	(14,099)	(8,812)	(5,407)	(3,765)	(1,401)	(418)
Non-Investable Assets																
F	Initial Tax and Loss Bond Asset (Beg. Contingency Rsv x Tax Rate)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
G	Tax and Loss Bonds Purchased in Year (Annual Contrib. to Cont. Rsv x Tax Rate)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
H	Other Income (Expenses)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
I	Weighted Average Investable Assets = A + 0.5 x (E + H) - F - (0.5 x G)	31,160	53,365	63,363	76,084	72,690	69,902	69,786	72,432	63,753	50,582	41,402	30,516	16,365	2,306	189
J	Assumed Yield	5.04%	4.05%	4.15%	4.22%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
K	Investment Income (I x J)	1,570	2,161	2,630	3,211	3,271	3,146	3,140	3,259	2,869	2,276	1,863	1,373	736	104	9
L	Federal Income Tax Incurred	1,969	4,164	5,800	7,278	7,227	5,095	(2,930)	(4,333)	0	0	0	0	0	0	0
M	Cash Capital Contribution	15,500	0	0	(16,800)	(14,908)	(9,430)	0	0	0	0	(5,639)	(10,939)	(12,212)	(1,311)	0
N	Ending Assets (A + E + H + K - L + M)	48,452	56,275	67,280	64,021	62,493	65,932	79,712	72,744	57,631	45,808	33,220	18,247	3,006	398	(12)

ECX 0177

Exhibit 6
Expected Value Scenario

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
(Atrium Insurance Corporation -- Reinsurer)

Assumed Reinsurance Structure

			Net Premium
Premium	Gross Premium	45.0%	
	Ceding Commission 1st Year	11.1%	40.0%
	Renewal	11.1%	40.0%
Losses			
	Start (% of Original Risk)	5.25%	
	End (% of Original Risk)	15.25%	
	Percentage of Layer Assumed	100.0%	
Assumptions			
	Claim Severity incl. loss adjustment (% of coverage)	100%	
	Approximate Average Rate (Years 1 through 10)	1.006%	
	Approximate Average Rate (Years 11 through Term)	0.200%	
	Approximate Average Coverage	29.38%	
	PSA	375%	
	Loan Volume ($000's)	741,265	
	Average Loan ($000's)	157	
	Loan Counts	4,727	
	Ultimate Loss Rate - Expected Value Scenario	7.78%	
	Other Expenses 1st Year	100,000	
	Other Expenses Subsequent Years	100,000	
	Initial Capital Contribution	2,177,838	
	Capital Contribution - Year 1	0	
	Capital Contribution - Year 2	0	
	Investment Yield	4.50%	
	Statutory Capital Contribution (Also Minimum Statutory Surplus)	0	
	Dividend Year	0	
	Tax Rate	35%	
	Premium Tax Rate	0.000%	
	Statutory/Partner Risk To Capital Ratio - Cash	10 to 1	
	Statutory/Partner Risk To Capital Ratio - Cash for Dividend	5 to 1	
	Term of Contract	10 (Years of run-off for each Reinsured Loan)	

ECX 0177

CONFIDENTIAL

Exhibit 7
Expected Value Scenario

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
(Atrium Insurance Corporation -- Reinsurer)
Pro Forma Statutory Balance Sheet
Single Book
(Dollars in 000's)

	Year-End 0	Year-End 1	Year-End 2	Year-End 3	Year-End 4	Year-End 5	Year-End 6	Year-End 7	Year-End 8	Year-End 9	Year-End 10	Year-End 11
Assets												
Investable Assets	2,178	3,172	4,558	4,532	4,509	5,560	6,211	5,346	4,574	4,094	3,793	2,914
Tax and Loss Bonds	0	0	0	0	0	0	0	0	0	0	0	0
Total Assets	2,178	3,172	4,558	4,532	4,509	5,560	6,211	5,346	4,574	4,094	3,793	2,914
Liabilities												
Unearned Premium Reserve	0	131	113	87	65	48	36	27	20	15	11	0
Loss Reserve	0	0	0	0	0	526	1,803	1,324	840	542	359	120
Contingency Reserve	0	747	2,219	3,429	4,354	5,001	4,067	3,387	3,025	2,840	2,748	2,737
Total Liabilities	0	878	2,331	3,516	4,419	5,576	5,906	4,738	3,885	3,396	3,118	2,857
Surplus (Before Capital Contribution)	2,178	2,294	2,590	2,517	1,252	(16)	441	662	750	799	786	744
Capital (Surplus + Cont. Rsv.)		3,041	4,809	5,946	5,606	4,985	4,508	4,049	3,776	3,639	3,534	3,481
Reinsured Risk		21,778	21,778	21,778	21,778	21,778	21,252	19,449	18,124	17,285	16,743	0
Risk-to-Capital Ratio		7.2	4.5	3.7	3.9	4.4	4.7	4.8	4.8	4.7	4.7	0.0
Capital Constraints												
Required Risk-to-Capital Ratio		10	10	10	10	10	10	10	10	10	10	10
Required Risk Capital		2,178	2,178	2,178	2,178	2,178	2,125	1,945	1,812	1,728	1,674	0
Statutory Capital Requirement (including Contingency Reserve)		747	2,219	3,429	4,354	5,001	4,067	3,387	3,025	2,840	2,748	2,737
Capital "Deficiency (Excess)"		(863)	(2,590)	(2,517)	(1,252)	16	(441)	(662)	(750)	(799)	(786)	(744)
Dividend Required Risk-to-Capital		5	5	5	5	5	5	5	5	5	5	5
102% of the Dividend Required Risk Capital Requirement		4,577	4,558	4,532	4,509	5,029	6,211	5,346	4,574	4,094	3,793	123
102% of the Contingency Reserve Capital Requirement		896	2,378	3,587	4,507	5,687	6,024	4,832	3,963	3,464	3,181	2,914
Cash Capital Support / (Dividend)		0	(364)	(1,501)	(1,162)	0	(135)	(55)	(61)	(102)	(111)	(687)
Surplus After Capital Contribution / Dividend	2,178	2,294	2,226	1,015	90	(16)	305	608	689	697	675	57
Cumulative 11 Year Capital Contributions		(1,999)										
	0	1	2	3	4	5	6	7	8	9	10	11
IRR Equity Flows	(2,178)	0	364	1,501	1,162	0	135	55	61	102	111	3,481
IRR	21%											
Average Capital		2,609	3,743	4,445	4,444	4,715	4,679	4,183	3,855	3,626	3,480	3,108
Cumulative Average Capital		2,609	6,352	10,797	15,242	19,956	24,635	28,818	32,673	36,299	39,779	42,887
Net Income Before Contingency Reserve Contribution		863	1,768	1,501	1,161	541	(478)	(323)	(219)	(75)	(4)	58
Cumulative Net Income (before cont. reserve contrib.)		863	2,631	4,132	5,293	5,834	5,356	5,033	4,814	4,739	4,735	4,793
Cumulative Return on Capital		33%	41%	38%	35%	29%	22%	17%	15%	13%	12%	11%

CONFIDENTIAL

Exhibit 8
Expected Value Scenario

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
(Atrium Insurance Corporation -- Reinsurer)
Pro Forma Statutory Income Statement
Single Book
(Dollars in 000's)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Total
Gross Written Premiums (Gross of Ceding Com.)	1,625	2,925	2,396	1,827	1,364	1,010	749	556	414	310	117	13,293
Ceded Written Premium (Gross of Ceding Com.)	0	0	0	0	0	0	0	0	0	0	0	
Net Written Premium (Gross of Ceding Com.)	1,625	2,925	2,396	1,827	1,364	1,010	749	556	414	310	117	13,293
Earned Premiums (Gross of Ceding Com.)	1,494	2,943	2,421	1,849	1,380	1,023	758	563	419	314	128	13,293
Incurred Losses [1]	0	0	0	0	526	1,803	1,324	840	542	359	120	5,515
Ceding Commission	180	325	266	203	151	112	83	62	46	34	13	1,476
Premium Tax	0	0	0	0	0	0	0	0	0	0	0	0
Other Expenses	100	100	100	100	100	100	100	100	100	100	100	1,100
Total Underwriting Expenses	280	425	366	303	251	212	183	162	146	134	113	2,576
Underwriting Income	1,214	2,518	2,055	1,546	603	(993)	(750)	(439)	(268)	(180)	(105)	5,203
Investment Income	128	199	251	238	228	256	252	220	193	176	163	2,303
Other Income (Expenses)	0	0	0	0	0	0	0	0	0	0	0	0
Pre-Tax Net Income	1,342	2,717	2,306	1,784	831	(736)	(498)	(219)	(75)	(4)	58	7,506
Pre-Tax NI After Contingency Reserve Contribution	595	1,246	1,096	860	184	198	182	142	110	89	69	4,770
Calculated Federal Income Tax [2]	479	950	805	623	290	(259)	(175)	(77)	(27)	(2)	19	2,627
Cumulative Tax Credit Carry-back Available	0	479	1,429	1,755	1,428	913	290	0	0	0	0	
Cumulative Tax Credit Carry-forward Available	0	0	0	0	0	0	0	0	77	104	105	
Calendar Year Tax Credit Utilized	0	0	0	0	0	259	175	0	0	0	19	
Federal Tax Incurred	479	950	805	623	290	(259)	(175)	0	0	0	0	2,713
Net Income	863	1,768	1,501	1,161	541	(478)	(323)	(219)	(75)	(4)	58	4,793
Cumulative Net Income [3]	863	2,631	4,132	5,293	5,834	5,356	5,033	4,814	4,739	4,735	4,793	
Increase in Contingency Reserve	747	1,471	1,211	925	647	(934)	(680)	(361)	(185)	(92)	(11)	
Increase In Surplus (Excluding Capital Contribution)	116	296	290	237	(106)	456	357	142	110	89	69	2,056

[1] Based on the assumed ultimate loss rates displayed on the assumptions sheet.
[2] Without recognizing the tax deductibility of contingency reserve contributions. Recognizing the taxation of 20% of the increase in the unearned premium reserve.
[3] This does not reflect a deduction for contributions to the contingency reserve.

ECX 0177

Exhibit 9
Expected Value Scenario

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
(Atrium Insurance Corporation -- Reinsurer)
Pro Forma Projections (Statutory)
Cash Flows, Changes In Assets and Investment Income
Single Book
(Dollars in 000's)

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
A	Beginning Assets	2,178	3,172	4,558	4,532	4,509	5,560	6,211	5,346	4,574	4,094	3,793
B	Net Written Premium	1,625	2,925	2,396	1,827	1,364	1,010	749	556	414	310	117
C	Paid Losses	0	0	0	0	0	526	1,803	1,324	840	542	359
D	Underwriting Expenses	280	425	366	303	251	212	183	162	146	134	113
E	Net Underwriting Cash Flow (B - C - D)	1,345	2,500	2,030	1,524	1,112	272	(1,238)	(930)	(571)	(366)	(355)
Non-Investable Assets												
F	Initial Tax and Loss Bond Asset (Beg. Contingency Rsv x Tax Rate)	0	0	0	0	0	0	0	0	0	0	0
G	Tax and Loss Bonds Purchased in Year (Annual Contrib. to Cont. Rsv x Tax Rate)	0	0	0	0	0	0	0	0	0	0	0
H	Other Income (Expenses)	0	0	0	0	0	0	0	0	0	0	0
I	Weighted Average Investable Assets = A + 0.5 x (E + H) - F - (0.5 x G)	2,850	4,422	5,573	5,294	5,065	5,696	5,592	4,881	4,288	3,911	3,616
J	Assumed Yield	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
K	Investment Income (I x J)	128	199	251	238	228	256	252	220	193	176	163
L	Federal Income Tax Incurred	479	950	805	623	290	(259)	(175)	0	0	0	0
M	Cash Capital Contribution	0	(364)	(1,501)	(1,162)	0	(135)	(55)	(61)	(102)	(111)	(687)
N	Ending Assets (A + E + H + K - L + M)	3,172	4,558	4,532	4,509	5,560	6,211	5,346	4,574	4,094	3,793	2,914

ECX 0177

Exhibit 10

Active Mortgage Insurance Industry Net Income as Percent of Average Capital

	Net Income % Average Capital	Source
1977	26.4%	UGRIC filing
1978	21.6%	UGRIC filing
1979	29.0%	UGRIC filing
1980	27.4%	UGRIC filing
1981	25.5%	UGRIC filing
1982	13.1%	UGRIC filing
1983	13.7%	UGRIC filing
1984	2.6%	S&P
1985	0.7%	S&P
1986	9.2%	S&P
1987	3.0%	S&P
1988	1.9%	Moody's
1989	13.8%	Moody's
1990	16.4%	Moody's
1991	17.5%	Moody's
1992	22.5%	Moody's
1993	16.9%	Moody's
1994	17.6%	Moody's
1995	21.3%	Moody's
1996	21.1%	Moody's
1997	22.2%	Moody's
1998	17.1%	Milliman [1]
1999	14.7%	Milliman [1]
2000	17.5%	Milliman [1]
2001	15.4%	Milliman [1]
2002	10.2%	Milliman [1]
2003	8.4%	Milliman [1]
2004	8.4%	Milliman [1]
2005	7.9%	Milliman [1]
29 year average:	15.3%	

[1] Based on annual statements filed by the carriers within the industry.

ECX 0177

Exhibit 11
Expected Value Scenario

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
(Atrium Insurance Corporation -- Reinsurer)
Expected Loss Ratio Comparison
45% Gross Premium with 11.1% Ceding Commission - 40% Net Premium

	Gross	Ceded [1]	Net
Premium - Nominal	$29,540	$13,293	$16,247
Premium - Present Value [2]	$25,504	$11,477	$14,027
Expected Losses - Nominal	14,485	5,515	8,970
Expected Losses - Present Value [2]	11,613	4,228	7,385
Expected Loss Ratio - Nominal	49%	41%	55%
Expected Loss Ratio - Present Value [2]	46%	37%	53%

[1] Ceded premium is gross of ceding commission
[2] Based on a 4.5% assumed yield

ECX 0177

CONFIDENTIAL

U. S. Department of Housing and Urban Development
Washington, D. C. 20410-8000

August 6, 1997

Attachment A

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

Mr. Sandor Samuels
General Counsel
Countrywide Funding Corporation
155 N. Lake Avenue
Pasadena, California 91109

Dear Mr. Samuels:

Last year the Department of Housing and Urban Development (the Department) sought from you information on the captive reinsurance program of Amerin Guaranty Corporation (Amerin) with Countrywide Home Loans (Countrywide) and its affiliated reinsurer, Charter Reinsurance (Charter). You then requested that the Department clarify the applicability of Section 8 of the Real Estate Settlement Procedures Act (RESPA) to captive reinsurance programs. For the reasons set forth below, we have concluded that, so long as payments for reinsurance under captive reinsurance arrangements are solely "payment for goods or facilities actually furnished or for services actually performed," these arrangements are permissible under RESPA. See paragraph 8(c)(2) of RESPA, 12 U.S.C. § 2607(c)(2). The following details the facts concerning captive reinsurance programs as we understand them, relevant law, and how the Department will scrutinize these arrangements to determine whether any specific captive reinsurance program is permissible under RESPA.

I. BACKGROUND

A typical captive reinsurance arrangement involves a mortgage lender acting in concert with a fully licensed reinsurance affiliate of the mortgage lender and an unaffiliated primary mortgage insurer. The sole purpose of the reinsurance affiliate is to reinsure loans which the affiliated mortgage lender originates and which the unaffiliated, primary mortgage insurance company insures. The primary mortgage insurer and the reinsurer enter into a contract under which the primary insurer agrees to pay the reinsurer an agreed upon portion of the mortgage insurance premiums for loans originated by the lender and insured by the primary insurer. The lender, therefore, has a financial interest in having the primary insurer in the captive reinsurance program selected to provide the mortgage insurance.

Premiums paid for the reinsurance may be net of an agreed upon "ceding commission," which represents the reinsurer's share of the costs of administering the book of insured business.

Under the contract between the primary insurer and the reinsurer, the reinsurer posts capital and reserves satisfying the laws of the state in which it is chartered and may also establish an additional security fund to ensure that, when a claim against the reinsurer is made, funds will exist to satisfy the claim. In exchange for a portion of mortgage insurance premiums (minus a ceding commission, if applicable) to be paid by the primary insurer, the reinsurer obligates itself to reimburse the primary insurer for an agreed portion of claims that may require payment under the contract. Under different reinsurance arrangements, the reinsurance obligations generally take one of two forms. The first is an "excess loss" arrangement, under which the primary insurer pays, and is solely responsible for, claims arising out of a given book of business up to a predetermined amount, after which the reinsurer is obligated to reimburse the primary insurer's claims up to another predetermined amount. Thereafter, the primary insurer is solely responsible for claims in excess of the reinsurer's tier of losses on a given book. A second type of contract is the "quota share" contract, under which the reinsurer would bear a portion of all insured losses.

Under captive arrangements of which the Department is aware, some degree of disclosure is provided to the consumer about the arrangement and some opportunity is accorded to the consumer to choose whether or not to have the loan insured through a captive reinsurance program.

II. LEGAL ANALYSIS

Subsection 8(a) of RESPA provides that "[n]o person shall give and no person shall accept any fee, kickback, or thing of value pursuant to any agreement or understanding, oral or otherwise, that business incident to or a part of a real estate settlement service involving a federally related mortgage loan shall be referred to any person." 12 U.S.C. § 2607(a). "Thing of value" is further described in the Department's regulations as including "without limitation, monies, things, discounts, salaries, commissions, fees, duplicate payments of a charge, stock, dividends, distributions of partnership profits, franchise royalties, credits representing monies that may be paid at a

future date, the opportunity to participate in a money-making program...." 24 C.F.R. § 3500.14(d). In addition, subsection 8(b) prohibits the giving or receipt of any portion, split or percentage of any charge made or received for the rendering of a real estate settlement service "other than for services actually performed." 12 U.S.C. § 2607(b). These prohibitions against paying for referrals and against splitting fees are very broad and cover a variety of activities.

Subsection 8(c) of RESPA sets forth various exemptions from these prohibitions. It provides, in relevant part, that nothing in section 8 shall be construed as prohibiting "(2) the payment to any person of a bona fide salary or compensation or other payment for goods or facilities actually furnished or for services actually performed." 12 U.S.C. § 2607(c)(2).

The Department's view of captive reinsurance is that the arrangements are permissible under RESPA if the payments to the reinsurer: (1) are for reinsurance services "actually furnished or for services performed" and (2) are bona fide compensation that does not exceed the value of such services.

The rationale behind this two-step analysis is that in instances in which a lender selects the mortgage insurer, including under a captive reinsurance arrangement, the lender's actions would constitute a referral of loans to a mortgage insurer, by influencing the borrower's selection of his or her mortgage insurer. See 24 C.F.R. § 3500.14(f) (definition of "referral"). If the lender or its reinsurance affiliate is merely given a thing of value by the primary insurer in return for this referral, in monies or the opportunity to participate in a money-making program, then section 8 would be violated; the payment would be regarded as payment for the referral of business or a split of fees for settlement services. If, however, the lender's reinsurance affiliate actually performs reinsurance services and compensation from the primary insurer is bona fide and does not exceed the value of the reinsurance, then such payments would be permissible under subsection 8(c). Conversely, any captive reinsurance arrangement in which reinsurance services are not actually performed or in which the payments to the reinsurer are not bona fide and exceed the value of the reinsurance would violate section 8 as an impermissible referral fee.

A. Analysis of Specific Captive Reinsurance Arrangements

The Department will analyze captive reinsurance arrangements to determine if the arrangements comply with RESPA. Factors which may cause the Department to give particular scrutiny to an arrangement and cause it to apply the test set forth in Part II(B) of this analysis include, but are not limited to, the following:

1. The amount charged directly or indirectly to the consumer for mortgage insurance in a captive program is greater than the amount charged to the consumer for mortgage insurance not involving reinsurance for a similar risk.

2. The costs (premiums minus a ceding commission, if applicable) paid to the captive reinsurer are greater than the cost for comparable non-captive reinsurance available in the market.

3. The lender restricts its mortgage insurance business in whole or to a large extent to a primary mortgage insurer that has a reinsurance agreement with the lender's captive reinsurer.

4. Any major secondary market institution refuses to purchase mortgages insured under a particular captive reinsurance agreement or places special conditions on such purchases.

5. Any credit rating agency reduces the rating of the primary mortgage insurer in whole or in part because of agreements with captive reinsurers.

6. Any State regulatory body questions the adequacy of the reserves maintained by the primary mortgage insurer or the captive reinsurer.

7. The primary insurer's agreement to reinsure is conditioned on the affiliated lender's agreement to refer all of or a predetermined volume of its mortgage insurance business to the primary insurer, or the terms of the agreement (such as the percentage of the premium per loan reinsured that is paid to the reinsurer by the primary insurer) fluctuate depending on the volume of the primary insurance business referred by the lender to the primary insurer. The presence of either of these conditions makes it more likely that at least a portion of the compensation paid to the reinsurer is for the referral of mortgage insurance business.

8. Adequate consumer disclosure is not provided. The Department believes that consumers would be well served by a meaningful disclosure[1] and a meaningful choice[2] for consumers about having their loans included in a captive reinsurance program. A demonstrated willingness to provide such a disclosure may indicate that the arrangement is designed to provide real reinsurance.

The Department does not consider any of these eight factors to be determinative of whether an arrangement merits scrutiny by the Department, nor does it regard the absence of any of these factors to be determinative that further scrutiny is not merited. In addition, as noted in Part II(B), the Department may consider these eight factors in applying the test in Part II(B), to the extent applicable.

B. Test for Whether a Captive Reinsurance Arrangement Violates RESPA

Where the Department scrutinizes a captive reinsurance arrangement, it will apply a two-part test for determining whether the arrangement violates RESPA. The Department will first determine whether the reinsurance arrangement meets three requirements that establish that reinsurance is actually being provided in return for the compensation. If one or more of the requirements is not met, the inquiry will end, and the arrangement will be regarded as an impermissible captive reinsurance arrangement under RESPA. If all of the requirements are met, the Department will determine whether the compensation exceeds the value of the reinsurance. To facilitate its analysis, the Department may use information obtained from the lender, the primary insurer, the captive reinsurer, or other sources, including data on the rate, magnitude, and timing of default losses and mortgage insurance payments and any other

---

[1] A meaningful disclosure would reveal that the captive reinsurance arrangement exists, that the lender stands to gain financially under the arrangement, and that the consumer may choose not to have his or her insurance provided by an insurer in such an arrangement.

[2] A meaningful choice whether to participate would provide the consumer an easy, non-burdensome opportunity to opt out by, for example, indicating a preference one way or the other on a form.

information necessary to undertake the analysis and may exercise its subpoena authority pursuant to 24 C.F.R. part 3800 to obtain such information.

1. Determining that Reinsurance is Actually Being Provided in Return for the Compensation

To determine that a real service--reinsurance--is performed by the reinsurer for which it may legally be compensated, the following requirements must be satisfied:

a. There must be a legally binding contract for reinsurance with terms and conditions conforming to industry standards.

b. The reinsurer must post capital and reserves satisfying the laws of the state in which it is chartered and the reinsurance contract between the primary insurer and the reinsurer must provide for the establishment of adequate reserves to ensure that, when a claim against the reinsurer is made, funds will exist to satisfy the claim. Unless the reinsurer is adequately capitalized and adequate reserves (which may include letters of credit or guarantee arrangements) and funds are available to pay claims, real services are not being provided.

c. There must be a real transfer of risk. The reinsurance transaction cannot be a sham under which premium payments (minus a ceding commission, if applicable) are given to the reinsurer even though there is no reasonable expectation that the reinsurer will ever have to pay claims. This requirement for a real transfer of risk would clearly be satisfied by a quota share arrangement, under which the reinsurer is bound to participate pro rata in every claim. The requirement could also be met by excess loss arrangements, if the band of the reinsurer's potential exposure is such that a reasonable business justification would motivate a decision to reinsure that band. Unless there is a real transfer of risk, no real reinsurance services are actually being provided. In either case, the premiums paid (minus a ceding commission, if applicable) must be commensurate to the risk, as discussed in Part II(B)(2).

In evaluating these requirements, the Department may also consider the factors in Part II(A), to the extent relevant. If any of the requirements in this Part II(B)(1) is not met, the arrangement will be regarded as an impermissible reinsurance arrangement under RESPA. If any of the requirements is not met, the "service" being compensated would appear to be the lender's referral of business to the mortgage insurer, which RESPA prohibits.

2. Determining that the Compensation Paid for Reinsurance Does Not Exceed the Value of the Reinsurance

If the requirements in Part II(B)(1) for determining that reinsurance is actually being provided in return for the compensation are met, the Department will then determine whether the compensation paid for reinsurance does not exceed the value of the reinsurance. The Department will evaluate whether the compensation is commensurate with the risk and, where warranted, administrative costs. The Department's evaluation of this requirement may:

-- Compare, using relevant mathematical models, the risk borne by the captive reinsurer with the payments provided by the primary insurer.

-- Analyze the likelihood of losses occurring, the magnitude and volatility of possible losses, the amount of payments received, the timing of the payments and potential losses, current market discount rates, and other relevant factors.

-- Take into account the relative risk exposure of the primary lender and the captive reinsurer.

-- Consider the extent to which the lender or the firm controlling the captive reinsurer is shielded from potential losses by inadequate reserves and a corporate structure that segregates risks.

-- Examine other financial transactions between the lender, primary insurer, and captive reinsurer to determine whether they are related to the reinsurance agreement.

-- Examine whether the ceding commission is commensurate with the administrative costs assumed by the primary insurer.

In making this evaluation, the Department may also consider the factors in Part II(A), to the extent relevant. If the Department concludes that the compensation paid for the reinsurance exceeds the value of the reinsurance pursuant to the analysis in this Part II(B)(2), the arrangement will be regarded as an impermissible reinsurance arrangement under RESPA and the payments exceeding the value of the reinsurance will be considered a referral fee or unearned fee.

III. CONCLUSION

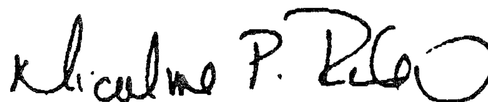
In setting forth this analysis, the Department notes the trend in the mortgage market toward increased diversification of risk. The Department welcomes such trends to the extent that

such arrangements increase the availability of mortgage credit. Where RESPA would not preclude such arrangements, the Department would generally support them.

The Department believes the system of mortgage insurance and reinsurance is not necessarily comparable to other types of settlement services. Thus, the Department could analyze other settlement service programs differently, depending on the facts of the particular program.

I trust that this guidance will assist you to conduct your business in accordance with RESPA.

Sincerely,



Nicolas P. Retsinas
Assistant Secretary for
Housing-Federal Housing
Commissioner

cc: Mr. Randolph C. Sailer II
Senior Vice President and General Counsel
Amerin Guaranty Corporation
200 East Randolph Drive, 49th Floor
Chicago, IL 60601-7125

EXHIBIT 68

PROPOSAL FOR

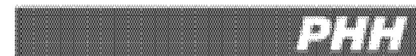
MORTGAGE INSURANCE PARTNERSHIP

PREPARED FOR

PHH MORTGAGE

BY

AIG UNITED GUARANTY



PHH MORTGAGE
MT. LAUREL, NEW JERSEY

OCTOBER 18, 2006

BY

AIG United Guaranty

United Guaranty Corporation
230 N. Elm Street
Greensboro, NC 27401
800.334.8966
336.412.0929 Fax

October 18, 2006

Mr. Sam Rosenthal, Vice President
PHH Mortgage
Mailstop SM2
3000 Leadenhall Road
Mt. Laurel, NJ 08054

Dear Sam:

This proposal describes the comprehensive mortgage insurance products and financial services that AIG United Guaranty[1] provides – and can provide – as a partner with PHH Mortgage. For 15 years, we have worked closely with PHH at every level to develop a thorough understanding of your business model and to respond to your operating needs with the best in risk management tools.

There is no question about our commitment to meeting your business needs, and that will not change going forward.

This proposal addresses your recent RFI as fully and succinctly as possible, and we stand ready to discuss in further detail any points you wish to clarify. It is the intent of our response to maintain our current share position through continued reliable products, services, and support, as well as through expanded solutions involving program development, pricing alternatives, and structured products.

We believe that the comprehensive services presented here will lead to not only to retaining, but also to *expanding* our current business partnership.

AIG United Guaranty's unique structure includes a strong parent company whose brand and capital strength are recognized throughout the world, as well as comprehensive services that support the broad mix that PHH affiliates offer. I look forward to working with you and your team to discuss the options described in this proposal.

Sincerely,

Nick Nicholes
Vice President–National Accounts

A Member Company Of American International Group, Inc.

[1] AIG United Guaranty is a marketing term for United Guaranty Corporation and its subsidiaries.

PHH MORTGAGE
PROPOSAL FOR MORTGAGE INSURANCE PARTNERSHIP

CONTENTS

Transmittal Letter

Executive Summary 1

Detailed RFI Response

Corporate Strength and Company Overview 3
Products and Services 6
Risk-Sharing and Credit Enhancement Alternatives 11
Policy Servicing 16
Economic and Market Analysis 18
Other Capabilities and Ancillary Services
  Technology Services 19
  Training Resources 21
  Borrower Education 22
  Contract Underwriting 23

Appendices

Appendix A: Fitch and Moody's Ratings Reports
Appendix B: Lender-Paid MI (PHH) – Terms and Rate Schedule
Appendix C: AIG United Guaranty Products and Services
Appendix D: Current Captive Portfolio
Appendix E: Standard & Poor's Report – "Will Housing's Fall Make The Economy Tumble?" (October 12, 2006)

EXECUTIVE SUMMARY

Corporate Strength and Company Overview
A member company of AIG International Group, Inc. (AIG) since 1981, AIG United Guaranty has assets of $3.1 billion and is backed by our parent's total assets of $853 billion at the end of 2005.

AIG United Guaranty has four operating groups:

1. Domestic Residential Group: Domestic residential mortgage insurance.
2. Domestic Consumer Group: Insurance on second mortgages, home equity lines of credit, and private education loans.
3. International Group: International mortgage insurance operations in 15 countries.
4. Domestic Services Group: Fraud recovery services by Investors Mortgage Asset Recovery Corporation (IMARC).

Our executive management team is highly experienced, with backgrounds in both insurance and mortgage lending. Biographies are included in the body of this response.

Products and Services
We have addressed each market segment requested in the RFI, and we have also provided information on several recently developed products and programs available to PHH Mortgage. **Appendix C** provides a comprehensive overview of products not discussed in the various sections of the RFI response.

Risk-Sharing and Credit Enhancement Alternatives
Together with PHH Mortgage, AIG United Guaranty created the first captive reinsurer for the mortgage industry – PHH's Atrium. Most recently, we have worked with PHH to develop coverage and bulk delivery for your "SURE" products. We also are active in GSE pool, pool insurance coverages, and bulk coverages to facilitate the sale of Alt-A, A-minus, subprime, ARMs, and FRMs.

Additional risk-sharing structures that are created and comply with laws and regulations will be seriously considered. We continuously look for ways to create innovative risk-sharing structures and will present those to PHH Mortgage as developments occur.

Policy Servicing
AIG United Guaranty provides fast and fair service, from loss mitigation (which we delegate to PHH) through claim payment. We pay 25% of claims the same day they are received. Most are paid within three days. This response addresses each policy-servicing topic required by the RFI. We have also included information about our fraud recovery subsidiary, Investors Mortgage Recovery Asset Company, LLC (IMARC).

Economic and Market Analysis
Using our proprietary ACUScore® loan quality scoring system and our ACUFactor® market rating, AIG United Guaranty can provide PHH Mortgage meaningful, up-to-date market data on a regular basis. Routine meetings of our risk management teams are another important component of profiling product and market risks. In addition, the AIG R&D Corporate Information Center in AIG headquarters can provide supplemental secondary research

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013165
ECX 0032
CFPB-PHH-00141751

when requested. Recent research by Standard & Poor's is provided in **Appendix E** as an example of material we can obtain for PHH through the Corporate Information Department. Primary research is available as well.

Other Capabilities and Ancillary Services
Technology Services
As stated above, AIG United Guaranty provides technology solutions to our clients. We often create custom solutions, and we are ready to do so with PHH, which has already established an EDI arrangement with us. AIG United Guaranty also is committed to maintaining the highest security measures, as evidenced by our recent security program certification by Cybertrust, the largest security-consulting firm in the United States.
This certification reflects AIG United Guaranty's ongoing compliance with an extensive and continuous security assurance process and validates the company's risk reduction practices.

Training Services
Although PHH has not used our training support services in the past, we do offer comprehensive staffing, online resources, and customized programs through our industry-recognized Mortgage Industry Training (MIT) Department. We provide on-site seminars and workshops, as well as online training. Topics range from customer service, to leadership, to mortgage lending essentials.

Borrower Education
A leader in homeowner education, we currently certify 15,000 prospective homeowners each year through our award-winning *The Road to Home Ownership*® home buyer education and counseling programs. To date, we have provided education for more than 125,000 potential buyers. Additionally, our Emerging Markets Locator allows a lender or originator to determine top markets (MSA) by ethnic group, gender, or other factors.
AIG United Guaranty works with lenders, community and housing action groups, and state and local finance agencies to promote home ownership to underserved and emerging markets. Minorities are expected to account for 64% of household growth over the next 20 years.

Contract Underwriting
Whether through traditional on-site or AIG United Guaranty offices, or through specially designed technology like Premier Compliance,® we are a major provider of high-quality contract underwriting. We strive to provide a 24-hour turnaround. By combining our DPI Underwriting® technology with BlitzDocs, we provide outstanding service to brokers as well as correspondent lenders.

AIG United Guaranty has in the past provided contract underwriting services for special projects at PHH Mortgage.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013166
ECX 0032
CFPB-PHH-00141752

CORPORATE STRENGTH AND COMPANY OVERVIEW

Consolidated Financial Highlights as of December 31, 2005
AIG United Guaranty's financial strength and capabilities uniquely qualify us to be a mortgage insurance partner to lenders of PHH Mortgage's size and stature.

We are proud of our steady growth in assets, capital, total insurance in force, and new insurance written. As our total insurance in force (all lines combined) topped $116.4 billion in 2005, our financial commitment to mortgage lending has also grown. Last year, total capital – consisting of total policyholders' surplus and contingency reserves – increased to $2.4 billion, and total assets reached $3.1 billion. AIG United Guaranty has the financial strength to protect lenders, servicers, and investors against borrower default in any business cycle, demonstrated in 2005, as we paid more than $146.4 million in claims. Ratings statements from Fitch and Moody's appear in **Appendix A**.

AIG United Guaranty's Operating Groups
AIG United Guaranty began to diversify its revenue sources in 1998 with the addition of new international and domestic business units, and in 2003, we organized our operations along customer base and business functions. Each operating group functions under the leadership of a group executive, who oversees all operations for the business units within the group, as defined below:

- The **Domestic Residential Group** provides insurance on products and services for originators of first mortgage loans.
- The **Domestic Consumer Group** consists of companies that insure lenders against losses on second mortgages, home equity lines of credit, and private education loans.
- The **International Group** now has operations and business development offices in 15 international locations.
- The **Domestic Services Group** combines the services and functions that are important to AIG United Guaranty's lender customers, including mortgage fraud recovery services through Investors Mortgage Asset Recovery Company, LLC (IMARC).

Parent Company
AIG United Guaranty has been a member company of American International Group since 1981. AIG, world leaders in insurance and financial services, is the leading international insurance organization with operations in more than 130 countries and jurisdictions. With total assets of $853 billion at the end of 2005, AIG investments, which include MBSs composed of PHH Mortgage's residential products, total hundreds of millions of dollars each year. In addition, credit enhancements and other financial products from AIG are available to PHH on a continuing basis.

Management Team
AIG United Guaranty's senior and executive management team comprises experienced risk, operations, and financial professionals who provide the broad expertise required to understand PHH's long-term goals and provide the support necessary to execute your MI strategy. A brief overview of our management team follows.

- **Bill Nutt, President and Chief Executive Officer**
  President and CEO since 2001, Bill Nutt oversees United Guaranty Corporation's four operating groups and ensures that resources are made available to serve national accounts, international customers, and customers

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013167

who make consumer loans. Nutt has overseen a number of enhancements at AIG United Guaranty, as the company provides new ways to meet the needs of our largest customers.

- **Jason Bohrer, Executive Vice President and Group Executive, Domestic Residential Group**
  As EVP and Group Executive, Jason Bohrer is responsible for the growth and profitability of the DRG. His direct reports include senior management of DRG sales and operations; national accounts, risk management and credit policy; business operations, and marketing and product development. Bohrer's 20 years of experience in housing finance includes executive positions with a number of national lenders.

- **Alan Atkins, President and Group Executive, Domestic Consumer Group**
  For 24 years, Alan Atkins has been involved in the management of AIG United Guaranty's credit insurance companies, which insure second mortgages, home equity lines of credit, and private education loans. Well versed in the opportunities and challenges of consumer lending, Atkins works closely with the consumer arms of our largest lenders to support risk strategies related to home equity lending.

- **Cindy Kirkley, Senior Vice President and Group Executive, Domestic Services Group**
  Cindy Kirkley leads AIG United Guaranty's Domestic Services Group, which includes Investors Mortgage Asset Recovery Company, LLC, a provider of mortgage fraud recovery services. Prior to her current position, Kirkley spent seven years as National Accounts Vice President with United Guaranty Residential Insurance Company.

- **Doug Rivenburgh, Senior Vice President and Group Executive, International Group**
  Doug Rivenburgh is responsible for developing and managing AIG United Guaranty's international activities worldwide. He worked in Hong Kong from November 1998 until 2004, and was instrumental in developing the relationship with the Hong Kong Mortgage Corporation. He now oversees operations and business development in 15 international locations. Previously, Rivenburgh was in charge of structured products at AIG United Guaranty.

- **Chris Clement, Senior Vice President–National Accounts**
  Chris Clement manages all aspects of AIG United Guaranty's support for our national lenders and their market strategies. He most recently was senior vice president–field operations for the east region of AIG United Guaranty's Domestic Residential Group. Clement joined the company in 1984.

- **Dan Walker, Senior Vice President–Structured Products**
  Dan Walker oversees all aspects of the DRG's Structured Products team including captive reinsurance and bulk transactions. Since joining AIG United Guaranty in 1987, he has overseen the development and introduction of AIG United Guaranty's proprietary mortgage scoring and econometric risk indices; development and growth of the structured products group, including the successful start-up and federal approval of the industry's first captive reinsurance arrangements; product introduction; and industry analysis.

- **Kurt Smith, Senior Vice President–Risk Management**
  Kurt Smith, who joined AIG United Guaranty in March 2002, oversees portfolio analytics, credit policy, and operational risk management for the Domestic Residential Group. His team of risk managers regularly consults with mortgage lenders to review portfolio performance and loan program results. Previously, Smith spent five years with Fannie Mae in the product development and credit policy division.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013168
ECX 0032
CFPB-PHH-00141754

- **Lisa Rambler, Senior Vice President–Marketing and Product Development**
  A recent addition to the DRG team, Lisa Rambler has more than 20 years of mortgage banking experience, most recently as Senior Vice President of Product Development with a national lender.

- **Nick Nicholes, Vice President–National Accounts**
  A 34-year veteran of the mortgage industry, Nick Nicholes has been with AIG United Guaranty since 1992. He has been the National Accounts executive for PHH Mortgage for 15 years, providing support and liaison services for various initiatives including captive reinsurance, loan program approval, technology support, and performance review and analysis.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013169
ECX 0032
CFPB-PHH-00141755

PRODUCTS AND SERVICES

Product Development Opportunities

As we have for more than 15 years with PHH Mortgage, AIG United Guaranty will discuss your product needs to reach an understanding of PHH objectives and expectations. Since 1991, we have co-developed several products with PHH, and – with the exception of the reverse mortgage program described below – we have approved each request for product approval.

Customer-driven design is a core strategy at AIG United Guaranty. Our group is led by Lisa Rambler, who brings more than 20 years of experience as a lender. An industry leader in innovative product development – we were the first to introduce coverage for 103% LTV mortgages and structured primary insurance with the GSEs – we make it our business to understand yours. In addition, our Product Development Department has introduced specialty fixed-rate and ARM products, mortgage quality scores and indices, customized marketing tools, and value-added programs. We are currently analyzing several products – which we are willing to discuss with PHH – including an automated sales price verification tool, involuntary unemployment insurance, insurance for lot loans, and a full-scale reverse mortgage insurance product.

Specific Products – Discussion

- **Option ARM programs**
  AIG United Guaranty insures option ARM programs, meeting the market need for these mortgage options.

- **IO Programs**
  AIG United Guaranty has approved 28 separate programs with IO features for PHH and its private label clients including Merrill Lynch, Northern Trust, and your Customer Finance division.

- **Discounted lender-paid**
  To our knowledge, AIG United Guaranty's LPMI rates for PHH match (or are slightly better than) any rates filed for the industry. A full term sheet and rate schedule appear in **Appendix B**.

- **Affordable and emerging markets**
  All affordable housing products submitted to AIG United Guaranty by PHH have been approved. Over the past year, PHH has been our largest affordable housing customer, and recently, our VP–Emerging Markets, Tony Lucente, met with Liz Rudolph and her staff at PHH to discuss various options available for your program (please see information on the Emerging Markets Locator and our pre-purchase education DVD in Spanish later in this section).

  More than ever before, minorities, immigrants, and low-income borrowers represent a significant portion of home buyers in America. In the next two decades, minorities are expected to account for 64 percent of household growth, due in part to the dramatic increase in Latin American and Asian immigrants in the U.S.

  In response to these changing demographics, AIG United Guaranty is helping improve housing opportunities for immigrant and other under-served populations as well as low- and moderate-income borrowers. Our goal is to help lenders apply the best solution to building home ownership within every market.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013170
ECX 0032
CFPB-PHH-00141756

To meet this goal, our Emerging Markets Department has four primary objectives:

- *Home-buyer education:* AIG United Guaranty's award-winning *The Road to Home Ownership®* home-buyer education and counseling program helps more borrowers qualify for a mortgage. The program is available in English, Spanish, and Chinese, and in print, online, and DVD formats (more information about this program is provided on page 22).
- *Fair lending:* AIG United Guaranty helps ensure that all borrowers have equal access to home ownership opportunities.
- *Lender programs:* Our Directors of Emerging Markets work with lenders to develop loan programs that meet the needs of specific markets.
- *Industry partnerships:* We've created partnerships with community and housing action groups, state and local housing finance agencies, and other organizations to promote home ownership among Americans in all income ranges and geographic areas.

Emerging Markets Locator: AIG United Guaranty's Emerging Markets Locator is a tool available to lenders of all sizes seeking to expand their presence in emerging markets. This innovative analysis CD enables any lender or originator to determine the top markets (MSAs) in terms of ethnic group, gender, employment, and other criteria. The EML rapidly sorts and compares MSA-related data according to lender-determined criteria, and provides detailed housing, employment, and demographic information for the markets you select.

- **Subprime**
  AIG United Guaranty insures subprime loans, meeting the market need for these mortgage options.

- **Second lien and HELOC products**
  In 2002 PHH introduced AIG United Guaranty's Domestic Consumer Group to the Correspondent Channel of Sovereign Bank. Since then, we've indirectly insured nearly 17,400 PHH loans totaling $640,263,054, and we have had the pleasure of working with the Secondary Marketing and Servicing areas of PHH. We are dedicated to understanding and helping PHH achieve all future growth strategies.

  AIG United Guaranty's Domestic Consumer Group has protected lenders through a wide range of economic cycles for more than 34 consecutive years. Providing credit insurance and risk management options that are unique in our industry, AIG United Guaranty covers equity loans, HELOCs, purchase money seconds, home improvement loans, and education loans. These products support credit risk and operational objectives to do the following:

  - Reduce credit losses on high-LTV assets.
  - Avoid regulatory or statutory limitations on high-LTV assets
  - Increase production by offering options to your customers with limited equity.
  - Offer new insured products, such as purchase money seconds or direct-to-consumer education loans, to meet market demand.
  - Provide cross-selling opportunities by offering an equity line of credit with a first mortgage product.
  - Reduce overhead expenses: no foreclosure is required for payment of a claim.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013171
ECX 0032
CFPB-PHH-00141757

The Domestic Consumer Group is recognized throughout the industry for our exceptional service, and its customer base includes national banks and mortgage lenders, community banks, credit unions, and Wall Street investors that specialize in bulk transactions. AIG United Guaranty delivers customized pricing, delegated underwriting authority, paperless origination, and servicing via Web-based functions.

- **Reverse mortgages**
  AIG United Guaranty has completed program design and programming for a reverse mortgage program. In August 2006, AIG United Guaranty SVP–Marketing and Product Development Lisa Rambler provided details on this program to Liz Rudolph, Rich Bradfield, and other PHH executives.

- **Education loan default insurance**
  The private education loan business is projected to be a $40–$45 billion industry by the 2009–2010 academic year, driven by the cost of tuition, growing enrollment, and the gap between federal loan limits and education costs. AIG United Guaranty's education loan default insurance helps lenders meet the growing market demand for education loans by protecting your bottom line from losses due to borrower default. Each AIG United Guaranty plan features delegated underwriting and multiple pricing options for insurance coverage that's effective with the initial disbursement and remains insured for the life of the loan. With the following programs, we offer a variety of rate plans, coverage structures, and billing/payment schedules:
    - Direct to Student Loan Program
    - Consolidation Loan Program
    - Parent/K-12 Loan Program
    - School Channel Program

Product and Market Segments (October 2005–September 2006)

AIG United Guaranty has reviewed its portfolio of PHH Mortgage loans and compared it to our total portfolio. It is clear that PHH is active in all major product segments.

Identified in the table below are a few market segments that significantly differ from the general portfolio. These differences may be due to the timing of product introduction, as well as aggressiveness or caution in a given sector.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013172
ECX 0032
CFPB-PHH-00141758

Segment	PHH	AIG United Guaranty Portfolio
Refinance	11.7%	28.5%
Loan Size >$417K	2.6%	3.6%
Loan Type		
Fixed	89.2%	71.6%
ARM (No neg am)	3.6%	16.3%
ARM (Neg am)	0%	6.4%
IO	7.2%	5.7%
Special Programs		
Affordable housing	14.4%	7.8%
A-minus	26.9%	9.3%
B	0.2%	3.3%
Limited doc	16.7%	23.3%
Stated Income	14.2%	19.2%
NI/NA	2.4%	2.6%

Other AIG United Guaranty Programs and Service Standards

Mortgage Insurance and Fulfillment

A full list of AIG United Guaranty's mortgage insurance products and services is included in **Appendix C**. In addition to primary mortgage insurance, we offer insurance for second mortgages and HELOCs, education loan default insurance, fraud recovery services (IMARC), a broad range of Web-based products for loan origination, servicing, and data management, and capital markets support.

Proprietary Underwriting and Approved Technology Fulfillment Capabilities

AIG United Guaranty will work to understand PHH's objectives in building efficiency and speed into all aspects of your operations using technology such as paperless file sharing and underwriting.

Paperless Underwriting

AIG United Guaranty's paperless underwriting system, DPI Underwriting,® captures the advantages of digital loan files and automated work processes to give you the fastest possible underwriting decisions for your borrowers. DPI offers easy, flexible solutions for lenders who currently use paper files and for those whose loan packages are in digital form. Regardless of the delivery method selected, loans will be immediately available for underwriting.

1. Send paper loan files directly to our Digital Imaging Center via overnight mail. Our digital imaging specialists quickly scan the documents and store them in our on-line underwriter database.
2. Submit digital loan files via the Internet using our secure portal, United Guaranty's MI Guide.®
3. Fax the files to us. DPI Underwriting incorporates high-speed fax technology that automatically converts your faxed documents to digital images.

BlitzDocs Connection

AIG United Guaranty is connected to the BlitzDocs system from Advectis, Inc., which gives brokers, lenders, MI companies, and others involved in the loan process shared access to files via a secure Web

folder and eliminates the need to store paper files. With this connection, AIG United Guaranty can receive bulk file submissions from lenders with large loan volumes.

Portable Scanning
AIG United Guaranty's portable scanning option includes a scanner, laptop computer, or both for dedicated use with AIG United Guaranty loan submissions. Customers use the equipment to scan the loan files and upload the images via a secure connection on our Internet portal, United Guaranty's MI Guide.® The data files can also be uploaded, which shaves even more time off the underwriting process because underwriters do not have to re-enter borrower data.

Approval Technology Fulfillment Capabilities
Our delegated compliance program, Premier Compliance®), enables approved brokers/lenders to reduce the time it takes to underwrite loans for compliance. This cost- and time-saving program relies on electronic transmission of loan data and provides direct submission to Fannie Mae and Freddie Mac's automated underwriting systems.

Service Standards
At AIG United Guaranty, our service strategy is to "think like the lender," which obligates us to understand your operational and service needs, implement systems to answer those needs, and retool when necessary as your operations change. AIG United Guaranty frequently meets with lenders to implement "operational performance" assessments, which involve discussing and understanding the lender's own service standards, where we fit in, and ways in which we may have to adjust our processes to enable the lender to meet established customer service objectives.

At AIG United Guaranty, customer service and consistently high service levels are considered fundamental in our customer relationships.

Underwriting Decision Delivery
- EDI/Delegated — Immediate

Contract Underwriting Decision Delivery
- Mortgage insurance only — 6 hours
- Mortgage insurance with compliance — 1 business day
- Compliance only — 2 business days

Premium Refunds
- Electronic cancellation — 24 hours
- Manual cancellation — 72 hours

Claims Submissions
- 25% of paid claims are processed and paid on the day received.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013174
ECX 0032
CFPB-PHH-00141760

RISK-SHARING AND CREDIT ENHANCEMENT ALTERNATIVES

November 9, 2006, marks the eleventh anniversary of the 1995 reinsurance agreement with Atrium, and AIG United Guaranty is excited to explore new captive reinsurance opportunities with PHH. Tables illustrating the current captive portfolio appear in **Appendix D**.

Additional Reinsurance

According to its Annual Statement, Atrium Insurance Corporation had $85.6 million in capital and $147.2 million in contingency reserves for a total of $232.9 million in surplus as of December 31, 2005. Total premium income for 2005 was $42 million. AIG United Guaranty is pleased to observe the results of a simple idea in 1993 accumulating into a significantly capitalized reinsurance entity for PHH.

Atrium appears to have surplus reinsurance capacity. Its capitalization and general insurance license with New York presents opportunities that other captive reinsurers may not have.

AIG United Guaranty would consider working with Atrium to find solutions to any risk challenges in PHH's portfolio. There may be some opportunities for Atrium Insurance to reinsure third-party mortgage guaranty business to better utilize its capital and we would be willing to discuss these opportunities.

Thinking Long-Term

The success of Atrium also points to the true value of investing in long-term, well-managed partnerships. The net retained value to AIG United Guaranty of the PHH business since 1993 has surely been of comparable magnitude as that recorded on the books of Atrium.

Regulatory Changes Ahead

Both New York and Minnesota insurance regulators have active investigations into mortgage guaranty reinsurance arrangements. We cannot be sure if there will be any regulations coming out of these investigations, but there is a distinct possibility of some regulation in 2007 or 2008. Atrium, with its solid capital base and New York licensing, is uniquely positioned to adapt to regulatory changes. AIG United Guaranty believes we can work together to capitalize on any developments that may unfavorably impact less rigorously licensed captive entities.

We are determined to be a full risk partner in this regard.

Quota Share

AIG United Guaranty offers a **quota share captive reinsurance program**. With this arrangement, the lender shares in a portion of all the premiums and losses associated with the lender's book of business. In contrast to an excess of loss structure, the lender provides reinsurance coverage on the first dollar of losses, rather than after losses exceed a certain level. Some key features of a quota share program:

- Premiums and losses are shared in the same proportion.
- Initial and ongoing capital is required to support the risks assumed by the captive.
- Earnings in the first year can exceed excess reinsurance; however, compared to the current Atrium excess of loss (XOL) agreement, the long-term earnings are likely to be less.
- Risk transfer is more transparent and readily observed in the ceded losses than with mezzanine-layered excess of loss agreements.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013175

ECX 0032

CFPB-PHH-00141761

Currently the maximum quota share percentage permitted by the GSEs in their eligibility guidelines for MI companies is 50%. The limitations on higher quota share levels is also a function of rating agency and independent financial auditor oversight of MI companies, and these often consider whether the captive reinsurer can fulfill its quota share obligations through reasonable stress scenarios. Quota share can involve somewhat higher capital than is required in some XOL agreements, due to the unlimited risk obligations implicit with quota share.

Captive Capital

Initial capital for new books of business insured is usually required to meet risk transfer requirements for both quota share and excess agreements. Independent auditing firms have taken the lead in requiring initial capital. We believe it is important that both AIG United Guaranty and Atrium receive reinsurance accounting treatment for all agreements. Initial capital is a function of the original risk written and varies based on whether the agreement is quota share or excess and may vary with the loss expectations of Atrium's specific reinsurance portfolio. In general, a reinsurer such as Atrium, with over 10 years of ceded premiums, is generating more than enough capital from older books that mature to fund new books of business.

Ongoing capital requirements are a percentage of the risk in force and decline as books age. After a few years, the contingency reserve requirement generally exceeds the capital requirement. Atrium, being one of the first captives, should also be realizing benefits from reductions in contingency reserves of the books reaching 10 years of age.

AIG United Guaranty has a sophisticated pro-forma that can model the capital needs and run-off of Atrium's existing portfolio and projected new business, and we can work together with PHH to address any developing capital issues.

Tiered XOL Structure

The PHH request for information indicates a desire to redesign the XOL structure to reflect the wide range of risks now originated by PHH. We have several ideas about how to design an effective structure.

The simplest would be to tier the PHH originations into perhaps five risk layers. These could be delineated by FICO score or by Levels Claim Rate:

Segment (FICO delineated)	Cede	Attachment	Limit
520–574 (subprime)	C1	A1	L1
575–619 (A-minus)	C2	A2	L2
620–678 (low prime)	C3	A3	L3
680–719 (mid prime)	C4	A4	L4
720+ (high prime)	C5	A5	L5
Weighted for 2007 Book	Cw	Aw	Lw

The tiers would be weighted by ceded risk amount into one single attachment and limit, which would be determined at the end of each book year. Each book year would have a unique cede, attachment, and limit based on the mix of the layers in that book year.

The purpose of consolidating tiers into a single limit would be to reduce the chance that a thinly populated tier would hit the attachment point due to a few claims. (Our statisticians sometimes call this the Poisson distribution problem.) We would suggest that better risk management for both Atrium and AIG United Guaranty results in aggregating the individual attachment points and limits into one. However, we are willing to keep the layers separate if we can keep them well-populated.

Alt-A loans could be placed in the same buckets, but one bucket lower than their FICO score would otherwise indicate.

Each layer should be priced to achieve risk transfer and pricing commensurate with the risk. That will assure both Atrium and AIG United Guaranty that the aggregate attachment point and limit determined at the end of the year would also achieve risk transfer and pricing commensurate with the risk, regardless of the actual (and often unpredictable) mix of risks within the layers. All books would remain cross-collateralized by shared trust accounts.

Segment-Specific XOL Structure

We are also open to structuring the program by product segment – Alt-A, A-minus and subprime, prime – where each layer has independent stop losses, attachment points, and ceding rates, all established to achieve appropriate pricing and risk transfer. The layers would be cross-collateralized via shared trust accounts, but there would be segment-specific tracking, attachment points, limits, and ceding rates. These specific parameters would not be aggregated as in the Tiered Excess Structure.

Commutation

Commutation of books of business before they reach peak claim years can reduce risk transfer below required levels. The independent actuarial consulting firms that review captive agreements for risk transfer and pricing commensurate with the risk assume no commutations for the duration of the captive reinsurance contract – usually 10 years. Several MI companies, including AIG United Guaranty, settled a lawsuit several years ago by agreeing to an injunction that prevents commutations within three years of origination. While that injunction has expired, most MI companies continue to abide by its terms and it is AIG United Guaranty's intent to do so.

The current reinsurance agreement with Atrium addresses commutation in Section 5.4. Essentially, it allows one party to request commutation and if mutual agreement cannot be met, then commutation occurs by a good faith actuarial estimate of applicable reinsurance claims and reinsurance premiums. We believe this allows Atrium adequate flexibility to request commutations as business conditions dictate.

There are alternatives to commutation to free up cash from Atrium, such as substituting an LOC for trust fund requirements. AIG United Guaranty is willing to explore those alternatives.

Captive Agreement Structure

Atrium negotiated the first 40% net excess cede in the MI industry. AIG United Guaranty is always willing to work with Atrium and PHH to look for ways to more effectively structure the portfolio and the agreements. We strongly emphasize solutions that will stand the tests of time and regulatory scrutiny, and that do not risk the possibility of

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013177

ECX 0032

CFPB-PHH-00141763

restatements or adverse accounting treatment after the fact. AIG United Guaranty has a well-trained team of actuaries and captive professionals to help PHH develop an optimal captive program in all respects.

Other Structured Products and Options

AIG United Guaranty is the market leader in providing the required Supplemental Mortgage Insurance (SMI) for the **Federal Home Loan Bank (FHLB) Mortgage Partnership Finance (MPF) program**. We support the FHLB program because the provider of the SMI is chosen by the lender. We stand ready to provide a competitive bid if PHH chooses to sell to the FHLB.

Captive Experience

Atrium and PHH have first-hand knowledge of AIG United Guaranty's expertise and commitment to captives over the years, so we will not over-emphasize this point. Our staff includes actuaries, financial analysts, and statisticians with experience in analyzing and managing mortgage risk. Because of the critical importance of the captive structure, we are committed to being accessible at all times to our lending partners.

AIG United Guaranty has helped lenders explore and set up captives domiciled in both the United States and offshore. Following is a summary of our recent captive reinsurance activity:

- AIG United Guaranty currently participates in more than **80 captive arrangements** in 7 different domiciles.[2]
- These arrangements range in size from **$25 million** to several billion in annual new insurance written.
- Reinsurance partners of AIG United Guaranty include most of the **top 20 mortgage lenders** in the U.S.

Captive Management Services

Through our affiliate, AIG Insurance Management Services (AIMS), we offer customers a range of captive management services. This enables us to provide turn-key captive formation and ongoing management services at a very reasonable cost. AIMS currently manages 100 or more captive insurance companies of all types – including more than 15 mortgage guaranty insurance captives – and some of the captive relationships are at least 25 years old. Licensing and managing a captive, as well as understanding the risk of different reinsurance structures, requires significant expertise and management time on the part of the lender and the insurer. For these reasons, we believe AIG United Guaranty offers a commanding advantage.

SMCs

AIG United Guaranty has considered a number of SMC opportunities in the past; however, we are not currently engaged in SMC deals. Captive reinsurance structures have consistently been a risk-sharing structure of choice for most of our largest customers. SMC deals appear to be best suited for smaller lenders seeking enhanced cash-flow at the expense of long-term earnings.

[2] Vermont, New York, Texas, South Carolina, Hawaii, Cayman Islands, and Turks and Caicos Islands.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013178
ECX 0032
CFPB-PHH-00141764

Secondary Market Support
AIG United Guaranty's Mortgage Capital Markets Group is dedicated to assisting customers with all capital markets transactions. Our Directors of Capital Markets work closely with mortgage lenders to develop leads for correspondent and wholesale lenders, new investors, and servicers. Since 1975, AIG United Guaranty's Capital Markets Directors have been matching lenders and investors in whole loan and participation sales – all on a no-fee basis. AIG United Guaranty will facilitate PHH loan sales through various structures by providing credit enhancement for mortgage- and asset-backed securities, as requested.

Bulk and Pool Insurance
In 2005, AIG United Guaranty formed a group dedicated to providing **bulk mortgage insurance** to our customers. There are numerous ways in which this area of AIG United Guaranty could provide value to PHH. We have entered into bulk forward commitments for subprime business, and we have provided modified pool coverage for Alt-A securities, credit enhancement for jumbo securities, and bids on seasoned pools of CRA loans. If PHH has a need for bulk mortgage insurance – whether it involves a credit risk, saleability, or risk-based capital concern – rest assured that AIG United Guaranty can provide the required coverage.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013179
ECX 0032
CFPB-PHH-00141765

POLICY SERVICING

Delegated Loss Mitigation

Although our Loss Mitigation Group includes workout specialists who work with borrowers and lenders to mitigate losses on insured loans, **we have delegated these functions to PHH since 1997** because of its demonstrated superior performance in this area.

Our Delegation of Loss Mitigation agreement was signed with PHH in 1997 and meets all of your requirements related to delegated loss mitigation. (We will be happy to provide an electronic copy of this executed agreement upon request.) We continue to believe this agreement provides valuable flexibility in PHH's pursuit of quick and cost-effective solutions for loan modifications and real estate sales.

Claims

AIG United Guaranty's automated claims examination system performs many of the claims calculations. This helps ensure uniform treatment of all claims received by AIG United Guaranty. The standardized system can rapidly search AIG United Guaranty's loan file database, expediting the claims process by eliminating time-consuming manual calculations and review of the loan file.

AIG United Guaranty pays 25% of claims the same day they are received. This rapid processing ability is among the fastest in the industry and could benefit both investors and servicers.

AIG United Guaranty offers EDI claims transmission acceptance for lenders can send claims electronically. EDI allows claims to be transmitted and received faster, less expensively, and more accurately than traditional paper-based submissions. Claims are transmitted to AIG United Guaranty's Information Systems Department using the ANSIX12 standard 260 Claims Transaction Set. The X12 format is the business standard for most U.S. EDI systems, and is used to define and electronically "map" the documents currently used in paper form. This capability works in conjunction with AIG United Guaranty's same-day claims payment service, which allows certain claims to be processed and paid to lenders the same day they are filed.

Rescissions

AIG United Guaranty may find evidence in an investigation of potential first-party misrepresentation. This information will be shared with the insured. This may result in a rescission of coverage and a return of premium. This is an extremely rare occurrence. Since 2004, less than .5% of claims filed have resulted in a rescission.

Contract Underwriting Issues

AIG United Guaranty has a staff of analysts devoted to reviewing contract underwriting issues. If there is a dispute with a contract-underwritten loan, the analyst will review the case and work out an appropriate remedy, including selling the loan on the scratch-and-dent market or providing additional mortgage insurance making the loan saleable. Since 1997, PHH has had 30 such cases resolved through this group, resulting in payments of about $32,000.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013180

ECX 0032

CFPB-PHH-00141766

Loan Servicing
AIG United Guaranty's Customer Quality Center provides comprehensive policy maintenance and information for mortgage servicers. Through automated systems designed and implemented by the Customer Quality Center, customers can access accounts for added speed in reconciling account information.

Lenders can call AIG United Guaranty's Customer Quality Center from 8:30 AM to 8:00 PM EST Monday–Friday toll-free at 888/U-CALL-UG (888/522-5584) for additional information not provided through an automated service. From billing questions to loan modifications, our MI Servicing Specialists can answer your questions about any insured loan.

Servicing Technology

- **PC Unite®** – This Internet-based servicing application is designed to provide online user connection with AIG United Guaranty. This interactive electronic link allows servicers to submit individual and batch loan updates, print certificates, process cancellations, conduct audits, and check loan status.
- **Claims Station®** – This Web-based claims product eliminates the generation and completion of paper forms. Cutting time even further, Claims Station e-forms are populated directly from our AS/400 mainframe.
- **Cert Finder®** – With this product, you or your correspondents can print the MI certificate for the loan file directly to a local printer, eliminating the wait for a faxed copy.
- **PostPay®** – PostPay activation via the Internet allows you to activate the deferred premium option until after the borrower's first P & I payment is received.
- **Active Commitments®** – Users can activate, transfer, and print MI commitments with this product.

Fraud Recovery Services
AIG United Guaranty affiliate Investors Mortgage Asset Recovery Company, LLC, (IMARC) works with our customers to assist with fraud recovery at no cost to the lender. IMARC works with lenders, mortgage insurers, and investors to recover losses that are especially difficult to handle or would not be financially feasible to pursue through typical recovery methods. The staff includes attorneys, loss recovery specialists, and analysts who have extensive experience in the mortgage industry. A summary of the services offered by IMARC follows.

- **Contingency Service:** Most lenders experience fraud-related losses but lack the budget to pursue them, especially when the losses are not large enough to justify the expense of hiring an attorney to pursue the recovery. IMARC solves this dilemma by pursuing losses on a contingency basis. Once a settlement is reached, the customer shares a portion of the recovery with IMARC.

- **Game Plan Service:** If a fraud-related loss is large enough to consider using a traditional law firm, IMARC can save lenders time and money with its "game plan." With this service, IMARC reviews the case, conducts the research, and produces a recovery file – allowing the attorney to focus completely on litigation.

- **Asset Searches:** When deciding whether to pursue a loss, the lender needs to know if the responsible party is able to pay. IMARC simplifies this decision by conducting asset searches and providing a confidential report of the responsible party's assets and holdings.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013181
ECX 0032
CFPB-PHH-00141767

ECONOMIC AND MARKET ANALYSIS

Although predicted to be down from the record volume of recent years, the American housing finance industry is expected to have a solid production year in 2006. Still, the industry is experiencing threats that directly affect all who are involved in the mortgage process. Because of anticipated slowdowns in home price appreciation, AIG United Guaranty's risk management team continuously analyzes changes and trends in our portfolio performance to determine shifts in geographic and other risk in critical states. We consider understanding and anticipating loan quality and geographic risk trends vital to our success as a mortgage insurance partner.

Risk Analysis with PHH Mortgage

Our ongoing analysis of risk relies on AIG United Guaranty's proprietary loan quality scores, ACUScore® and the ACUFactor® Market Rating. For PHH's analysis, we will provide quarterly reports on ACUScore and ACUFactor Market Ratings on a national scale, allowing your experts to identify trends on a regional basis. AIG United Guaranty currently visits on a semiannual basis with PHH Mortgage to review loan products and performance measurements specific to its portfolio. We will continue this for PHH. The timing and frequency of this review can be tailored to your preference.

Geographic risk is dropping slightly in some MSAs due to the current economic momentum, and in spite of price adjustments in various areas, AIG United Guaranty seeing continued strength in others that are showing positive ACUFactor ratings. In such "A" markets, AIG United Guaranty is confident with slightly more aggressive sales and underwriting strategies.

AIG United Guaranty has worked with PHH's risk managers – and will continue to do so – to identify housing finance trends throughout the U.S., helping to optimize markets through targeted sales strategies and loan program activity.

AIG R&D Corporate Information

In addition, the AIG R&D Corporate Information Center in AIG headquarters can provide supplemental secondary research when requested. Recent research by Standard & Poor's is provided in **Appendix E** as an example of material we can access through Corporate Information. Primary research is available as well.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013182

ECX 0032

CFPB-PHH-00141768

OTHER CAPABILITIES AND ANCILLARY SERVICES

TECHNOLOGY SERVICES

Already a technology partner with PHH Mortgage through EDI programming, AIG United Guaranty is eager to work with PHH to develop new customized solutions that best fit your needs – from automated underwriting/approval technology to integrated use of the Internet – to reach your customers, build productivity, and cut costs.

Technology Overview
Our technology team offers the latest in EDI, Web-based, and paperless e-Business programs. Since 1988, AIG United Guaranty has worked with the MBA, Fannie Mae, Freddie Mac, and others throughout the mortgage lending industry to build the groundwork for electronic data interchange (EDI) and to incorporate emerging technology into our business. Today, EDI allows AIG United Guaranty and its lender partners – including PHH – to share loan information and MI certificates in a truly paperless environment. AIG United Guaranty's technical advisors have worked with PHH Mortgage to develop EDI for MI transactions and can expand and adapt current systems to meet PHH standards.

Information Security
In light of the importance of information systems in today's business, AIG United Guaranty takes information security very seriously. As mandated by our parent company, AIG, and by internal security objectives, we adhere to safe, effective, and consistent security measures that frequently exceed industry standards. We take deliberate steps to ensure the protection, privacy, and integrity of our data, as well as that of the companies we serve.

In July 2006, AIG United Guaranty had its information security program certified by Cybertrust, the largest security consulting firm in the United States.

This certification reflects AIG United Guaranty's ongoing compliance with an extensive and continuous security assurance process and validates the company's risk reduction practices. Through its Enterprise Security Assurance program, Cybertrust audits and certifies the security of companies' controls, policies, procedures, firewalls, hiring practices, and other risk factors.

The certification specifies that AIG United Guaranty follows internationally recognized best practices in regard to six main risk categories: electronic threats and vulnerabilities, malicious code, privacy issues, human factors, physical environment, and downtime issues.

As part of the certification, Cybertrust has also certified AIG United Guaranty to be compliant with ISO 17799, an internationally recognized information security standard that defines best practices for information security. ISO 17799 contains 11 domains, covering areas such as security policy, compliance, asset classification and control, and business continuity management.

We also monitor all use of computer and communication systems including Internet access and incoming and outgoing e-mail. Password security is stringently enforced. Vendor nondisclosure agreements are required as part of our ongoing commitment to confidentiality and integrity. We use the highest possible standards to prevent network intrusion. *All network interfaces are fire-walled*, and the architecture consists of multi-layered barriers to prevent outside intrusion. Intrusion prevention and detection are also multi-tiered and

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013183
ECX 0032
CFPB-PHH-00141769

monitored by the most sophisticated and up-to-date methods available. We also work with industry security specialists to audit systems and networks to ensure the highest possible system integrity.

Connection with Customers

Through our Internet portal, United Guaranty's MI Guide,® we offer several applications that facilitate connections to brokers. Direct Submit,® Premier Compliance,® and Loan Status all have broker-facing interfaces that work for both the broker and the lender (the lender can see pipeline, add controls, and so forth). MI Guide's delegated product features embedded loan origination software (LOS) systems from Byte, Contour, Calyx® POINT,® Genesis 2000, and others to reduce data entry requirements.

PHH's customers may also benefit from our informational applications, such as *The Road to Home Ownership* and our online Tax Analysis course. We can private-label these applications for PHH, and we can also create a customized version of RAPidLink,® which allows users to complete loan submissions and receive an insurance commitment over the Internet in less than 20 seconds.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013184
ECX 0032
CFPB-PHH-00141770

TRAINING RESOURCES

Although we realize PHH Mortgage relies on its own specialized training personnel to deliver mortgage industry training to employees, we do offer comprehensive training support from our industry-recognized Mortgage Industry Training (MIT) Department.

PHH Personnel

AIG United Guaranty's Mortgage Industry Training team offers one of the broadest selections of mortgage seminars, sales and personnel training, and industry-oriented courses available. Topics range from customer service, to leadership, to mortgage-lending specifics. Whether based on a seminar format, simulations, or exercises, these programs approach employee training as a way to add value to organizations. Topics include Managing Change, Loan Origination University, Fraud Prevention, The Power of People, and Appraisal Analysis.

Options for personnel training include the following:

- *On-site seminars and workshops.* AIG United Guaranty can work with a lender's human resources or training professionals to identify the right program options. Our staff will customize individual programs to meet all special needs and conduct training or contract with a professional trainer to complete the assignment.

- *Online training.* AIG United Guaranty's online seminars are a convenient way to gain mortgage industry knowledge. Participants may view presentations, get answers to questions, and discuss ideas with other participants – all from their own computer. They can register online at online at www.ugmortgagetraining.com, select a specific class (search by topic or location), and receive instant confirmation. We send an e-mail two days prior to the class with log-on instructions and materials.

PHH Customers

The same training programs available to PHH are available to your broker customers, for whom we can conduct on-site workshops and seminars. AIG United Guaranty has provided broker-directed classes throughout the U.S.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013185
ECX 0032
CFPB-PHH-00141771

BORROWER EDUCATION

Pre-Purchase Counseling – Now Available on the Web and DVD

AIG United Guaranty's comprehensive home-buyer education package is designed to help first-time borrowers understand the home-buying process and keep their homes once the sale is closed. We developed *The Road to Home Ownership*® to help lenders of all sizes meet their affordable housing goals as well as the educational requirements set by Fannie Mae and Freddie Mac. Since introducing the program, we have provided home buyer education for more than 125,000 potential buyers.

In August 2006, AIG United Guaranty added an interactive DVD in Spanish to its pre-purchase counseling program for first-time Hispanic home buyers. The Hispanic DVD version of *The Road to Home Ownership* is AIG United Guaranty's latest addition to its series of Web-based and print pre-purchase training materials. Research shows that Hispanic consumers rely on television media – rather than newspapers, magazines, or the Internet – for most of the information they gather on financial, legal, and other important matters. With this in mind, we developed a DVD that reflects to the way these first-time borrowers prefer to learn.

Collateral Publications

AIG United Guaranty can also provide brochures and flyers describing how mortgage insurance works and how to cancel MI coverage in English and Spanish. Produced in collaboration with our industry trade organization, MICA, these brochures are designed help consumers understand how MI can help borrowers with limited down payments to purchase a home.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013186
ECX 0032
CFPB-PHH-00141772

CONTRACT UNDERWRITING

Contract Underwriting Services

AIG United Guaranty offers quality underwriting for conforming and nonconforming conventional mortgage loans, according to the guidelines and parameters you specify. We are currently underwriting approximately 600 wholesale overflow loans per month in our offices.

Premier Compliance® – Delegated Compliance Underwriting

Our delegated compliance program, Premier Compliance, enables lenders to reduce the time it takes to underwrite loans. Our delegation of underwriting authority to the mortgage lender helps save the time-consuming step of a separate, full-file loan review of qualified loans. This means you have total control of the file throughout the underwriting process and can establish priorities and turnaround times to meet production demand.
Under the original version of Premier Compliance, loans that receive DU Approve/Eligible or LP Accept recommendations are *immediately ready* for delegated approval and closing. And, since the lender maintains the contractual representations and warranties that it receives under the traditional loan review process, any remedies are paid to the lender. **Last year, we expanded the Premier Compliance program to include jumbo loans up to $650,000 and portfolio products.**

Pricing

AIG United Guaranty offers competitive fees for contract underwriting services. The contract services agreement with PHH Mortgage includes a three-year discovery period and features the following fee structures (effective May 1, 2003):

- First mortgage compliance, underwriting only: $70 per file.
- First mortgage compliance with MI: $25 per file.
- Validation review, underwriting only: $60 per file.
- Validation review with MI: $25 per file.
- Our contract with PHH states a daily on-site rate of $375 per day per underwriter ($45 credit for compliance loans with MI and $15 minimum per file per day charge).

Screening and Qualification Requirements

We test all prospective contract underwriters to determine their underwriting competency in addition to requiring demonstrated history of underwriting experience. Each new underwriter is subject to initial audit of the first five loans. Results are immediately sent to their AIG United Guaranty supervisor and Regional Vice President–Operations and Risk Management. In addition to the initial audit, we conduct random audits of loans approved by all AIG United Guaranty underwriters.

Service Levels

AIG United Guaranty's objective for all contract-underwritten loans is a 24-hour turnaround – our customers are *assured* this turnaround for loans with MI. Compliance-only loans receive a maximum 48-hour turnaround. AIG United Guaranty currently averages six loans per day, per underwriter.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013187
ECX 0032
CFPB-PHH-00141773

APPENDIX A
RATING AGENCY REPORTS – AIG UNITED GUARANTY

Fitch Affirms & Removes AIG from Watch Negative
Press Release Source: Fitch Ratings
Fitch Affirms & Removes AIG from Watch Negative
Tuesday April 11, 2006
9:57 am ET Assigns 'AA' IDR

CHICAGO--(BUSINESS WIRE)--April 11, 2006--Fitch Ratings has affirmed and removed from Rating Watch Negative all of its ratings on American International Group, Inc. (AIG) and subsidiaries. Fitch originally placed AIG on Rating Watch Negative in March 2005. In addition, Fitch has assigned 'AA' Issuer Default Ratings (IDRs) to AIG and several of its downstream holding company subsidiaries. The Rating Outlook is Stable. (Complete list of rating actions detailed below.)

Fitch's rating action reflects its belief that the majority of the uncertainties surrounding AIG over the last 12-to-14 months have been resolved and that the company's financial profile and competitive positioning remain supportive of its current ratings. Despite a year of unprecedented challenges including management changes, investigations, restatements, reserve charges, regulatory settlements and catastrophe losses, AIG generated net income of over $10 billion and a return on equity of 12.3% in 2005.

Fitch's rating action also reflects its heightened comfort with AIG's domestic commercial lines property/casualty operation's reserve adequacy and run-rate underwriting profitability. Fitch's actions also incorporate its belief that AIG's domestic commercial lines property/casualty companies' medium-term focus includes building and retaining capital to more appropriate levels for the current ratings.

Fitch views the current capital levels of AIG's domestic commercial lines property/casualty unit, especially risk-based capitalization, as materially below those of comparably-rated commercial line peers. Additionally, Fitch views this unit's current capitalization as generally weaker than that of many of AIG's other core insurance operations, but not to an extent that requires Fitch to differentiate between the insurer financial strength ratings of this unit and those of AIG's other core insurance operations. Fitch notes that it is currently developing a proprietary economic capital model that it anticipates implementing throughout the second half of 2006. Going forward, the agency expects this model to play an important role in its ratings analysis on AIG and in its ratings analysis in general. Fitch's analysis will continue to include a review of output from insurers' internal capital models, if available, and regulatory solvency ratios.

Fitch retained the unusually narrow notching between AIG's insurer financial strength ratings and holding company ratings upon implementing the agency's new notching and recovery rating methodology. The narrow notching reflects the organization's very strong financial flexibility and significant cash flow from diverse regulated and non-regulated subsidiaries. The narrow notching also reflects the results of Fitch's standard peer and comparative analysis, application of which supports AIG's current ratings. Going forward, Fitch expects AIG to manage holding company leverage below 15%.

AIG's ratings were placed on Rating Watch Negative by Fitch after the company announced it would delay filing its 2004 10-K in order to complete a review of its accounting records and procedures. The review stemmed from regulatory investigations and subsequent civil suit against AIG brought by the Securities and Exchange Commission (SEC) and the Office of the New York Attorney General (NYAG).

AIG's ratings remained on Rating Watch Negative throughout 2005 as the company conducted its accounting review and worked to resolve its regulatory issues. In May 2005, AIG announced that it had hired an independent third-party to conduct a review of the adequacy of its general insurance reserves. Additionally, AIG's on-going accounting review identified errors and changes in adjustments that led to two restatements that collectively reduced its previously reported year-end 2004 shareholders equity by $2.2 billion.

In February 2006, AIG announced that it had entered into a $1.6 billion settlement ($1.2 billion after-tax) agreement with the SEC, NYAG, United States Department of Justice and New York State Department of Insurance (NYDOI). AIG concurrently announced that the completion of its reserve study would result in a fourth-quarter 2005 reserve increase of $1.7 billion pretax ($1.1 billion after-tax).

Fitch viewed the financial effect of the settlement as a sizable but manageable figure for a company with AIG's earnings profile and financial flexibility. However, the agency retained its Negative Rating Watch at that time largely because of concerns about the domestic commercial line property/casualty subsidiaries capitalization and reserve adequacy.

The following ratings have been affirmed and removed from Rating Watch Negative by Fitch: The Rating Outlook is now Stable.

American International Group, Inc.
Senior debt 'AA'. AIG International, Inc. Senior debt 'AA'. American General Corp. Senior debt 'AA'.

American General Capital II Preferred securities 'AA-'. American General Finance Corp. Senior debt 'A+'.
American General Institutional Capital A and B Capital securities 'AA-'.

HSB Capital Trust I Preferred securities 'AA'. International Lease Finance Corp. Issuer Default Rating (IDR) 'A+'; Senior debt 'A+' Preferred stock 'A'.

American General Finance, Inc. Issuer Default Rating (IDR) 'A+'.

American General Finance Corp. Issuer Default Rating (IDR) 'A+'.
ASIF Program ASIF II Program ASIF III Program ASIF Global Financial Program – Program rating 'AA+'.

The following 'AA+' insurer financial strength ratings have also been affirmed and removed from Rating Watch Negative The Rating Outlook is now Stable:

AIG Annuity Insurance Company
AIG Life Insurance Company
AIG SunAmerica Life Assurance Co.
American General Life and Accident Insurance Co. American General Life Insurance Company
American International Assurance Co. Ltd.
American International Life
Assurance Co. of NY
American Life Insurance Company
SunAmerica Life Insurance Co.
The United States Life Ins. Co in the City of NY
The Variable Annuity Life Insurance Company
United Guaranty Residential Insurance Co.
Ezer Mortgage Insurance Co. Ltd
American International Specialty Lines Insurance Co.
American International Underwriters Overseas Ltd.
Hartford Steam Boiler Inspection & Insurance Co.
National Union Inter-company Pool Members:
National Union Fire Insurance Co. of Pittsburgh
American Home Assurance Co. Commerce & Industry Insurance Co.
Birmingham Fire Insurance Company of PA
Insurance Company of the State of PA New Hampshire Insurance Co.
AIU Insurance Co. Lexington

Inter-company Pool Members:
Lexington Insurance Company Landmark Insurance Co. Ltd.
AIG Personal Lines Inter-company Pool Members:
American International Insurance Co.
New Hampshire Indemnity Company
AIG Hawaii Insurance Company Inc.
American International Insurance Co. of California
Minnesota Insurance Company
American International Insurance Co. of New Jersey Insurer financial strength 'AA+'.

The following commercial paper program ratings are also affirmed:
AIG Funding, Inc. Commercial paper 'F1+'.
AIG International Inc. Commercial paper 'F1+'.
International Lease Finance Corporation Commercial paper 'F1'.
American General Finance, Inc. Commercial paper 'F1'.
American General Finance Corporation Commercial paper 'F1'.
CommoLoCo Inc. Commercial paper 'F1'.

In conjunction with the implementation of Fitch's new global insurance notching methodology, the following issuer default ratings (IDR) have been assigned with a Stable Rating Outlook:
American International Group, Inc. – Issuer Default Rating (IDR) 'AA'.

AIG International Inc. – Issuer Default Rating (IDR) 'AA'.
American General Corp. – Issuer Default Rating (IDR) 'AA'.

In conjunction with the implementation of Fitch's new global insurance notching, the following issuer ratings have been withdrawn:

American International Group, Inc.
Long-term issuer 'AA'.
Short-term issuer 'F1+' AIG International Inc.
Long-term issuer 'AA'.
Short-term issuer 'F1+'

American General Corporation
Long-term issuer 'AA'.
ASIF Global Financing Program Long-term issuer 'AA+'.
ASIF I Program Long-term issuer 'AA+'.
ASIF II Program Long-term issuer 'AA+'. ASIF III Program Long-term issuer 'AA+'.

The following companies have been assigned 'AA+' insurer financial strength ratings with a Stable Rating Outlook:

AGC Life Insurance Company First
SunAmerica Life Insurance Company of New York
National Union Inter-company Pool Members: American International Pacific Insurance Company
American International South Insurance Co.
Granite State Insurance Company
Illinois National Insurance Company
Lexington Inter-company Pool Members:
Starr Excess Liability Insurance Company, Ltd. AIG Personal Lines Inter-company Pool Members:
- AIG Centennial Insurance Company
- AIG Premier Insurance Company
- AIG Preferred Insurance Company
- AIG Indemnity Insurance Company
- AIG National Insurance Company
- AIG Auto Insurance Company
- American Pacific Insurance Company

Insurer financial strength '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.

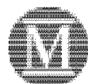
Contact: Fitch Ratings Julie A. Burke, 312-368-3158 Mark E. Rouck, 312-368-2085 Peter Shimkus, 312-368-2063 Christopher Wolfe, 212-908-0771 Jim Moss, 312-368-3213 Thomas J. Abruzzo, 212-908-0793 Davie Rodriguez, 212-908-0724 Kenneth Reed, 212-908-0540 (Media Relations)

Source: Fitch Ratings

Copyright © 2006 Yahoo! Inc. All rights reserved. Privacy Policy - Terms of Service - Copyright Policy - Ad Feedback

Copyright © 2006 Business Wire. All rights reserved. All the news releases provided by Business Wire are copyrighted. Any forms of copying other than an individual user's personal reference without express written permission is prohibited. Further distribution of these materials by posting, archiving in a public web site or database, or redistribution in a computer network is strictly forbidden.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013191
ECX 0032
CFPB-PHH-00141777



Moody's Investors Service

Global Credit Research
Credit Opinion
13 JAN 2006

Save as PDF

Credit Opinion: United Guaranty Residential Insurance Co.

United Guaranty Residential Insurance Co.

Greensboro, North Carolina, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Insurance Financial Strength	Aa2
Ult Parent: American International Group, Inc.	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured	Aa2
ST Issuer Rating	P-1
United Guaranty Mortgage Indemnity Company	
Outlook	Stable
Bkd Insurance Financial Strength	Aa2
United Guaranty Residential Ins. Co of NC	
Outlook	Stable
Insurance Financial Strength	Aa2

Contacts

Analyst	Phone
Arlene Isaacs-Lowe/New York	1.212.553.1653
Ranjini Venkatesan/New York	
Jack Dorer/New York	

Key Indicators

United Guaranty Residential Insurance Co.

	3Q 2005	2004	2003	2002	2001	2000
Total Assets ($ Mil.)	1,920	1,887	2,164	1,938	1,759	1,509
Loss & LAE Reserves ($ Mil.)	176	226	251	266	255	233
Net Premium Earned ($ Mil.)	224	351	341	358	378	361
Net Operating Income (NOI) ($ Mil.)	141	209	219	219	225	209
Net Risk In Force / Capital (x)	9.8	10.5	9.5	11.1	13.1	15.2
Loss & LAE Reserve % Net Risk in Force	1.1	1.4	1.5	1.5	1.4	1.3
Loss Ratio (%)	13.0	18.7	15.3	18.6	16.5	12.4
Expense Ratio (%)	28.2	28.2	30.8	28.6	24.1	23.9
Net Income % Average Capital	11.7	12.4	14.7	15.3	19.4	18.4

Opinion

Credit Strengths

- High quality insured portfolio

- Prudent risk management and underwriting

- As a strategic insurance subsidiary of a highly rated and diversified parent, earnings and diversification pressures are less critical

Credit Challenges

- Margin pressure from captive reinsurance relationships, 80/10/10 structures and GSEs

- Aggressive competition may challenge risk management guidelines

- Continued vulnerability of parent company's franchise value to the impact of regulatory scrutiny

Rating Rationale

United Guaranty Residential Insurance Company (UGRIC) is the main mortgage guaranty insurance operating company of United Guaranty Corporation, which is the holding company for American International Group's (AIG), (rated Aa2, stable outlook), mortgage guaranty related businesses. UGRIC's Aa2 insurance financial strength rating primarily reflects the financial strength of its mortgage guaranty insurance franchise. UGRIC maintains prudent underwriting standards, good loan loss mitigation skills, consistently low loss experience, favorable earnings and is well capitalized. The mortgage guaranty insurer has managed its growth well, with a high quality insured portfolio and limited exposure to riskier types of coverages. UGRIC's menu of risk-sharing products, such as captive reinsurance, has helped to solidify its originator relationships. However, leverage exercised by lenders and the GSEs is straining the industry's profitability. Captive reinsurance arrangements have reduced profitability as premium cedes continue to grow and as more premiums become subject to captive reinsurance. UGRIC is among those mortgage guaranty insurers hoping to rationalize captive reinsurance arrangements with large lenders by evaluating relative risks and returns. However, the future impact of these negotiations on stabilizing profitability is still uncertain.

Of the seven rated mortgage insurers, UGRIC ranks in the middle in terms of market share, but is among the most profitable. Furthermore, even in the increasingly competitive mortgage guaranty insurance business, to date, the company has avoided many of the new, riskier products being offered by competitors.

AIG's explicit capital support for UGRIC and oversight by AIG's senior management is indicative of its strategic importance to the group and is a credit positive, but is not a key driver of UGRIC's rating. UGRIC's mortgage guaranty insurance platform provides synergies for other insurance subsidiaries of the parent company, which mitigates some of the pressures that its competitors face to diversify earnings. The stop-loss reinsurance agreement with National Union Fire Insurance Company of Pittsburgh, PA (Aa2, stable outlook), a key AIG affiliate, provides additional claims-paying support in the event of high losses.

Rating Outlook

The outlook for UGRIC's Aa2 rating is stable. Important rating factors that contribute to this outcome include the insurer's ability to maintain its underwriting standards and book quality, while responding to competitive pressures in the MI industry. The outlook also reflects Moody's expectation that the mortgage guaranty insurance franchise will not be materially impacted by possible further moderate adverse situations at AIG.

What Could Change the Rating - UP

Moody's views the mortgage guaranty insurance business as a Aa rated franchise. Ratings improvement could result from a significant improvement in UGRIC's competitive position in the industry with no deterioration in its underwriting

standards or in portfolio fundamentals over a sustained period of time. Improvement in ratings for AIG, which provides explicit capital support could also cause upward rating momentum.

What Could Change the Rating - DOWN

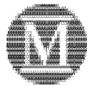
A significant deterioration in the credit quality of AIG resulting in multi-notch downgrade of the holding company's rating, to a level where UGRIC's financial flexibility could be constrained by the rating differential between UGRIC and AIG; or a change in the strategic importance of this business line could pressure the rating. Additionally, significant deterioration in underlying insurance quality, actual losses or entry by the insurer into new riskier mortgage insurance segments could cause downward rating pressure. Moody's views these events to be unlikely.

© Copyright 2006, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Moody's Investors Service Pty Limited does not hold an Australian financial services licence under the Corporations Act. This credit rating opinion has been prepared without taking into account any of your objectives, financial situation or needs. You should, before acting on the opinion, consider the appropriateness of the opinion having regard to your own objectives, financial situation and needs.



Moody's Investors Service

Global Credit Research

Credit Opinion

13 JAN 2006

Save as PDF

Credit Opinion: United Guaranty Mortgage Indemnity Company

United Guaranty Mortgage Indemnity Company

Greensboro, North Carolina, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Insurance Financial Strength	Aa2
Ult Parent: American International Group, Inc.	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured	Aa2
ST Issuer Rating	P-1
Parent: United Guaranty Residential Insurance Co.	
Outlook	Stable
Insurance Financial Strength	Aa2

Contacts

Analyst	Phone
Arlene Isaacs-Lowe/New York	1.212.553.1653
Ranjini Venkatesan/New York	
Jack Dorer/New York	

Opinion

Credit Strengths

-Unconditional guarantee of all obligations provided by parent, United Guaranty Residential Insurance Company

- Disciplined business standards of the United Guaranty mortgage insurance group (UGC)

- Financial strength of the ultimate parent, American International Group (AIG)

Credit Challenges

- Higher-risk product offerings relative to UGRIC's traditional products

Rating Rationale

United Guaranty Mortgage Indemnity Company (UGMIC) rated Aa2 with a stable rating outlook, is a wholly owned subsidiary of United Guaranty Residential Insurance Company (UGRIC, rated Aa2, stable outlook) which provides a full guaranty of all of UGMIC's obligations. UGMIC writes specialty mortgage guaranty insurance, such as insurance for low

down payment residential mortgages, and is the parent of UGC's Asian and Spanish mortgage guaranty insurance platforms and UGC's other international businesses. UGMIC's financial strength rating hinges on the rating of and full guaranty provided by its parent, UGRIC.

Although UGMIC's portfolio consists of higher loan to value business with better credit quality than UGRIC, UGMIC serves to round out the product offerings of United Guaranty's mortgage guaranty insurance business. Moody's believes that this type of insurance product is riskier than UGRIC's traditional product; however it does carry higher premium rates. Furthermore, business volumes have been moderate and risks are closely monitored and well-controlled. UGMIC's international activities may be increasing as UGC looks at global growth opportunities for its mortgage guaranty insurance businesses. Even so, we expect UGMIC's exposures to remain a limited portion of the overall mortgage risk insured within the United Guaranty group.

UGMIC benefits from the broad experience of United Guaranty's management in underwriting mortgage risk. AIG's explicit capital support for UGRIC is indicative of its strategic importance to the group and is a credit positive, but is not a key driver of UGRIC's or UGMIC's rating. However, UGC's mortgage guaranty insurance platform provides synergies for other insurance subsidiaries of AIG, which mitigates some of the pressures that its competitors face to diversify earnings.

Rating Outlook

UGMIC's rating outlook is stable, consistent with the rating outlook for UGRIC, which guarantees its obligations.

What Could Change the Rating - UP

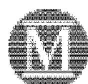
Moody's views the mortgage guaranty insurance business as a Aa rated franchise. Rating improvement would be dependant on improvement in ratings for AIG, which provides explicit capital support to UGMIC's parent, UGRIC, which in turn provides a guaranty to UGMIC.

What Could Change the Rating - DOWN

Any changes to the guarantee provided by UGRIC would likely cause a downgrade. A downgrade of the rating of UGRIC would also negatively affect the rating. In addition, material losses or adverse changes to the company's risk profile could cause a rating downgrade.

© Copyright 2006, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.



Moody's Investors Service

Global Credit Research
Credit Opinion
13 JAN 2006

Save as PDF

Credit Opinion: United Guaranty Residential Ins. Co of NC

United Guaranty Residential Ins. Co of NC

Greensboro, North Carolina, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Insurance Financial Strength	Aa2
Ult Parent: American International Group, Inc.	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured	Aa2
ST Issuer Rating	P-1
Parent: United Guaranty Residential Insurance Co.	
Outlook	Stable
Insurance Financial Strength	Aa2

Contacts

Analyst	**Phone**
Arlene Isaacs-Lowe/New York	1.212.553.1653
Ranjini Venkatesan/New York	
Jack Dorer/New York	

Key Indicators

United Guaranty Residential Ins. Co of NC

	3Q 2005	2004	2003	2002	2001	2000
Total Assets ($ Mil.)	**314**	**[1]289**	**188**	**150**	**133**	**103**
Total Capital	**229**	**[1]224**	**139**	**105**	**92**	**77**
Loss & LAE Reserves ($ Mil.)	**62**	**44**	**28**	**22**	**11**	**6**
Net Premium Earned ($ Mil.)	**67**	**69**	**58**	**54**	**36**	**26**
Losses Incurred ($ Mil.)	**35**	**39**	**34**	**36**	**21**	**12**
Net Operating Income (NOI) ($ Mil.)	**38.0**	**[2]121.2**	**21.9**	**18.2**	**20.7**	**11.6**
Loss Ratio (%)	**53.1**	**58.1**	**60.4**	**66.7**	**55.6**	**44.2**
Expense Ratio (%)	**14.1**	**15.9**	**16.1**	**16.7**	**19.4**	**25.2**
Net Income % Average Capital	**22.3**	**66.7**	**17.9**	**18.5**	**25.5**	**16.0**

[1] Increased by $50 million due to the change in carrying value of the investment in UGRIC. [2] Reflects $100 million extraordinary dividend received from UGRIC.

Opinion

Credit Strengths

- Proven, successful track record in the second mortgage guaranty insurance business

- Prudent risk management and underwriting practices

- Products mitigate some of the competitive pressures of 80-10-10 mortgages to UGRIC's primary mortgage guaranty insurance business

- Strategic insurance subsidiary with explicit support from a highly rated and well-diversified parent

Credit Challenges

- No regulation-based demand driver (unlike traditional first lien mortgage guaranty insurance)

- Regulatory change could increase competition

- Potential vulnerability of parent company's ratings to the impact of any additional regulatory scrutiny

Rating Rationale

United Guaranty Residential Insurance Company of North Carolina (UGRIC of NC) is a wholly owned subsidiary of United Guaranty Corporation, the holding company for American International Group's (AIG, rated Aa2, stable outlook) mortgage guaranty related business. UGRIC of NC writes mortgage guaranty insurance for second liens and owns 25% of United Guaranty Residential Insurance Company, the main first lien mortgage guaranty insurance operating subsidiary. UGRIC of NC's Aa2 rating reflects the explicit capital support provided by AIG, the strategic importance AIG ascribes to the mortgage guaranty insurance business, and Moody's expectation that such strategic importance will continue. The rating is also supported by a stop-loss reinsurance agreement with National Union Fire Insurance Company of Pittsburgh, PA (rated Aa2, stable outlook), a key AIG insurance subsidiary, that provides additional claims-paying support. UGRIC of NC's second lien products mitigate some of the competition in the primary mortgage guaranty insurance business from 80-10-10 mortgage structures. Other credit positives include UGRIC of NC's prudent underwriting standards, favorable earnings history, strong capitalization, and a successful and long track record in its second mortgage guaranty insurance business.

Moody's believes the standalone rating for UGRIC of NC would be lower, but may still be in the Aa range. UGRIC of NC maintains a disciplined and focused strategy in the second mortgage guaranty insurance business, targeting lending institutions seeking capital relief or risk transference for their retained portfolio of second mortgages. The company has been successful in this segment and has developed a strong franchise with deep customer relationships and limited competition. UGRIC of NC has also selectively participated in secondary market transactions, which will continue to be an opportunistic part of its business strategy. UGRIC of NC does not benefit from the regulatory demand imposed by the government-sponsored enterprises, Fannie Mae and Freddie Mac, whose charters require primary mortgage guaranty insurance for certain loans. Should the regulatory environment for lending institutions change, there could be material changes (positive or negative) to demand dynamics and the competitive environment for second lien mortgage guaranty insurance. In addition, while UGRIC of NC has passed through dividends from UGRIC to its parent, UGC, it has not paid dividends out of its own earnings, using retained earnings to augment its capital base, a practice that Moody's expects will continue. Furthermore, UGRIC of NC benefits from the shared organizational and operational infrastructure of the UGC companies that provide for greater efficiency and scale.

Rating Outlook

The outlook for the Aa2 rating of UGRIC of NC is stable, reflecting the rating of the ultimate parent and provider of explicit support, AIG. Moody's expects that the company will maintain its prudent underwriting standards and portfolio quality.

What Could Change the Rating - UP

Moody's views the mortgage guaranty insurance business as a Aa rated franchise. Rating improvement would depend on the improvement in ratings for AIG.

What Could Change the Rating - DOWN

Downgrade of the ratings of AIG or its key subsidiaries, which provides explicit capital support to UGRIC of NC, could have the same effect on UGRIC of NC's financial strength rating. Negative rating actions could also result should there be diminution of the support provided by AIG or a reduction in the reinsurance provided by National Union Fire Insurance Company of Pittsburgh, PA. Shifts in its business strategy or the competitive environment could also affect the firm's rating.

© Copyright 2006, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Moody's Investors Service Pty Limited does not hold an Australian financial services licence under the Corporations Act. This credit rating opinion has been prepared without taking into account any of your objectives, financial situation or needs. You should, before acting on the opinion, consider the appropriateness of the opinion having regard to your own objectives, financial situation and needs.

APPENDIX B
LENDER-PAID MORTGAGE INSURANCE
PHH TERM SHEET AND RATES

PHH A AND ALT-A RATES FOR LENDER-PAID MI

Expiration Date: November 17, 2006.[3]

Size of Commitment: To be determined.

Delivery Period: A delivery period to be determined mutually between United Guaranty and PHH.

Loans Covered and Underwriting Guidelines: All loans and loan products must conform to underwriting guidelines, which are mutually agreed upon between United Guaranty Risk Management and PHH. United Guaranty Risk Management will communicate these underwriting guidelines to M&T. Any departure from this agreement must be communicated and negotiated between both parties.

Exclusions: (1) Loans that fall under The Homeownership and Equity Protection Act of 1994 (HOEPA), (2) loans secured by a subordinate lien, (3) loans that are currently delinquent, (4) loans that have been more than thirty days delinquent more than once in the last twelve months, (5) loans with original LTV above 100.0%, (6) loans with FICO scores less than 620, (7) any loan that exceeds a limit of two loans per borrower, (8) loans for properties that are not free of material damage and/or are not in good repair prior to any commitment, and (9) loans on NY properties with actual or potential negative amortization.

Per Loan Coverage: As shown per LTV range on the respective A and Alt A Rate Charts.

Term of Cover: The term of the policy shall be life of loan coverage.

Premium Payment: Premiums are to be paid by PHH.

Premium Rates: Rates shown on the attached Rate Charts are nonrefundable annual premium rates, payable monthly. Rates shown are not captive eligible.

Cancellations: The rates provided anticipate that all loans will remain insured for the term of the coverage or until the loans are paid in full by the borrower. The insured may not cancel individual loans from coverage or the premium calculation. If the insured cancels individual loans from coverage without a prepayment occurring, then United Guaranty has the right to adjust the premium rate on the remaining loans to produce the same dollars of premium, on a monthly basis, as the amount that would have been paid, had the improperly cancelled loans remained insured. United Guaranty shall have the right to make this premium rate adjustment retroactive from the date of cancellation until the date the improper cancellation is discovered. Failure of the insured to pay the additional premium within 60 days of the date of notice of the premium rate adjustment will be considered a failure to pay premium due under the policy and result in the cancellation of the coverage.

There will be no penalty on any loan where premium has been paid for the life of loan. This penalty shall not apply to the loans purchased by an investor as long as that investor requires in writing that the mortgage guaranty insurance provided under this plan be maintained for the life of the loan. United Guaranty agrees to coordinate this process with any investor that may be involved to allow payment of premiums and reinstatement of coverage.

Due Diligence: United Guaranty shall be able to perform a post-closing due diligence on a sample of insured loans within a reasonable timeframe.

Subjectivities:

1. **The terms of this sheet are subject to United Guaranty Corporate Risk Committee approval.**
2. **Rates are subject to regulatory approval by the appropriate Department of Insurance.**

---

[3] This information is property of AIG United Guaranty, and the recipient agrees to treat the information as highly confidential and not to disclose such information or otherwise reveal any of its contents or nature to any third party without the prior written consent of AIG United Guaranty.

ECX 0032

PHH LPMI Rate Chart for A
Annual Premium Rates Payable Monthly

LTV	Credit Score	740+			720-739			700-719			680-699			660-679			620-659		
	Coverage	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs
95.01% +	35%	0.41%	0.64%	0.64%	0.44%	0.67%	0.67%	0.46%	0.71%	0.71%	0.53%	0.83%	0.83%	0.78%	1.13%	1.17%	1.04%	1.26%	1.30%
95% - 90.01%	30%	0.33%	0.45%	0.45%	0.35%	0.48%	0.48%	0.37%	0.50%	0.50%	0.43%	0.59%	0.59%	0.59%	0.81%	0.83%	0.78%	0.89%	0.92%
90% - 85.01%	25%	0.23%	0.32%	0.32%	0.25%	0.34%	0.34%	0.26%	0.36%	0.36%	0.30%	0.42%	0.42%	0.39%	0.57%	0.59%	0.52%	0.63%	0.65%
85% - & Below	12%	0.16%	0.20%	0.20%	0.17%	0.21%	0.21%	0.18%	0.22%	0.22%	0.21%	0.25%	0.25%	0.16%	0.23%	0.24%	0.32%	0.33%	0.37%

Rate Adjustments:

	740+	720-739	700-719	680-699	660-679	620-659
Investment Property	0.25%	0.25%	0.25%	0.25%	0.38%	0.38%
3-4 Unit Property	0.25%	0.25%	0.25%	0.25%	0.38%	0.38%
Manufactured Housing	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
SuperJumbo	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Second Home	0.10%	0.10%	0.10%	0.10%	0.10%	0.14%
Cash Out Refinance	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%

CFPB-PHH-00141788
PHH-ROSENTHAL-CFPB-013202
CONFIDENTIAL

ECX 0032

PHH LPMI Rate Chart for Alt A
Annual Premium Rates Payable Monthly

SIVA

LTV	Credit Score	740+			720-739			700-719			680-699			660-679			620-659			<620		
	Coverage	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs
95.01% +	35%	0.80%	0.90%	0.90%	0.80%	0.90%	0.90%	0.46%	0.56%	0.56%	0.53%	0.63%	0.63%	0.82%	0.92%	0.92%	1.88%	2.10%	2.14%	3.05%	3.60%	3.86%
95% - 90.01%	30%	0.63%	0.73%	0.73%	0.63%	0.73%	0.73%	0.37%	0.47%	0.47%	0.43%	0.53%	0.53%	0.63%	0.73%	0.73%	1.52%	1.62%	1.66%	2.22%	2.68%	2.90%
90% - 85.01%	25%	0.49%	0.59%	0.59%	0.49%	0.59%	0.59%	0.26%	0.36%	0.36%	0.30%	0.40%	0.40%	0.43%	0.53%	0.53%	1.16%	1.25%	1.29%	1.54%	1.87%	2.00%
85% - & Below	12%	0.35%	0.45%	0.45%	0.35%	0.45%	0.45%	0.18%	0.28%	0.28%	0.21%	0.31%	0.31%	0.20%	0.30%	0.30%	0.71%	0.72%	0.76%	0.92%	0.96%	0.99%

SISA, NO RATIO

LTV	Credit Score	740+			720-739			700-719			680-699			660-679		
	Coverage	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs
95% - 90.01%	30%	0.78%	0.88%	0.88%	0.78%	0.88%	0.88%	0.77%	0.87%	0.87%	0.89%	0.99%	0.99%	1.12%	1.22%	1.22%
90% - 85.01%	25%	0.60%	0.70%	0.70%	0.60%	0.70%	0.70%	0.55%	0.65%	0.65%	0.67%	0.77%	0.77%	0.80%	0.90%	0.90%
85% - & Below	12%	0.43%	0.53%	0.53%	0.43%	0.53%	0.53%	0.39%	0.49%	0.49%	0.41%	0.51%	0.51%	0.43%	0.53%	0.53%

NINA, NO DOC

LTV	Credit Score	740+			720-739			700-719			680-699			660-679		
	Coverage	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs	Fixed	1%ARMs	2%ARMs
95% - 90.01%	30%	0.86%	0.96%	0.96%	0.86%	0.96%	0.96%	0.98%	1.08%	1.08%	1.13%	1.23%	1.23%	1.37%	1.47%	1.47%
90% - 85.01%	25%	0.66%	0.76%	0.76%	0.66%	0.76%	0.76%	0.70%	0.80%	0.80%	0.86%	0.96%	0.96%	1.00%	1.10%	1.10%
85% - & Below	12%	0.47%	0.57%	0.57%	0.47%	0.57%	0.57%	0.49%	0.59%	0.59%	0.51%	0.61%	0.61%	0.55%	0.65%	0.65%

Rate Adjustments:

Investment Property	0.38%	0.38%	0.38%	0.50%	0.50%	0.50%	0.50%
Manufactured Housing	0.20%	0.20%	0.20%	0.25%	0.25%	0.25%	0.25%
SuperJumbo	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Second Home	0.14%	0.14%	0.14%	0.25%	0.25%	0.25%	0.25%
Cash Out Refinance	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%
3-4 Unit Property	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%

CFPB-PHH-00141789

PHH-ROSENTHAL-CFPB-013203

CONFIDENTIAL

APPENDIX C
AIG UNITED GUARANTY PRODUCTS AND SERVICES

APPENDIX C AIG UNITED GUARANTY PRODUCTS AND SERVICES

Insurance Products – First Mortgages

AIG United Guaranty offers four types of mortgage insurance premium categories (based on payment options): monthly premiums, annual premiums, single premiums, and lender-paid MI.

The following are offered by United Guaranty Residential Insurance Company and United Guaranty Mortgage Indemnity Company, which are operating units under our Domestic Residential Group.

- **Monthly premiums** require only one or two months' premium at closing.
- **Annual premiums** are collected up front by the lender and sent to AIG United Guaranty at loan closing.
- **Single premiums** are also paid at closing, either in one lump sum (paid by the borrower to the lender, and then by the lender to AIG United Guaranty) or financed into the loan balance at closing.
- **Lender-paid mortgage insurance** allows the lender to pay the mortgage insurance premium on a monthly, annual, or single-premium basis, and charge the borrower a higher interest rate for the life of the loan.

Insurance Products – Special Programs

AIG United Guaranty's product development group is tasked with introducing new insurance products. A listing of these programs follows.

Program Name	Premium Plan
• **United Guaranty's Borrower Advantage®:** Insures mortgages up to 103% LTV (not available in all states). Additional Borrower Advantage products include Borrower Advantage Plus and Borrower Advantage Interest-Only.	All premium options
• **RateXchange®:** Insures mortgages in which the borrower finances a "buydown" into the mortgage loan, thereby lowering the mortgage interest rate. This program also allows LTVs up to 103%.	All premium options
• **ReadiRates®:** A feature of monthly and annual premiums that allows a drop in the rate used to calculate the premium after ten years.	Monthly, annual premiums
• **FinanceAbles®**: AIG United Guaranty 's term for its single-premium option.	Single premiums only
• **LenderSelect®:** Lender-paid mortgage insurance.	Lender-paid only
• **A-minus Rates:** Rates for borrowers whose credit scores require higher premiums due to higher risk of default.	Monthly premiums only

Insurance Products—Second Mortgages and Home Equity Lines of Credit (HELOCs)

Our Credit Insurance Companies, which operate under our Domestic Consumer Group, offer insurance for second mortgages (such as home improvement loans) and home equity lines of credit (HELOCs).

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013205
ECX 0032
CFPB-PHH-00141791

Private Education Loan Insurance

Private Education Loan Default Insurance. The private education loan business is projected to be a $40–$45 billion industry by the 2009–2010 academic year, driven by the cost of tuition, growing enrollment, and the gap between federal loan limits and education costs. As your business partner, we can help you meet the growing market demand for education loans by protecting your bottom line from losses due to borrower default. Each AIG United Guaranty plan features delegated underwriting and multiple pricing options for insurance coverage that's effective with the initial disbursement and remains insured for the life of the loan. With the following programs, we offer a variety of rate plans, coverage structures, and billing/payment schedules:

- Direct to Student Loan Program
- Consolidation Loan Program
- Parent/K-12 Loan Program
- School Channel Program

Non-Insurance Products and Services for Mortgage Lenders

All AIG United Guaranty operating groups provide essential non-insurance products and services to its customers, free of charge. These include the following:

- Customer training through our Mortgage Industry Training department (includes training games and partnerships with trade organizations).
- Captive reinsurance services and management support.
- Paperless loan submission and underwriting.
- CRA and emerging markets programs.
- Pre-purchase counseling.
- Correspondent and broker referrals support.
- Software/technology systems including EDI and Web-based origination, servicing, and data management products.
- Loan Officer's Guide.
- Economic events calendar.
- Loan scoring and risk indices: ACUScore® and ACUFactor® Market Rating.
- United Guaranty's MI Guide® Internet portal.
- Web site at ugcorp.com including information and interactive support to lenders and consumers.
- Secondary markets support.
- Loan counseling to help homeowners retain homes through default "cure."
- Software for loan officers and underwriters.

Fee-Based Services

AIG United Guaranty does charge for some services including the following:

- Contract underwriting and compliance review, delegated and non-delegated.
- Some training and seminars (attendance, materials fee).
- Emerging markets materials and counseling (*The Road to Home Ownership*) for FHA programs.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013206
ECX 0032
CFPB-PHH-00141792

APPENDIX D
PHH: CURRENT CAPTIVE PORTFOLIO

APPENDIX D: CURRENT CAPTIVE PORTFOLIO (ATRIUM)

The tables and charts below provide an overview of AIG United Guaranty's captive reinsurance arrangements with Mortgage Services (PHH).

Terms of Atrium Reinsurance Agreement (original agreement in effect beginning 10/1/1993)

Current Terms of Reinsurance Agreement (Effective from 1/1/2000)

- Excess of Loss
- Gross Premium Cession: 45%
- Ceding Commission: 11.1%
- Net Premium Cession: 40%
- Reinsurance Attachment Point: 4%
- Reinsurance Limit: 14%
- Participation in the Layer: 100%
- Term of Book: 10 Years

Inception to Date Financial Highlights (as of 12/31/05)

Ceded Written Premiums:	$ 223,890,855
Ceding Commission:	(31,512,579)
Ceded Incurred Losses:	(0)
Underwriting Gain:	$ 192,378,276

2005 Financial Highlights (as of 12/31/05)

Ceded Written Premiums:	$ 2,445,231
Ceding Commission:	(271,421)
Ceded Incurred Losses:	(0)
Underwriting Gain:	$ 2,173,810

Original vs. In Force (as of 12/31/05)

Policy Year	Original Loan Count	In-Force Loan Count	Original Insurance In Force ($ 000's)	Current Insurance In Force ($ 000's)
1994	10,229	8	1,265,497	744
1995	9,271	26	1,180,530	2,505
1996	13,702	464	1,838,244	43,026
1997	13,146	509	1,859,079	51,082
1998	34,239	2,626	4,690,248	270,132
1999	43,581	3,729	5,911,645	373,857
2000	40,850	2,214	5,622,493	199,426
2001	32,259	4,662	4,444,007	491,637
2002	24,156	7,203	3,362,552	855,828
2003	12,931	7,526	1,849,507	994,622
2004	19,852	15,843	2,865,568	2,193,448
2005	9,348	8,850	1,432,882	1,336,837
Total	263,564	53,660	36,322,251	1,929,352

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013208
ECX 0032
CFPB-PHH-00141794

Loss Experience (as of 12/31/05)

Policy Year	Gross Paid Losses	Gross Loss Reserves	Gross Incurred Losses	Attachment Point
1994	$1,993,746	$88,022	$2,021,768	14,817,562
1995	1,819,518	357,766	2,177,284	18,593,814
1996	1,863,139	303,364	2,166,503	30,379,928
1997	2,769,194	421,001	3,190,195	19,195,558
1998	5,138,730	1,869,186	7,034,916	47,969,347
1999	8,613,614	3,636,373	12,249,987	59,922,144
2000	7,205,820	3,022,425	10,228,245	51,790,789
2001	4,971,018	3,037,266	8,008,284	43,680,743
2002	3,045,900	4,028,309	7,128,209	36,337,879
2003	1,146,204	5,275,337	6,421,541	20,210,582
2004	683,260	9,412,702	10,095,962	33,710,017
2005	6,074	2,109,576	2,115,650	16,895,432
Total	39,196,217	33,642,327	72,838,544	393,503,795

Attachment Point Analysis (as of 12/31/05)

Policy Year	Incurred Loss as % of Original Risk	Attachment Point %	Risk in Force as % of Original Risk
1994	0.89%	6.5%	0.1%
1995	0.76%	6.5%	0.2%
1996	0.46%	6.5%	2.5%
1997	0.66%	4.0%	2.8%
1998	0.59%	4.0%	5.9%
1999	0.82%	4.0%	6.4%
2000	0.79%	4.0%	3.7%
2001	0.73%	4.0%	11.8%
2002	0.78%	4.0%	26.4%
2003	1.27%	4.0%	55.2%
2004	1.20%	4.0%	76.9%
2005	0.50%	4.0%	93.5%

Runoff by Loan Amount

Policy Year	Calendar Year 2004		Calendar Year 2005	
	Atrium	All UG Business	Atrium	All UG Business
1997	41%	32%	30%	31%
1998	41%	31%	31%	29%
1999	41%	32%	31%	30%
2000	47%	34%	34%	31%
2001	45%	36%	35%	34%
2002	36%	38%	35%	35%
2003	7%	32%	30%	30%
1997	41%	32%	30%	31%
1998	41%	31%	31%	29%
1999	41%	32%	31%	30%

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013209

ECX 0032

CFPB-PHH-00141795

APPENDIX E
STANDARD & POOR'S
WILL HOUSING'S FALL MAKE THE ECONOMY TUMBLE?
(OCTOBER 12, 2006)

2014-CFPB-0002 Document 108-68 Filed 04/22/2014 Page 51 of 55

STANDARD & POOR'S RATINGSDIRECT

RESEARCH

Economic Research:

Will Housing's Fall Make The Economy Tumble?

Publication date: 12-Oct-2006
Credit Market Services: David Wyss, Chief Economist, New York (1) 212-438-4952; david_wyss@standardandpoors.com

It had to happen sometime. And it now appears that the housing market topped out during the summer of 2006. Incoming data on housing sales and starts clearly show that fewer homes are being sold, and prices are leveling out. Earlier this year, we were surprised because housing remained stronger than we had expected. Then the drop during the summer was very sudden. So far, though, it appears that the slowdown will be moderate, as we expected (see " U.S. House Prices: Even Pretty Bubbles Pop," published Sept. 12, 2005, on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis) and as Federal Reserve Chairman Ben Bernanke has stated. The risk of a sharp plunge remains, however, especially if mortgage rates move too high.

To this point, the current housing slowdown has followed the usual historical pattern. When the market cools off and sellers can't get the price they expect, their first reaction is to hold on to the house in expectation that prices will rebound. Typically, the inventory of unsold homes rises in the first year of the slowdown, while prices (at least as reported) remain firm. After a year, sellers capitulate, and either take their homes off the market and abandon the desired trade-up or accept the lower price offered. On average, it takes about two years for this phase to work out. Right now, the housing market is just over a year into the cycle's down part.

The end of this boom presents two dangers to the economy: First, lower housing activity will be a drag on growth. We expect housing starts to drop from 2.07 million last year to 1.88 million in 2006 and 1.64 million in 2007. Second, the higher interest rates and lack of further appreciation will restrict homeowners' ability to get capital from their homes through cash-out refinancing or home-equity loans, thus hurting spending power. If the declines are gradual, the slowdown will be moderate, as the Fed wants.

A Softer Home Market

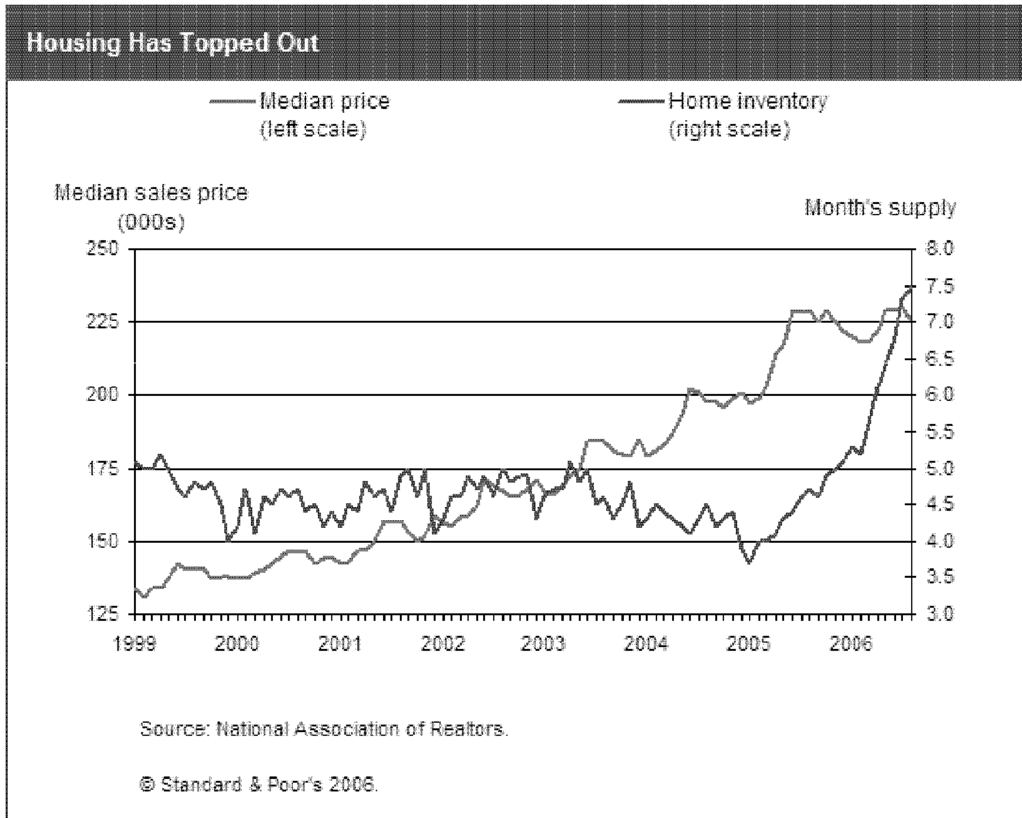
Housing sales and starts have dropped sharply in the past few months, even after removing the weather-related bounces. More tellingly, the number of unsold homes on the market has surged, with the supply reaching 7.5 months of sales in February, up from 4.0 months in early 2005. The 6.30 million existing homes sold (annual rate) in August were down sharply from one year earlier (7.21 million), and the median sale price has dropped 1.7% from a year earlier, to $225,000.

Chart 1

10/16/2006
CONFIDENTIAL
PHH-ROSENTHAL-CFPB-013211

ECX 0032

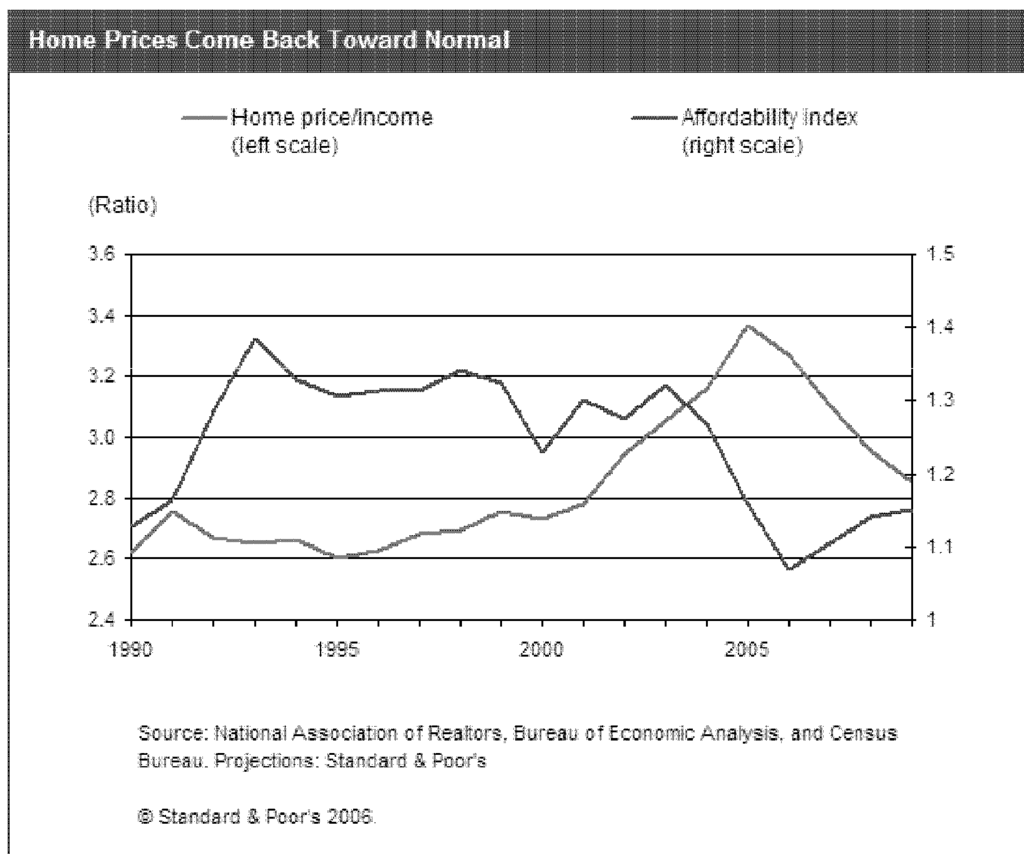
CFPB-PHH-00141797



The picture for new homes is similar, but weather has been more of a factor here. Housing starts surged in January to an annual rate of 2.3 million, but that reflected Mother Nature, not economics. Starts have since retreated to 1.67 million in August, down 20% from a year earlier. New home sales dropped to 1.05 million in August from 1.25 million 18 months earlier, while the inventory of unsold new homes rose to a 6.6 months' supply from 4.4 months in early 2005. Buyers are canceling contracts because of inability to sell their current home. The median price of a new home fell to $237,000 from $240,100 last August, but that may reflect changed mix of size and region more than pricing.

Home prices are finally rising less than household income, at least over the past six months. The price-income ratio for the average existing single-family home has dropped to 3.31x average household income from its height of 3.46x in third-quarter 2005. The ratio is still far above its historical average of 2.65, but it has peaked. We expect the ratio to drop in the next few years, as home prices stabilize while incomes continue to rise.

Chart 2



Although we expect home prices to stabilize nationally, they'll drop in some metropolitan areas. Those at risk are: regions with weak employment (e.g., Michigan); regions with very high ratios of home prices to incomes (e.g., California, New York City); and regions with both high prices and high percentages of income properties and second homes (e.g., South Florida). The market for second homes and investment properties is always more cyclical than that for primary residences. If a family can't sell its primary residence, it will usually just stay put and cancel the contract on the home it intended to buy. But if the family can't get its price on an investment property or second home, particularly if it's distant from the family's primary residence, the home may well be dumped for whatever price is offered.

The Most Overpriced Markets

Ratio of median home price to median income, 2005

($ 000s)	Median House Price	Median Household Income	Price/Income Ratio
San Diego-Carlsbad-San Marcos, CA	604.3	43.3	14.0
Los Angeles-Long Beach-Santa Ana, CA	691.9	51.8	13.4
San Francisco-Oakland-Fremont, CA	715.7	56.3	12.7
San Jose-Sunnyvale-Santa Clara, CA	744.5	65.4	11.4
Honolulu, HI	590.0	60.5	9.8
Miami-Fort Lauderdale-Miami Beach, FL	371.1	43.1	8.6
New York-Northern New Jersey-Long Island, NY-NJ-PA	446.5	56.1	8.0
Riverside-San Bernardino-Ontario, CA	374.2	50.8	7.4
Reno-Sparks, NV	349.9	49.0	7.1
Seattle-Tacoma-Bellevue, WA	316.8	44.5	7.1

Source: Census

The Outlook For Housing Activity

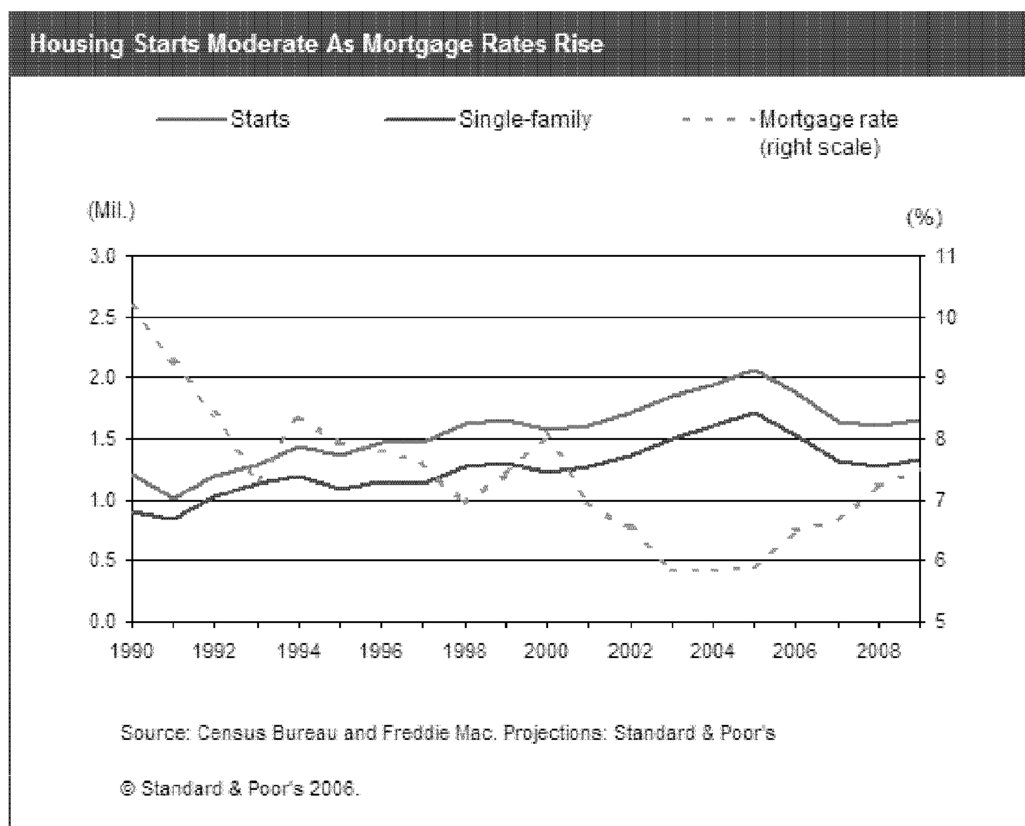
Housing remains affordable by historical standards, however, affordability, as measured by the National Assoc. of Realtors' index, slumped to 106 in the second quarter of 2006, down sharply from 143 in third-

quarter 2003 and the record 152 in the first quarter of 1972. The index is based on the ratio of median income to the monthly payment needed (principal, interest, taxes, insurance) to support the median new home. Low interest rates had raised affordability to the highest level since 1973, but higher home prices and rising mortgage rates have pushed it back to average. The record low was 64 in the second quarter of 1981, when mortgage rates were in double digits. Current affordability should still support the record 69% homeownership rate in the U.S.

Starts will be propped up by the need to rebuild about 350,000 homes lost in last year's hurricanes. Rebuilding has proceeded more slowly than we had expected, however, because of the delays in reconstructing the levee system around New Orleans. Still, this will be some support for housing starts this year and next.

The net result will likely be a 25% drop in housing starts to 1.64 million in 2007 from the 23-year high of 2.07 million in 2005. In most economic cycles, housing starts drop under one million at the trough, although 2001 was a major exception. The rise in mortgage rates is significant, but from a very low level, which keeps affordability in a realistic range.

Chart 3



The Impact On The Economy

The weaker housing market will hit the economy in two ways: First, falling construction activity will have a direct negative impact. Second, higher mortgage rates and an end to strong price appreciation will restrict Americans' ability to take cash out of their homes.

Residential construction activity is expected to fall only 3.7% (2000 chain-weighted dollars) this year, but 11.8% next year. The 2006 data are helped by the strong start to the year, the carryover of 2005 activity, and the post-hurricane rebuilding. In 2007, these supports will disappear. The direct impact on the economy is significant, since residential construction constituted 6.1% of GDP in 2005, and constituted 0.4 percentage point of last year's 3.2% real GDP growth. This year, the contribution will be negligible (less than 0.1 percentage point), while next year it will be negative 0.7 percentage point. The housing sector will thus cause a swing of more than a full percentage point in real GDP growth between 2005 and 2007—

more than the total slowdown expected for real GDP (3.2% in 2005 to 2.1% in 2007).

The second impact is through the reduced ability of Americans to use their homes as giant ATM machines. Homeowners have tapped nearly $700 billion in home equity in the past two years as cash-out refinancing or home equity loans, or about 3.5% of disposable income. Based on Federal Reserve survey data, we estimate that one-third of that was spent on home renovation, and is thus included in the impact of residential construction discussed above. The second most prevalent use of this money was for education. We expect that education funding not raised from home equity loans will instead be raised in student loans. The other (nearly half) of refi or home equity proceed uses are likely to be for general consumption, however, especially since we believe that debt reduction (the third-ranked use) is just a way to finance consumer spending.

However, homeowners still have ample home equity to borrow against. The overall loan-to-value ratio in the housing market remains moderate, rising to 46% in the second quarter of 2006 from 42% in 2000. The ratio of mortgage debt to disposable income has risen to a record 98%, but that reflects the rise in home ownership and prices, not an increase in leverage. Raising cash from homes will cost more than in the recent past, and that should discourage borrowing. The weaker housing market and rising mortgage rates will thus deter consumer borrowing and spending, but probably not as much as some people believe.

If It Goes Wrong

A slow deflation of the housing bubble is thus a drag on the economy, but it's not likely to cause a major crisis or recession. However, a sudden jump in mortgage rates could trigger a sharper decline in home prices and housing starts. Homes are currently about 20% overvalued nationally, compared with their historical ratio to income. But they're about 30% overvalued in the Northeast and on the West Coast, and only about 10% high in the rest of the country.

If the adjustment occurs suddenly, troubles will be much worse. A 20% drop in the national average home price, combined with a 50% drop in home sales and starts, would take about 1.5 percentage points off growth in 2007 and 2008. With GDP expected to increase by only 2.1% in 2007, such a scenario would push the economy perilously close to recession. That could be avoided if the Fed moves quickly. But if Bernanke & Co. are constrained, perhaps by a falling dollar or the need to finance the twin deficits, a recession is very possible.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Copyright © 1994-2006 Standard & Poor's, a division of The McGraw-Hill Companies.
All Rights Reserved. Privacy Notice

The McGraw-Hill Companies

EXHIBIT 70

Message

From: Bogansky, Mike (MBS) [Mike.Bogansky@mortgagefamily.com]
Sent: 2/18/2009 3:51:48 PM
To: Bowen-Ashwin, Christopher (MBS) [Christopher.Bowen-Ashwin@mortgagefamily.com]
Subject: RE: Cendant ETD 4QRT08.xls

Its an increase in cash, because Radian would pay us immediately for those receivables upon termination.

Michael Bogansky
Vice President- Financial Reporting and Policy
PHH Mortgage Corporation
phone: (856) 917-6714

From: Bowen-Ashwin, Christopher (MBS)
Sent: Wednesday, February 18, 2009 10:51 AM
To: Bogansky, Mike (MBS)
Subject: RE: Cendant ETD 4QRT08.xls

Just so I know, why did we reduce cash by $302k for the premiums?

Thanks,
Chris

From: Bogansky, Mike (MBS)
Sent: Wednesday, February 18, 2009 10:15 AM
To: Bogansky, Mike (MBS); Danahy, Mark (MBS)
Cc: Erdmann, John (MBS); Bowen-Ashwin, Christopher (MBS); Fischer, Bill (MBS)
Subject: RE: Cendant ETD 4QRT08.xls

Mark – Here is the pro-forma balance sheet. Let me know when you'd like to discuss further.

Mike

Michael Bogansky
Vice President- Financial Reporting and Policy
PHH Mortgage Corporation
phone: (856) 917-6714

From: Bogansky, Mike (MBS)
Sent: Monday, February 16, 2009 8:34 AM
To: Danahy, Mark (MBS)
Cc: Erdmann, John (MBS)
Subject: RE: Cendant ETD 4QRT08.xls

Mark – We have not withdrawn any funds from Radian's Trust for taxes. We have always been pretty close to the minimum exclusive of taxes. We would not take out the amounts for taxes because we would have to put it right back in with a capital contribution. As it stands now, we are right on top of the minimum required trust balance. I'll send you a pre-forma balance sheet assuming a Radian termination and assumption of risk.

Mike

Michael Bogansky
Vice President- Financial Reporting and Policy

PHH Mortgage Corporation
phone: (856) 917-6714

From: Danahy, Mark (MBS)
Sent: Sunday, February 15, 2009 4:45 PM
To: Bogansky, Mike (MBS)
Cc: Erdmann, John (MBS)
Subject: FW: Cendant ETD 4QRT08.xls

Mike, John,
Do you believe that atrium will be taking funds out of the radian trust to pay income taxes as shown on the attached analysis?
How much has been taken out of the trust for the purpose of paying taxes to date?

At this point I do not want to put additional capital at risk with this trust. I want to look at the return profile.

If we choose not to fund additional capital radian can take back the trust and re-assume the risk. I believe we would have to place back in the trust the amounts taken out to pay taxes as presumably those taxes would be returned to atrium when the loss on termination of the reinsurance contract. Assuming we go down that path, we would reverse a portion of the reserves established to date. Lets proforma what would the results look like under that scenario.

From: Rosenthal, Sam (MBS)
Sent: Friday, February 13, 2009 5:08 PM
To: Danahy, Mark (MBS)
Cc: Bradfield, Richard J. (MBS)
Subject: Cendant ETD 4QRT08.xls

Mark - as per your request, attached is the Radian-Atrium 12/31/2008 Trust Account Calculation. I received this from Radian earlier this week. From page 3 of this report, I observe the following information:

- Total Required Escrow Balance = $3.6mm
- Trust Balance After Tax = $2.8mm
- Required Trust Contribution = $823,904.22

Radian has not called me on this. Let's talk when you have a few moments to discuss our approach / response (if any) back to Radian. I think that we should talk to them about this early next week, as we are planning on doing a lot of business with them next year to take advantage of their expanded Proficient Lender Guidelines, even though this business will not be capture in a captive.

Thanks - Have a great weekend.
Sam

EXHIBIT 71

United Guaranty Residential Insurance Company
230 N. Elm Street
Greensboro, NC 27401
336.412.0890
800.334.8966
336.412.3050 Fax

Chris Thielman
Director–Structured Products

February 28, 2008

Sam Rosenthal
PHH Mortgage
3000 Leadenhall Road, SMI
Mt. Laurel, NJ 08054

Dear Sam:

Enclosed is a copy of a notice from Freddie Mac regarding changes in the Freddie Mac Private Mortgage Insurer Eligibility Requirements (the Requirements) relating to premium cedes on captive reinsurance. United Guaranty Residential Insurance Company (United Guaranty) is a Freddie Mac-approved private mortgage insurer and must abide by the Requirements.

As stated in the notice, effective on or after June 1, 2008, Freddie Mac-approved private mortgage insurers may not cede new risk if the gross risk or gross premium ceded to captive reinsurers is greater than 25 percent.

To comply with this new Freddie Mac requirement, United Guaranty would be pleased to amend its captive reinsurance agreement to reflect the new Freddie Mac requirement. United Guaranty is currently requesting an independent actuarial firm to opine on alternative structures that demonstrate adequacy of risk transfer and pricing such that the premium is commensurate with the risk.

Please contact me no later than April 11, 2008, to discuss an alternative structure. If I do not hear from you by that date, we will assume you are not interested in an alternative structure and the termination will proceed as shown on the enclosed sheet. We appreciate those partners that have already contacted us. Because of the June 1, 2008, deadline to comply with this new Freddie Mac requirement, United Guaranty has determined it must provide notice of termination to all current deep cede agreements at this time. This notice of termination does not affect our ability to enter into an agreement that complies with the new Freddie Mac requirement. The specific information regarding your agreement is on the enclosed sheet.

Thank you for your prompt attention to this matter.

Yours truly,

Chris Thielman
Director–Structured Products
(336) 412-0890

cc: Pete Baynard, Senior Vice President-National Accounts
Nick Nicholes, Vice President-National Accounts

NOTICE OF TERMINATION OF REINSURANCE AGREEMENT

You are notified that the Agreement specified below is terminated by United Guaranty Residential Insurance Company as set out below.

Date of notice: February 29, 2008

Effective date of termination: 11:59PM, May 31, 2008

Agreement number: 3-44

Original Effective Date of Agreement: January 1, 1997

Ceding company: United Guaranty Residential Insurance Company

Reinsurer: Atrium Reinsurance Corporation

Basis of termination: Run off of prior Policy Years

2014-CFPB-0002 Document 108-71 Filed 04/22/2014 Page 4 of 4

Page location:
/news/archives/corporate/2008/20080214_capture.html

Print this page

For Immediate Release
February 14, 2008
CONTACT: corprel@freddiemac.com
or (703) 903-3933

FREDDIE MAC CHANGES MORTGAGE INSURER ELIGIBILITY RULES TO CAP PREMIUM CEDES ON CAPTIVE REINSURANCE

25% Cap on Gross Risk/Premium Cedes To Support MI Capital, Claims Paying Capacity

McLean, VA – Freddie Mac (NYSE: FRE) today announced it is temporarily changing its Private Mortgage Insurer Eligibility Requirements [PDF 160K] in order to increase the claims-paying and capital retention capacities of its mortgage insurance counterparties during the current market correction.

Effective on or after June 1, 2008, Freddie Mac-approved private mortgage insurers may not cede new risk if the gross risk or gross premium ceded to captive reinsurers is greater than 25 percent. Beyond limiting the allowable cede to 25 percent, the temporary policy does not limit the mortgage industry's use of captive reinsurance.

Triggered by the ongoing decline in home prices and poor performance of subprime, Alt A and other higher-risk mortgages, Freddie Mac says the temporary change is intended to allow mortgage insurers to retain more insurance premiums to pay current claims and re-build their capital base.

Today's announcement applies to all Freddie Mac-approved private mortgage insurers. In addition, Freddie Mac is now requiring all eligible private mortgage insurers to provide additional information about their business activities to better monitor the state of the industry.

Private mortgage insurance enables Freddie Mac to buy loans when a borrower makes a downpayment of less than 20 percent of the purchase price. In a captive reinsurance structure, the mortgage insurer cedes a portion of its premium income to a special trust set up to cover an agreed upon share of losses from a pool of mortgages.

Freddie Mac also announced it is suspending its Type II Insurer requirements otherwise automatically applicable to mortgage insurers that are downgraded below AA- or Aa3 by the rating agencies provided the mortgage insurer commits to submitting a complete remediation plan for our review and approval within 90 days of the downgrade. Freddie Mac also reserves the right to impose additional restrictions in its sole discretion.

Freddie Mac is a stockholder-owned corporation established by Congress in 1970 to support homeownership and rental housing. Freddie Mac purchases single-family and multifamily residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage-related securities and debt instruments in the capital markets. Over the years, Freddie Mac has made home possible more than 50 million times, ensuring financing for one in six homebuyers and more than four million renters.

> > >

© 2008 Freddie Mac

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-012983

ECX 0031

CFPB-PHH-00141569

EXHIBIT 72

BEAR STEARNS

Equity Research
Mortgage Insurance / Rated: Market Weight
September 19, 2003

David Hochstim, CFA
212 272-4243
dhochstim@bear.com

Scott R. Coren, CFA
212 272-5280
scoren@bear.com

MGIC Investment Corporation (MTG-55.17) - Peer Perform

GE Following MGIC and Limiting Deep Cede Captives

Data

Last ROE	16%	Dividend/Yield	$0.10/0.2%	Book Value	$36.88
Target Price-Yr.End '04	$65	Shares Out	98.5 mil		
52-Wk Range	$72-$33	Market Cap (MM)	$5.1 billion		

GAAP Estimates

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	P/E Year
2001	$1.38	$1.44	$1.43	$1.45	$5.70	9.7x
2002	$1.53	$1.57	$1.41	$1.32	$5.85	9.4x
2003	$1.38	$1.32	$1.21E	$1.19E	$5.10E	10.8x
Previous	$1.38	$1.32	$1.21E	$1.19E	$5.10E	10.8x
2004					$5.55E	9.9x
Previous					$5.55E	9.9x

EE Post Option Expense

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	P/E Year
2001						
2002						
2003	$1.36	$1.29	$1.18E	$1.16E	$4.98E	10.4x
Previous						
2004					$5.43E	9.5x
Previous						

Key Points

*** GE confirmed to us, following publication of an article in a trade publication, that GE Mortgage Insurance has decided to limit its use of deep cede captive arrangements. GE would be the second major MI, after MGIC, to publicly state it will limit these lower return business arrangements.

*** GE plans to phase out 4-10-40s by year end 2003, and, going forward, limit the amount of premium it will cede to lenders to 30%.

*** The change in strategy supports our view that the returns from deep-cede captive arrangements are too low and that MGIC made the right decision to stop writing the business earlier this year. MGIC went a bit further than GE, limiting the amount of premium it cedes in excess of loss captives to 25%.

*** It would now appear more likely that some other MIs will also begin to limit the amount of business they write in deep cede structures now that GE and MGIC will be limiting this business.

*** To the extent other MIs become more rational and increase the profitability of the business they write, industry returns will rise, a change which should positively effect stock values.

***PLEASE REFER TO THE LAST PAGE OF THIS REPORT FOR IMPORTANT DISCLOSURE INFORMATION

***BEAR STEARNS DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT INVESTORS SHOULD BE AWARE THAT THE FIRM MAY HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

***INVESTORS SHOULD CONSIDER THIS REPORT AS ONLY A SINGLE FACTOR IN MAKING THEIR INVESTMENT DECISION.

BEAR, STEARNS & CO. INC. 383 MADISON AVENUE NEW YORK, NY 10179 (212) 272-2000 WWW.BEARSTEARNS.COM

Companies Mentioned

MGIC Investment Corp (MTG - $55.17) - Peer Perform
General Electric Co. (GE - $31.93) - Not Rated

Valuation Method For Target Price: Valuation: residual income model which present value discounts the difference between the company's return on equity and cost of capital; Risks: rise in unemployment, home price depreciation on a national level, continued high levels of refinancing activi
Investment Risks: home price depreciation, rise in unemployment, low interest rates and high levels of refinancings, GSE and lender risk sharing products

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.
David Hochstim, CFA

This report has been prepared by Bear, Stearns & Co. Inc., Bear, Stearns International Limited or Bear Stearns Asia Limited (together with their affiliates, Bear Stearns), as indicated on the cover page hereof. This report has been adopted and approved for distribution in the United States by Bear, Stearns & Co. Inc. If you are a recipient of this publication in the United States, orders in any securities referred to herein should be placed with Bear, Stearns & Co. Inc. This report has been approved for publication in the United Kingdom by Bear, Stearns International Limited, which is regulated by the United Kingdom Financial Services Authority. Private Customers in the U.K. should contact their Bear, Stearns International Limited representatives about the investments concerned. This report is distributed in Hong Kong by Bear Stearns Asia Limited, which is regulated by the Securities and Futures Commission of Hong Kong. Additional information is available upon request.

Bear Stearns and its employees, officers, and directors deal as principal in transactions involving the securities referred to herein (or options or other instruments related thereto), including transactions contrary to any recommendations contained herein. Bear Stearns and its employees may also have engaged in transactions with issuers identified herein.

This publication does not constitute an offer or solicitation of any transaction in any securities referred to herein. Any recommendation contained herein may not be suitable for all investors. Although the information contained in the subject report has been obtained from sources we believe to be reliable, its accuracy and completeness cannot be guaranteed. This publication and any recommendation contained herein speak only as of the date hereof and are subject to change without notice. Bear Stearns and its affiliated companies and employees shall have no obligation to update or amend any information contained herein.

This publication is being furnished to you for informational purposes only and on the condition that it will not form a primary basis for any investment decision. Each investor must make its own determination of the appropriateness of an investment in any securities referred to herein based on the legal, tax, and accounting considerations applicable to such investor and its own investment strategy. By virtue of this publication, none of Bear Stearns or any of its employees shall be responsible for any investment decision. This report may not be reproduced, distributed, or published without the prior consent of Bear Stearns. © 2003.All rights reserved

by Bear Stearns.

This report may discuss numerous securities, some of which may not be qualified for sale in certain states and may therefore not be offered to investors in such states. NOTE TO ACCOUNT EXECUTIVES: For securities that are not listed on the NYSE, AMEX, or Nasdaq National Market System, check the Compliance page of the Bear Stearns Intranet site for State Blue Sky data prior to soliciting or accepting orders from clients.

DISCLOSURES

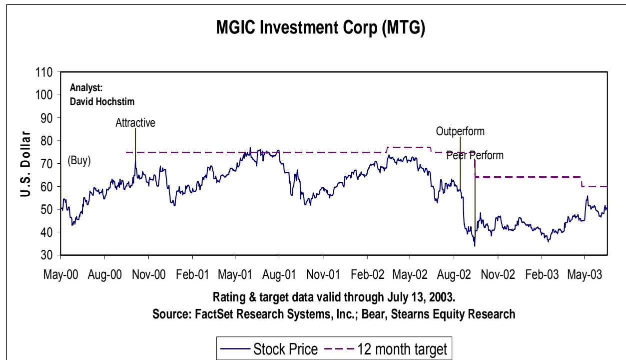
Bear, Stearns & Co. Equity Research Rating System:
Ratings for Stocks (vs. analyst coverage universe):
Outperform (O) - Stock is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (P) - Stock is projected to perform approximately in line with analyst's 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.

FOR INDIVIDUAL COVERAGE INDUSTRY DATA, PLEASE CONTACT YOUR ACCOUNT EXECUTIVE OR VISIT WWW.BEARSTEARNS.COM

Bear, Stearns Ratings Distribution as of June 30, 2003:
Percentage of BSC universe with this rating / Percentage of these companies which were BSC investment banking clients in the last 12 months.
Outperform (Buy): 34.3 / 19.3
Peer Perform (Neutral): 47.4 / 12.8
Underperform (Sell): 18.2 / 8.2

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



ECX 0794

May 8, 2008

Ms. Beth Barr
Trust Department
Wachovia Bank, N.A.
NC 2718, P.O.Box 21965
Greensboro, North Carolina 27420

Dear Ms. Barr:

Enclosed is United Guaranty Corporation's check for $4,749,771.54 in payment of reinsurance premiums to Atrium Insurance Corporation. In accordance with the reinsurance agreement this quarterly payment is to be deposited into the trust account established by the trust agreement between Atrium Insurance Corporation and United Guaranty Residential Insurance Company. The information I have received shows the trust account name and number as follows:

E.A. United Guaranty Residential and Atrium Insurance Corp.
Account # 1019013193

Your assistance with this matter is greatly appreciated. If you have any questions, please contact me at (336) 333-0245 or via email at wcecil@ugcorp.com.

Sincerely,

Wendy W. Cecil
Senior Staff Accountant
Controller's Department

Enclosure

May 8, 2008

Atrium Insurance Corporation
Attn: Ms. Janice Vordran
300 Leadenhall Road
Mount Laurel, New Jersey 08054

Dear Ms. Vorndran:

Enclosed is the Quarterly Reinsurance Report for reinsurance business ceded from United Guaranty Residential Insurance Company (UGRIC) to Atrium Insurance Corporation (Atrium) for reinsurance agreement #3-44.
A deposit of $ 4,749,771.54 for the first quarter 2008 reinsurance settlement will be made into the trust account.

If you have any questions, please contact me at (336) 333-0245 or via email at wcecil@ugcorp.com.

Sincerely,

Wendy W. Cecil
Senior Staff Accountant
Controllers Department

Enclosures
c: S. Rosenthal
J. Cox - Milliman

INFORCE (Inventory)

Policy Year	Count	Insured Amount	Risk	Unearned Statutory	Gross Loss Reserve	Premium	New Inf Cnt	New Rmvd Inf Cnt
1994	1	50400	8568	0	5569	8.4	0	0
1995	1	92100	23025	0	14966	15.35	0	0
1996	1	64800	16200	0	23153	10.8	0	0
1997	8	722965	165792	0	46962	221.93	0	0
1998	907	87835597	24525399	2407.6	876912	52289.56	0	0
1999	1789	171489315	46777442	4225.76	1744581	101453.69	0	0
2000	1262	109908000	26775608	10474.19	1149055	96028.86	0	0
2001	2604	264831047	72621876	18413.63	1685680	191633.55	0	0
2002	3928	448189554	130312587	50937.38	2668104	372222.01	0	0
2003	4197	533558382	157352305	56718.29	3695718	447600.73	0	0
2004	9598	1278145518	385354993	111964.23	10598334	1095599.43	0	0
2005	6922	1032762360	308210565	87357.37	11319206	888989.93	0	0
2006	3880	605060043	176181879	87339.62	8144278	579685.77	0	0
2007	8309	1361877228	365555348	91544.04	3478852	1000544.75	2025	4
2008	2647	471410151	127957708	991.55	0	284876.83	2647	0
Totals	46054	6365997460	1821839295	522373.66	45451370	5111181.59	4672	4

WRITTEN PREMIUM (Current Period)

Policy Year	Premium	Prior Period Premium Adj	Prior Period Premium Adj-P	RISK Policy Year	Paid Loss Since Inception
1994	0	0	0	1994	1942243
1995	0	0	0	1995	1841305
1996	0	0	0	1996	1896137
1997	0	0	0	1997	2840442
1998	162633.94	0	0	1998	5559342
1999	275318.58	0	0	1999	9824231
2000	163359.91	0	0	2000	8640879
2001	430826.72	0	0	2001	6823485
2002	787827.13	0	0	2002	5920357
2003	1037388.94	0	0	2003	4188963
2004	2723941.3	0	0	2004	11875676
2005	2258670.77	0	0	2005	5859326
2006	1385138.92	0	-1076.64	2006	2532152
2007	2564033.9	0	1076.64	2007	73785
2008	122722.81	0	0	2008	0
Total	11911862.92	0	0	Total	69818323

ROLL FORWARD (Current Period)

Policy Year	Loan Removal Count	Loan Removal Risk	Loan Removal Insured Amoun	Loan Removal Premium	Terminations Count	Reinstatements Count
1994	0	0	0	0	10	0
1995	0	0	0	0	13	0
1996	0	0	0	0	17	0
1997	0	0	0	0	21	0
1998	0	0	0	0	120	0
1999	0	0	0	0	123	0
2000	0	0	0	0	63	0
2001	0	0	0	0	153	0
2002	0	0	0	0	211	0
2003	0	0	0	0	189	0
2004	0	0	0	0	408	1
2005	0	0	0	0	255	0
2006	0	0	0	0	139	0
2007	7	348209	1329095	273.15	109	0
2008	0	0	0	0	0	0
Totals	7	348209	1329095	273.15	1831	1

ACCUMULATION (Inception-To-Date)

Policy Year	Count	Principal	Risk	(Current Period) New Count	New Insured Amoun	New Risk
1994	10229	1265496586	227962492	0	0	0
1995	9271	1180530026	286058676	0	0	0
1996	13702	1838243715	467383501	0	0	0
1997	13146	1859079217	479888947	0	0	0
1998	34239	4690248448	1199233668	0	0	0
1999	43581	5911645037	1498053602	0	0	0
2000	40850	5622492695	1294769736	0	0	0
2001	32259	4444006907	1092018568	0	0	0
2002	24156	3362552057	908446979	0	0	0
2003	12931	1849506740	505264550	0	0	0
2004	19936	2876166263	845773123	0	0	0
2005	10139	1575775972	466374906	0	0	0
2006	4793	771768986	223554197	0	0	0
2007	8551	1409470196	378679601	2047	352859061	98427959
2008	2653	473001806	128334450	2653	473001806	128334450
Totals	280436	39129984651	10001796996	4700	825860867	226762409

EXCLUSIONS (Inception-To-Date)

Policy Year	Count	Base Loan Amount	Risk
1993	398	48591053	8173083
1994	1172	159923394	28411829
1995	254	36161268	7941278
1998	210	25501747.95	6388741
1999	337	48786420	12248035
2000	502	67498503.2	17230886
2001	602	88649379.73	22219875
2002	161	24022114	7467350
2003	134	20662621.5	7106419
2004	639	108760219.9	34037012
2005	858	111631281.8	26454216
2006	2941	341130043.7	77870797
2007	1110	129301232.4	32312043
2008	47	7420478.9	1961799
Totals	9365	1218039758	289823363

United Guaranty Residential Insurance Company
In Force Schedule
Atrium Insurance Corporation #3-44
As of March 31, 2008

Policy Year / Certificate Effective Dates Covered	(1) In Force Loan Count	(2) Gross In Force Insured Amount	(3) Gross In Force Risk	(4) Gross Unearned Premium	(5) Gross Case & IBNR Loss Reserves	(6) Ceded In Force Insured Amount	(7) Ceded In Force Risk	(8) Ceded Unearned Premium	(9) Ceded Case & IBNR Loss Reserves
Policy Year 1994 (10/1/93-12/31/1994)	1	50,400	8,568	-	6,126	$ -	$ -	$ -	$ -
Policy Year 1995	1	92,100	23,025	-	16,463	-	-	-	-
Policy Year 1996 (1/1/1996-3/31/1997)	1	64,800	16,200	-	25,468	-	-	-	-
Policy Year 1997 (4/1/1997-12/31/1997)	8	722,965	165,792	-	51,658	-	-	-	-
Policy Year 1998	907	87,835,597	24,525,399	2,407.60	964,603	-	-	1,083.42	-
Policy Year 1999	1,789	171,489,315	46,777,442	4,225.76	1,919,039	-	-	1,901.59	-
Policy Year 2000	1,262	109,908,000	26,775,608	10,474.19	1,263,961	-	-	4,713.39	-
Policy Year 2001	2,604	264,831,047	72,621,876	18,413.63	1,854,248	130,423,252	35,764,618	8,286.13	-
Policy Year 2002	3,928	448,189,554	130,312,587	50,937.38	2,934,914	312,445,986	90,844,698	22,921.82	-
Policy Year 2003	4,197	533,558,382	157,352,305	56,718.29	4,065,290	171,327,732	50,526,455	25,523.23	-
Policy Year 2004	9,598	1,278,145,518	385,354,993	111,964.23	11,658,167	280,526,045	84,577,312	50,383.90	-
Policy Year 2005	6,922	1,032,762,360	308,210,565	87,357.37	12,451,127	156,274,478	46,637,491	39,310.82	-
Policy Year 2006	3,880	605,060,043	176,181,879	87,339.62	8,958,706	76,775,043	22,355,420	39,302.83	1,734,262
Policy Year 2007	8,309	1,361,877,228	365,555,348	91,544.04	3,826,737	141,077,166	37,867,960	41,194.82	-
Policy Year 2008	2,647	471,410,151	127,957,708	991.55	-	47,279,811	12,833,445	446.20	-
Total All Policy Years	46,054	$ 6,365,997,460	$ 1,821,839,295	522,373.66	$ 49,996,507	$1,316,129,513	$ 381,407,399	$ 235,068.15	$ 1,734,262

Notes:
Policy Year 1-3 ceded at 25%.
Policy Year 4 forward ceded at 45%.
Insurance In Force Ceded at percentage of Ceded Risk to Gross Risk In Force for each policy year.
Ceded Risk In Force is the remaining reinsurer exposure and is calculated as follows:

A) Gross Risk In Force
B) Paid Loss
C) Uppper Limit
D) Attachment Point
E) Lessor of A+B or C
F) Greater of D or B
G) E - F = Ceded Inforce Risk

United Guaranty Residential Insurance Company
Original Accumulated Balances
Atrium Insurance Corporation #3-44
As of March 31, 2008

Policy Year / Certificate Effective Dates Covered	(1) Original Loan Count	(2) Original Principal Balance	(3) Original Risk
Policy Year 1994 (10/1/93-12/31/94)	$ 10,229	$ 1,265,496,586	$ 227,962,492
Policy Year 1995	9,271	1,180,530,026	286,058,676
Policy Year 1996 (1/1/1996-3/31/1997)	13,702	1,838,243,715	467,383,501
Policy Year 1997 (4/1/1997 - 12/31/1997)	13,146	1,859,079,217	479,888,947
Policy Year 1998	34,239	4,690,248,448	1,199,233,668
Policy Year 1999	43,581	5,911,645,037	1,498,053,602
Policy Year 2000	40,850	5,622,492,695	1,294,769,736
Policy Year 2001	32,259	4,444,006,907	1,092,018,568
Policy Year 2002	24,156	3,362,552,057	908,446,979
Policy Year 2003	12,931	1,849,506,740	505,264,550
Policy Year 2004	19,936	2,876,166,263	845,773,123
Policy Year 2005	10,139	1,575,775,972	466,374,906
Policy Year 2006	4,793	771,768,986	223,554,197
Policy Year 2007	8,551	1,409,470,196	378,679,601
Policy Year 2008	2,653	473,001,806	128,334,450
Total All Policy Years	280,436	$ 39,129,984,651	$ 10,001,796,996

United Guaranty Residential Insurance Company
Premium Settlement
Atrium Insurance Corporation #3-44
As of March 31, 2008

Policy Year / Certificate Effective Dates Covered	(1) Gross Premium Written Inception To Date	(2) Ceded Premium Written Inception To Date	(3) Inception To Date Commission Allowance	(4) Losses Paid To Date By Reinsurer	(5)=(2)-(3)-(4) Inception To Date Net Settlement	(6) Gross Premium Written Quarter To Date	(7) Ceded Premium Written Quarter To Date	(8) Quarter To Date Commission Allowance	(9) Losses Paid Quarter To Date By Reinsurer	(10)=(7)-(8)-(9) Quarter To Date Net Settlement
Policy Year 1994 (10/1/93-12/31/1994)	$ 16,671,799.07	$ 3,098,059.41	$ -	$ -	$ 3,098,059.41	$ -	$ -	$ -	$ -	$ -
Policy Year 1995 (1/1/95-12/31/1995)	24,253,341.99	4,626,148.00	-	-	4,626,148.00	-	-	-	-	-
Policy Year 1996 (1/1/1996-3/31/1997)	38,305,947.54	8,213,161.09	-	-	8,213,161.09	-	-	-	-	-
Policy Year 1997 (4/1/1997 - 12/31/1997)	36,243,266.58	15,374,957.73	2,790,305.57	-	12,584,652.16	-	-	-	-	-
Policy Year 1998 (1/1/1998 - 12/31/1998)	100,383,267.50	45,170,036.79	8,582,061.67	-	36,587,975.12	162,633.94	73,185.27	13,905.20	-	59,280.07
Policy Year 1999 (1/1/1999 - 12/31/1999)	112,427,333.85	50,592,300.24	9,612,537.04	-	40,979,763.20	275,318.58	123,893.37	23,539.74	-	100,353.63
Policy Year 2000 (1/1/2000 - 12/31/2000)	62,795,500.68	28,257,975.31	3,136,635.26	-	25,121,340.05	163,359.91	73,511.96	8,159.83	-	65,352.13
Policy Year 2001 (1/1/2001 - 12/31/2001)	60,358,936.87	27,161,521.59	3,014,928.90	-	24,146,592.69	430,826.72	193,872.02	21,519.80	-	172,352.22
Policy Year 2002 (1/1/2002 - 12/31/2002)	52,960,077.34	23,832,034.80	2,645,355.86	-	21,186,678.94	787,827.13	354,522.21	39,351.96	-	315,170.25
Policy Year 2003 (1/1/2003 - 12/31/2003)	38,009,229.52	17,104,153.28	1,898,561.01	-	15,205,592.27	1,037,388.94	466,825.02	51,817.57	-	415,007.45
Policy Year 2004 (1/1/2004 - 12/31/2004)	62,105,508.11	27,947,478.65	3,102,170.13	-	24,845,308.52	2,723,941.30	1,225,773.59	136,060.87	-	1,089,712.72
Policy Year 2005 (1/1/2005 - 12/31/2005)	29,995,279.63	13,497,875.83	1,498,264.22	-	11,999,611.61	2,258,670.77	1,016,401.84	112,820.61	-	903,581.23
Policy Year 2006 (1/1/2006 - 12/31/2006)	10,565,059.54	4,754,276.79	527,724.72	-	4,226,552.07	1,385,138.92	623,312.51	69,187.68	-	554,124.83
Policy Year 2007 (1/1/2007 - 12/31/2007)	5,587,758.49	2,514,491.32	279,108.54	-	2,235,382.78	2,564,033.90	1,153,815.25	128,073.50	-	1,025,741.75
Policy Year 2008 (1/1/2008 - 12/31/2008)	122,722.81	55,225.26	6,130.00	-	49,095.26	122,722.81	55,225.26	6,130.00	-	49,095.26
Total All Policy Years	$ 650,785,029.52	$ 272,199,696.09	$ 37,093,782.92	$ -	$ 235,105,913.17	$ 11,911,862.92	$ 5,360,338.30	$ 610,566.76	$ -	$ 4,749,771.54

Notes:
Premiums ceded on the following basis:
Policy Year 1-3: 1996 premium at 10%, 1997 premium at 19.1%, thereafter 25%
Policy Year 4-6: 1997 premium at 19.1%, thereafter 45% with 19% ceding commission allowance
Policy Year 7 and forward: 2000 premium at 45% with 11.1% ceding commission allowance

Premium of $1,076.64 moved from PY2006 to PY2007
Premium of $273.15 removed from PY2007 due to loan removals

United Guaranty Residential Insurance Company
Earned Premium
Atrium Insurance Corporation # 3-44
As of March 31, 2008

Policy Year / Certificate Effective Dates Covered	(1) Ceded Premium Written Inception To Date	(2) Beginning Unearned Premium 10/1/1993	(3) Ending Unearned Premium 3/31/2008	(4)=(1)+(2)-(3) Inception To Date Earned Premium	(5) Ceded Premium Written Quarter To Date	(6) Beginning Unearned Premium 12/31/2007	(7) Ending Unearned Premium 3/31/2008	(8)=(5)+(6)-(7) Quarter To Date Earned Premium
Policy Year 1994 (10/1/93-12/31/1994)	$ 3,098,059.41	$ -	$ -	$ 3,098,059.41	$ -	$ -	$ -	$ -
Policy Year 1995 (1/1/95-12/31/1995)	4,626,148.00	-	-	4,626,148.00	-	-	-	-
Policy Year 1996 (1/1/1996-3/31/1997)	8,213,161.09	-	-	8,213,161.09	0.00	-	-	-
Policy Year 1997 (4/1/1997 - 12/31/1997)	15,374,957.73	-	-	15,374,957.73	0.00	-	-	-
Policy Year 1998 (1/1/1998 - 12/31/1998)	45,170,036.79	-	1,083.42	45,168,953.37	73,185.27	1,640.06	1,083.42	73,741.91
Policy Year 1999 (1/1/1999 - 12/31/1999)	50,592,300.24	-	1,901.59	50,590,398.65	123,893.37	2,245.99	1,901.59	124,237.77
Policy Year 2000 (1/1/2000 - 12/31/2000)	28,257,975.31	-	4,713.39	28,253,261.92	73,511.96	4,792.93	4,713.39	73,591.50
Policy Year 2001 (1/1/2001 - 12/31/2001)	27,161,521.59	-	8,286.13	27,153,235.46	193,872.02	9,432.59	8,286.13	195,018.48
Policy Year 2002 (1/1/2002 - 12/31/2002)	23,832,034.80	-	22,921.82	23,809,112.98	354,522.21	26,630.89	22,921.82	358,231.28
Policy Year 2003 (1/1/2003 - 12/31/2003)	17,104,153.28	-	25,523.23	17,078,630.05	466,825.02	28,763.06	25,523.23	470,064.85
Policy Year 2004 (1/1/2004 - 12/31/2004)	27,947,478.65	-	50,383.90	27,897,094.75	1,225,773.59	57,334.23	50,383.90	1,232,723.92
Policy Year 2005 (1/1/2005 - 12/31/2005)	13,497,875.83	-	39,310.82	13,458,565.01	1,016,401.84	43,355.72	39,310.82	1,020,446.74
Policy Year 2006 (1/1/2006 - 12/31/2006)	4,754,276.79	-	39,302.83	4,714,973.96	623,312.51	39,809.17	39,302.83	623,818.85
Policy Year 2007 (1/1/2007 - 12/31/2007)	2,514,491.32	-	41,194.82	2,473,296.50	1,153,815.25	40,619.32	41,194.82	1,153,239.75
Policy Year 2008 (1/1/2008 - 12/31/2008)	55,225.26	-	446.20	54,779.06	55,225.26	-	446.20	54,779.06
Total All Policy Years	$ 272,199,696.09	$ -	$ 235,068.15	$ 271,964,627.94	$ 5,360,338.30	$ 254,623.96	$ 235,068.15	$ 5,379,894.11

United Guaranty Residential Insurance Company

Contingency Reserve Calculation

Atrium Insurance Corporation #3-44

As of March 31, 2008

Earned Premium	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
	Year Earned													
Policy Year 1994	$ 216,043.58	$ 629,077.60	$ 559,792.63	$ 562,712.45	$ 438,503.36	$ 317,439.67	$ 214,766.27	$ 121,776.43	$ 36,599.91	$ 1,347.51	$ -	$ -	$ -	$ 3,098,059.41
Policy Year 1995	437,211.16	884,715.00	1,003,012.88	701,344.12	612,095.99	407,989.05	279,609.41	169,287.93	77,587.63	53,214.46	80.37	-	-	4,626,148.00
Policy Year 1996	339,969.54	1,001,495.52	1,604,006.97	2,068,794.91	1,403,382.85	786,420.82	502,398.39	241,881.16	127,221.28	99,318.81	36,737.91	1,532.93	-	8,213,161.09
Policy Year 1997		559,027.84	3,513,935.60	3,772,467.42	2,652,349.84	2,164,384.82	1,368,372.30	653,303.15	304,924.28	211,081.23	117,116.63	57,994.62	-	15,374,957.73
Policy Year 1998			1,598,397.15	10,629,028.44	10,609,237.42	8,705,988.40	6,294,548.98	3,400,411.38	1,704,417.61	1,169,366.50	596,828.48	386,987.10	73,741.91	45,168,953.37
Policy Year 1999				3,516,027.17	14,227,215.31	13,252,170.66	9,328,104.66	4,607,628.77	2,481,276.80	1,582,328.60	855,494.32	615,914.59	124,237.77	50,590,398.65
Policy Year 2000					2,772,619.13	11,558,691.86	7,775,280.11	3,110,006.37	1,344,063.88	831,459.43	442,957.75	344,591.89	73,591.50	28,253,261.92
Policy Year 2001						2,409,440.09	10,016,384.11	6,775,008.40	3,445,610.81	2,204,947.46	1,180,606.63	926,219.48	195,018.48	27,153,235.46
Policy Year 2002							1,670,277.95	7,659,166.53	5,921,479.91	4,311,613.84	2,199,464.95	1,688,878.52	358,231.28	23,809,112.98
Policy Year 2003								1,000,980.29	5,120,207.88	5,452,813.88	2,847,111.23	2,187,451.92	470,064.85	17,078,630.05
Policy Year 2004									1,935,812.23	11,673,618.21	7,365,915.31	5,689,025.08	1,232,723.92	27,897,094.75
Policy Year 2005										2,392,431.52	5,475,581.24	4,570,105.51	1,020,446.74	13,458,565.01
Policy Year 2006											1,272,584.48	2,818,570.63	623,818.85	4,714,973.96
Policy Year 2007												1,320,056.75	1,153,239.75	2,473,296.50
Policy Year 2008													54,779.06	54,779.06
Total Earned Premium	$ 993,224.28	$ 3,074,315.96	$ 8,279,145.23	$ 21,250,374.51	$ 32,715,403.90	$ 39,602,525.37	$ 37,449,742.18	$ 27,739,450.41	$ 22,499,202.22	$ 29,983,541.45	$ 22,390,479.30	$ 20,607,329.02	$ 5,379,894.11	$ 271,964,627.94

Contingency Reserves	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total	
Beginning Balance	$ -	$ -	$ -	$ 4,842,500.19	$ 15,467,687.45	$ 33,156,231.97	$ 52,957,494.67	$ 71,682,365.73	$ 85,552,090.95	$ 96,801,692.07	$ 111,793,462.79	$ 122,988,702.43	$ 133,292,366.95		
Additions:															
Policy Year 1994	$ 108,021.79	$ 314,538.80	$ 279,896.31	$ 281,356.23	$ 219,251.68	$ 158,719.84	$ 107,383.13	60,888.22	$ 18,299.95	$ 673.76	$ -	$ -	$ -	$ 1,549,029.71	$ 846,572.81
Policy Year 1995	218,605.58	442,357.50	501,506.44	350,672.06	306,048.00	203,994.53	139,804.70	84,643.96	38,793.82	26,607.23	40.18	-	-	2,313,074.00	1,229,079.66
Policy Year 1996	169,984.77	500,747.76	802,003.49	1,034,397.45	701,691.43	393,210.41	251,199.19	120,940.58	63,610.64	49,659.41	18,368.95	766.47	-	4,106,580.55	3,435,848.02
Policy Year 1997		279,513.92	1,756,967.80	1,886,233.71	1,326,174.92	1,082,192.41	684,186.15	326,651.58	152,462.14	105,540.61	58,558.32	28,997.31	-	7,687,478.87	7,470,849.48
Policy Year 1998			799,198.58	5,314,514.22	5,304,618.71	4,352,994.20	3,147,274.49	1,700,205.69	852,208.80	584,683.25	298,414.24	193,493.55	36,870.96	22,584,476.69	22,521,592.16
Policy Year 1999				1,758,013.59	7,113,607.66	6,626,085.33	4,664,052.32	2,303,814.39	1,240,638.40	791,164.30	427,747.16	307,957.29	62,118.89	25,295,199.33	25,295,199.33
Policy Year 2000					1,386,309.57	5,779,345.93	3,887,640.05	1,555,003.19	672,031.94	415,729.71	221,478.88	172,295.94	36,795.75	14,126,630.96	14,126,630.96
Policy Year 2001						1,204,720.05	5,008,192.05	3,387,504.20	1,722,805.41	1,102,473.73	590,303.31	463,109.74	97,509.24	13,576,617.73	13,576,617.73
Policy Year 2002						-	835,138.98	3,829,583.26	2,960,739.96	2,155,806.92	1,099,732.47	844,439.26	179,115.64	11,904,556.49	11,904,556.49
Policy Year 2003								500,490.15	2,560,103.94	2,726,406.94	1,423,555.61	1,093,725.96	235,032.43	8,539,315.03	8,539,315.03
Policy Year 2004									967,906.12	5,836,809.10	3,682,957.66	2,844,512.54	616,361.96	13,948,547.38	13,948,547.38
Policy Year 2005										1,196,215.76	2,737,790.62	2,285,052.76	510,223.37	6,729,282.51	6,729,282.51
Policy Year 2006											636,292.24	1,409,285.32	311,909.42	2,357,486.98	2,357,486.98
Policy Year 2007												660,028.38	576,619.87	1,236,648.25	1,236,648.25
Policy Year 2008													27,389.53	27,389.53	27,389.53
Total Additions	$ 496,612.14	$ 1,537,157.98	$ 4,139,572.62	$ 10,625,187.26	$ 16,357,701.97	$ 19,801,262.70	$ 18,724,871.06	$ 13,869,725.22	$ 11,249,601.12	$ 14,991,770.72	$ 11,195,239.64	$ 10,303,664.52	$ 2,689,947.06	$ 135,982,314.01	$ 133,245,616.32
Reversals:															
Policy Year 1994	(108,021.79)	(314,538.80)	(279,896.31)											$ (702,456.90)	
Policy Year 1995	(218,605.58)	(442,357.50)	(423,031.26)											(1,083,994.34)	
Policy Year 1996	(169,984.77)	(500,747.76)												(670,732.53)	
Policy Year 1997		(216,629.39)												(216,629.39)	
Policy Year 1998		(62,884.53)												(62,884.53)	
Total Reversals	$ (496,612.14)	$ (1,537,157.98)	$ (702,927.57)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (2,736,697.69)	
Ending Balance	$ -	$ -	$ 4,842,500.19	$ 15,467,687.45	$ 31,825,389.42	$ 52,957,494.67	$ 71,682,365.73	$ 85,552,090.95	$ 96,801,692.07	$ 111,793,462.79	$ 122,988,702.43	$ 133,292,366.95	$ 135,982,314.01	$ 133,245,616.32	
													-	-	

United Guaranty Residential Insurance Company
Ceded Risk In Force and Loss Experience
Atrium Insurance Corporation #3-44
As of March 31, 2008

Policy Year / Certificate Effective Dates Covered	(1) UGI Net Losses Paid Since Inception	(2) UGI Gross Case Loss Reserves	(3) UGI IBNR Reserves	(4)=(1)+(2)+(3) UGI Incurred Losses Since Inception Plus Reserves	(5) UGI Original Risk	(6) Total Losses To Be Incurred Before Reinsurer Layer	(7) Total Losses To Be Incurred By Reinsurer	(8) Upper Limit of Reinsurer Layer	(9) Paid Losses Ceded Inception To Date To Reinsurer	(10) Case Loss Reserves Ceded To Reinsurer	(11) IBNR Reserves Ceded To Reinsurer	(12) Losses Incurred To Date By Reinsurer	(13) Premiums Earned To Date By Reinsurer
Policy Year 1994 (10/1/93-12/31/1994)	$ 1,942,243	$ 5,569	$ 557	$ 1,948,369	$ 227,962,492	$ 14,817,562	$ 13,677,750	$ 28,495,312	$ -	$ -	$ -	$ -	$ 3,098,059
Policy Year 1995	1,841,305	14,966	1,497	1,857,768	286,058,676	18,593,814	17,163,521	35,757,335	-	-	-	-	4,626,148
Policy Year 1996 (1/1/1996-3/31/1997)	1,896,137	23,153	2,315	1,921,605	467,383,501	30,379,928	28,043,010	58,422,938	-	-	-	-	8,213,161
Policy Year 1997 (4/1/1997-12/31/1997)	2,840,442	46,962	4,696	2,892,100	479,888,947	19,195,558	47,988,895	67,184,453	-	-	-	-	15,374,958
Policy Year 1998	5,559,342	876,912	87,691	6,523,945	1,199,233,668	47,969,347	119,923,367	167,892,714	-	-	-	-	45,168,953
Policy Year 1999	9,824,231	1,744,581	174,458	11,743,270	1,498,053,602	59,922,144	149,805,360	209,727,504	-	-	-	-	50,590,399
Policy Year 2000	8,640,879	1,149,055	114,906	9,904,840	1,294,769,736	51,790,789	129,476,974	181,267,763	-	-	-	-	28,253,262
Policy Year 2001	6,823,485	1,685,680	168,568	8,677,733	1,092,018,568	43,680,743	109,201,857	152,882,600	-	-	-	-	27,153,235
Policy Year 2002	5,920,357	2,668,104	266,810	8,855,271	908,446,979	36,337,879	90,844,698	127,182,577	-	-	-	-	23,809,113
Policy Year 2003	4,188,963	3,695,718	369,572	8,254,253	505,264,550	20,210,582	50,526,455	70,737,037	-	-	-	-	17,078,630
Policy Year 2004	11,875,676	10,598,334	1,059,833	23,533,843	845,773,123	33,830,925	84,577,312	118,408,237	-	-	-	-	27,897,095
Policy Year 2005	5,859,326	11,319,206	1,131,921	18,310,453	466,374,906	18,654,996	46,637,491	65,292,487	-	-	-	-	13,458,565
Policy Year 2006	2,532,152	8,144,278	814,428	11,490,858	223,554,197	8,942,168	22,355,420	31,297,588	-	1,734,262	814,428	2,548,690	4,714,974
Policy Year 2007	73,785	3,478,852	347,885	3,900,522	378,679,601	15,147,184	37,867,960	53,015,144	-	-	-	-	2,473,297
Policy Year 2008	-	-	-	-	128,334,450	5,133,378	12,833,445	17,966,823	-	-	-	-	54,779
Total All Policy Years	$ 69,818,323	$ 45,451,370	$ 4,545,137	$ 119,814,830	$ 10,001,796,996	$ 424,606,997	$ 960,923,515	$ 1,385,530,512	$ -	$ 1,734,262	$ 814,428	$ 2,548,690	$ 271,964,628

Notes:
Attachment point for Policy Year 1-3 is 6.5%, with an upper limit of 12.5%
Attachment point for Policy Year 4 forward is 4%, with an upper limit of 14%

Gross IBNR 10%

Paid Loss/Original Risk Ratio (1)/(4):	
Policy Year 1	0.85%
Policy Year 2	0.64%
Policy Year 3	0.41%
Policy Year 4	0.59%
Policy Year 5	0.46%
Policy Year 6	0.66%
Policy Year 7	0.67%
Policy Year 8	0.62%
Policy Year 9	0.65%
Policy Year 10	0.83%
Policy Year 11	1.40%
Policy Year 12	1.26%
Policy Year 13	1.13%
Policy Year 14	0.02%
Policy Year 15	0.00%

Incurred Loss/EP Ratio (12)/(13):	
Policy Year 1	0.00%
Policy Year 2	0.00%
Policy Year 3	0.00%
Policy Year 4	0.00%
Policy Year 5	0.00%
Policy Year 6	0.00%
Policy Year 7	0.00%
Policy Year 8	0.00%
Policy Year 9	0.00%
Policy Year 10	0.00%
Policy Year 11	0.00%
Policy Year 12	0.00%
Policy Year 13	54.06%
Policy Year 14	0.00%
Policy Year 15	0.00%

United Guaranty Residential Insurance Company
Original Accumulated Balances
Atrium Insurance Corporation #3-44
As of March 31, 2008

Trust Account Calculation - 2nd Quarter 2007
Assuming Capital Release for 2001 and Prior
and Contingency Reserve Release on a Calendar Year Basis

	Gross Original Risk	Reinsurer Layer	(cont. resvs are required for 2002 and after, but not used in this calc.) 2002 & after @ 20%	Contingency Reserve	Unearned Premium	Capital Required
1993-1994	227,962,492	13,677,750		846,573	-	863,504
1995	286,058,676	17,163,521		1,229,080	-	1,253,661
1996	467,383,501	28,043,010		3,435,848	-	3,504,565
1997	479,888,947	47,988,895		7,470,849	-	7,620,266
1998	1,199,233,668	119,923,367		22,521,592	1,083	22,973,129
1999	1,498,053,602	149,805,360		25,295,199	1,902	25,803,043
2000	1,294,769,736	129,476,974		14,126,631	4,713	14,413,971
2001	1,092,018,568	109,201,857		13,576,618	8,286	13,856,602
2002	908,446,979	90,844,698	18,168,940	11,904,556	22,922	18,555,699
2003	505,264,550	50,526,455	10,105,291	8,539,315	25,523	10,333,431
2004	845,773,123	84,577,312	16,915,462	13,948,547	50,384	17,305,163
2005	466,374,906	46,637,491	9,327,498	6,729,283	39,311	9,554,145
2006	223,554,197	22,355,420	4,471,084	2,357,487	39,303	4,600,595
2007	378,679,601	37,867,960	7,573,592	1,236,648	41,195	7,767,083
2008	128,334,450	12,833,445	2,566,689	27,390	446	2,618,478
	10,001,796,996	960,923,515	69,128,556	133,245,616	235,068	161,023,335
				-		
Policy Years 2002 & Later: Greater of:						-
a)20% of Reinsurance Layer 2002 & later			69,128,556	69,128,556		
b) Contingency Reserves			44,743,226			
Contingency Reserve 2001 & prior				88,502,390		
Unearned Premium				235,068		
				157,866,015		
				x 102%		
Total Requirement				161,023,335		
Balance @ 3/31/2008		164,619,312				
3/31/2008 settlement deposit		4,749,772				
Balance			169,369,084	169,369,083.65		
Trust Excess				8,345,748.86		

United Guaranty Residential Insurance Company
Trust Deposits
Atrium Insurance Corporation #3-44
As of March 31, 2008

Month	Year	Premium Deposit	Capital Deposit	Dividend/ Interest Income (1)	Gain (Loss) on Sales	Fee Reimburse	FIT & Operating Expense	Excess Funds	Trust Fees	Cash Basis Ending Balance	Market Value
12	97		$ 460,000.00							$ 460,000.00	$ 460,000.00
2	98	$ 1,501,211.83								1,961,211.83	1,961,211.83
3	98									1,961,211.83	1,961,211.83
5	98	1,722,319.68				$ 250.00			$ (250.00)	3,683,531.51	3,717,269.44
6	98									3,683,531.51	3,733,360.69
7	98			$ 12,133.79						3,695,665.30	3,749,544.27
8	98	1,926,175.40		35,770.83						5,657,611.53	5,696,571.90
9	98									5,657,611.53	5,728,802.11
10	98			1,034.32						5,658,645.85	5,752,604.49
11	98	2,080,027.00		45,045.98						7,783,718.83	7,888,702.98
12	98	1,256,738.00								9,040,456.83	9,145,440.98
1	99			11,747.15						9,052,203.98	9,177,334.81
2	99	3,763,661.50		88,402.89						12,904,268.37	12,969,386.93
3	99									12,904,268.37	13,025,937.98
4	99			975.39		4,316.97			(4,316.97)	12,905,243.76	13,077,438.43
5	1999	3,845,026.75		85,235.84						16,835,506.35	16,972,389.87
6	1999			1,187.30						16,836,693.65	17,037,311.97
7	1999			39,789.75		2,184.25			(2,184.25)	16,876,483.40	17,109,407.25
8	1999	4,949,562.93		162,873.58						21,988,919.91	21,988,919.91
9	1999									21,988,919.91	22,229,067.75
10	1999			1,124.21						21,990,044.12	22,229,068.75
11	1999	4,101,150.71		179,689.11						26,270,883.94	26,501,998.72
12	1999			32,041.27						26,302,925.21	26,626,187.61
1	2000			12,726.31						26,315,651.52	26,732,224.88
2	2000	5,443,649.73		306,499.85						32,065,801.10	32,303,706.98
3	2000									32,065,801.10	32,470,424.76
4	2000			1,558.61						32,067,359.71	32,622,197.85
5	2000	6,872,198.34	17,000,000.00	316,496.50		9,895.79			(9,895.79)	56,256,054.55	56,766,505.16
6	2000			36,702.17						56,292,756.72	57,077,769.75
7	2000			16,487.54						56,309,244.26	57,325,861.11
8	2000	7,045,461.77		537,710.67		4,652.77			(4,652.77)	63,892,416.70	64,683,277.22
9	2000									63,892,416.70	65,041,083.80
10	2000			1,844.77						63,894,261.47	65,362,102.29
11	2000	7,586,745.53		1,126,671.08						72,607,678.08	73,334,796.89
12	2000			43,484.69		16,435.99			(16,435.99)	72,651,162.77	73,790,412.25
1	2001			18,342.09						72,669,504.86	74,257,440.98
2	2001	7,743,210.05		799,827.38						81,212,542.29	82,341,085.14
3	2001					9,857.18			(9,857.18)	81,212,542.29	82,761,104.08
4	2001		11,510,000.00	2,021.17						92,724,563.46	94,633,612.30
5	2001	8,006,032.89		1,412,807.00						102,143,403.35	103,019,685.17
6	2001			41,577.72						102,184,981.07	103,320,458.64
7	2001			15,430.25		12,379.20			(12,379.20)	102,200,411.32	103,644,066.33
8	2001	9,632,119.43		833,401.49						112,665,932.24	113,669,015.27
9	2001					13,555.51			(13,555.51)	112,665,932.24	114,153,490.62
10	2001			394,885.87						113,060,818.11	114,451,433.63
11	2001	8,460,973.55		817,401.36						122,339,193.02	123,160,008.01
12	2001			26,001.66		14,781.43			(14,781.43)	122,365,194.68	123,346,653.73
1	2002			11,004.17						122,376,198.85	123,515,369.72
2	2002	8,503,746.80		767,080.73						131,647,026.38	132,191,199.49
3	2002					16,014.42			(16,014.42)	131,647,026.38	132,368,827.86
4	2002			234,029.53						131,881,055.91	132,601,022.60
5	2002	8,334,872.14		489,408.26						140,705,336.31	141,168,658.81
6	2002			13,607.43						140,718,943.74	141,399,751.43
7	2002			5,072.24						140,724,015.98	141,618,373.67
8	2002	7,617,118.85		480,512.49						148,821,647.32	149,398,716.87
9	2002									148,821,647.32	149,655,212.31
10	2002			211,653.66						149,033,300.98	149,880,138.13
11	2002	7,547,996.06		594,832.86						157,176,129.90	157,656,605.66
12	2002		15,500,000.00	49,515.91	0.87		(32,800,000.00)			139,925,646.68	140,536,007.18
1	2003			5,505.63						139,931,152.31	140,686,952.78
2	2003	7,152,510.46		481,541.92						147,565,204.69	147,954,467.59
3	2003					18,185.87			(18,185.87)	147,565,204.69	148,131,277.14
4	2003			165,890.74						147,731,095.43	148,266,740.47
5	2003	6,616,135.38		268,537.87						154,615,768.68	155,034,431.22
6	2003			103,417.90		19,033.34			(19,033.34)	154,719,186.58	155,231,546.34

United Guaranty Residential Insurance Company

Trust Deposits

Atrium Insurance Corporation #3-44

As of March 31, 2008

Month	Year	Premium Deposit	Capital Deposit	Dividend/ Interest Income (1)	Gain (Loss) on Sales	Fee Reimburse	FIT & Operating Expense	Excess Funds	Trust Fees	Cash Basis Ending Balance	Market Value
7	2003			3,871.37						154,723,057.95	155,336,654.60
8	2003	5,731,229.15		409,863.90						160,864,151.00	161,186,843.78
9	2003					19,967.08			(19,967.08)	160,864,151.00	161,359,756.11
10	2003			122,481.60						160,986,632.60	161,484,799.67
11	2003	4,329,811.04		250,363.91						165,566,807.55	165,953,359.54
12	2003			118,503.19		20,635.60	(10,500,000.00)		(20,635.60)	155,185,310.74	155,619,096.98
1	2004			3,067.15						155,188,377.89	155,738,425.94
2	2004	4,154,648.16		339,056.21						159,682,082.26	160,002,631.07
3	2004					20,042.30			(20,042.30)	159,682,082.26	160,148,385.75
4	2004			108,047.41						159,790,129.67	160,268,233.78
5	2004	6,036,053.85		258,188.05						166,084,371.57	166,397,169.48
6	2004			84,623.30						166,168,994.87	166,500,952.05
7	2004			3,033.90						166,172,028.77	166,705,724.10
8	2004	4,601,677.70		350,027.06		20,408.53			(20,408.53)	171,123,733.53	171,522,958.17
9	2004					21,363.22			(21,363.22)	171,123,733.53	171,722,087.23
10	2004			113,359.84						171,237,093.37	171,946,562.07
11	2004	4,878,989.34		341,965.17						176,458,047.88	177,045,711.27
12	2004			145,160.35						176,603,208.23	177,389,051.50
1	2005			5,306.31		22,043.32			(22,043.32)	176,608,514.54	177,683,492.60
2	2005	5,248,652.77		659,036.26			(6,972,000.00)			175,544,203.57	176,221,900.27
3	2005									175,544,203.57	176,625,400.87
4	2005 (2)			207,015.68	0.29					175,751,219.54	177,050,471.20
5	2005	5,458,126.89		679,072.25		22,760.44			(22,760.44)	181,888,418.68	183,009,760.39
6	2005		2,309,849.00	212,964.27		22,681.31		(2,309,849.00)	(22,681.31)	182,101,382.95	183,397,094.79
7	2005			8,442.26						182,109,825.21	183,814,202.98
8	2005	5,362,675.88		1,040,927.77						188,513,428.86	189,763,857.11
9	2005			102,246.14		23,476.78		(7,000,000.00)	(23,476.78)	181,615,675.00	183,337,722.34
10	2005			215,925.25						181,831,600.25	183,786,556.35
11	2005	5,244,059.48		1,125,219.46				(4,000,000.00)		184,200,879.19	185,675,813.00
12	2005			274,489.10		23,498.32			(23,498.32)	184,475,368.29	186,335,125.75
1	2006			11,177.83						184,486,546.12	186,867,474.15
2	2006	5,100,571.50		1,461,319.21						191,048,436.83	192,588,102.87
3	2006			101,185.30				(5,800,000.00)		185,349,622.13	187,551,640.21
4	2006			168,070.68						185,517,692.81	188,189,318.15
5	2006	5,104,865.91		1,566,568.02						192,189,126.74	194,082,544.67
6	2006			381,742.30		24,048.67			(24,048.67)	192,570,869.04	194,872,393.35
7	2006			16,549.87		-			-	192,587,418.91	195,635,508.29
8	2006	5,100,158.07		1,948,463.38		-			-	199,636,040.36	201,645,172.05
9	2006			-		24,979.44			(24,979.44)	199,636,040.36	202,537,755.03
10	2006			207,884.16						199,843,924.52	203,292,876.43
11	2006	4,855,510.25		2,001,998.43				(11,000,000.00)		195,701,433.20	197,983,416.52
12	2006			468,536.84						196,169,970.04	198,916,492.95
1	2007			326,178.39				(14,000,000.00)		182,496,148.43	185,642,562.95
2	2007	4,716,320.60		1,995,903.18						189,208,372.21	191,106,354.04
3	2007			862,887.83				(52,563,805.00)		137,507,455.04	139,187,419.94
4	2007			116,343.84						137,623,798.88	139,771,252.61
5	2007	4,550,139.55		740,502.54						142,914,440.97	144,959,184.46
6	2007			471,679.72						143,386,120.69	145,551,680.87
7	2007			20,122.58		18,021.41			(18,021.41)	143,406,243.27	146,099,217.98
8	2007	4,464,710.18		2,169,053.80						150,040,007.25	151,682,738.75
9	2007					18,762.40			(18,762.40)	150,040,007.25	152,219,296.00
10	2007			120,121.91						150,160,129.16	152,712,905.84
11	2007	4,482,081.62		841,278.15						155,483,488.93	157,961,858.19
12	2007			470,923.69		19,564.11			(19,564.11)	155,954,412.62	158,373,630.26
1	2008			275,208.39						156,229,621.01	159,074,388.81
2	2008	4,704,078.95		2,008,635.28						162,942,335.24	164,177,849.94
3	2008					20,409.30			(20,409.30)	162,942,335.24	164,619,312.11
		$ 225,833,005.67	$ 46,779,849.00	$ 37,275,133.41	$ 1.16	$ 484,204.95	$ (50,272,000.00)	$ (96,673,654.00)	$ (484,204.95)	$ 162,942,335.24	

Notes:

(1) Interest reported on a cash basis.

February 9, 2009

Ms. Beth Barr
Trust Department
Wachovia Bank, N.A.
NC 2718, P.O.Box 21965
Greensboro, North Carolina 27420

Dear Ms. Barr:

Enclosed is United Guaranty Corporation's check for $4,815,797.82 in payment of reinsurance premiums to Atrium Insurance Corporation. In accordance with the reinsurance agreement this quarterly payment is to be deposited into the trust account established by the trust agreement between Atrium Insurance Corporation and United Guaranty Residential Insurance Company. The information I have received shows the trust account name and number as follows:

E.A. United Guaranty Residential and Atrium Insurance Corp.
Account # 1019013193

Your assistance with this matter is greatly appreciated. If you have any questions, please contact me at (336) 333-0245 or via email at wcecil@ugcorp.com.

Sincerely,

Wendy W. Cecil
Senior Staff Accountant
Controller's Department

Enclosure

February 9, 2009

Atrium Insurance Corporation
Attn: Mr. Mike Bogansky
300 Leadenhall Road
Mount Laurel, New Jersey 08054

Dear Mr. Bogansky:

Enclosed is the Quarterly Reinsurance Report for reinsurance business ceded from United Guaranty Residential Insurance Company (UGRIC) to Atrium Insurance Corporation (Atrium) for reinsurance agreement #3-44. A deposit of $ 4,815,797.82 for the fourth quarter 2008 reinsurance settlement will be made into the trust account.

If you have any questions, please contact me at (336) 333-0245 or via email at wcecil@ugcorp.com.

Sincerely,

Wendy W. Cecil
Senior Staff Accountant
Controllers Department

Enclosures
c: S. Rosenthal
J. Cox - Milliman

United Guaranty Residential Insurance Company
In Force Schedule
Atrium Insurance Corporation #3-44
As of December 31, 2008

Policy Year / Certificate Effective Dates Covered	(1) In Force Loan Count	(2) Gross In Force Insured Amount	(3) Gross In Force Risk	(4) Gross Unearned Premium	(5) Gross Case & IBNR Loss Reserves	(6) Ceded In Force Insured Amount	(7) Ceded In Force Risk	(8) Ceded Unearned Premium	(9) Ceded Case & IBNR Loss Reserves
Policy Year 1994 (10/1/93-12/31/1994)	1	50,400	8,568	-	7,539	$ -	$ -	$ -	-
Policy Year 1995	-	-	-	-	-	-	-	-	-
Policy Year 1996 (1/1/1996-3/31/1997)	1	64,800	16,200	-	14,256	-	-	-	-
Policy Year 1997 (4/1/1997-12/31/1997)	1	82,450	9,894	-	8,707	-	-	-	-
Policy Year 1998	45	4,991,346	1,361,117	-	930,221	-	-	-	-
Policy Year 1999	1,488	140,267,721	38,484,280	4,470.04	2,052,684	-	-	2,011.52	-
Policy Year 2000	1,111	95,897,027	23,538,067	6,774.21	1,730,447	-	-	3,048.39	-
Policy Year 2001	2,298	231,538,691	63,762,213	12,329.61	1,976,360	99,320,362	27,351,308	5,548.32	-
Policy Year 2002	3,399	382,791,466	112,708,374	41,922.84	3,569,864	282,484,279	83,174,121	18,865.28	-
Policy Year 2003	3,692	464,369,989	138,839,164	47,357.00	5,553,035	168,993,882	50,526,455	21,310.65	-
Policy Year 2004	8,549	1,136,622,667	344,582,086	98,984.95	17,274,256	278,982,843	84,577,312	44,543.23	390,177
Policy Year 2005	6,279	938,662,535	281,537,985	83,038.60	20,133,802	155,491,862	46,637,491	37,367.37	13,876,971
Policy Year 2006	3,482	542,380,153	158,132,030	77,185.54	16,041,386	76,720,202	22,367,930	34,733.49	13,946,207
Policy Year 2007	7,865	1,280,657,034	343,549,615	80,571.21	15,920,804	141,203,953	37,879,434	36,257.04	2,720,268
Policy Year 2008	4,723	874,196,310	230,794,343	8,320.64	2,890,275	90,743,252	23,956,895	3,744.29	-
Total All Policy Years	42,934	$ 6,092,572,589	$ 1,737,323,936	460,954.64	$ 88,103,636	$1,293,940,635	$ 376,470,946	$ 207,429.58	$ 30,933,623

Notes:
Policy Year 1-3 ceded at 25%.
Policy Year 4 forward ceded at 45%.
Insurance In Force Ceded at percentage of Ceded Risk to Gross Risk In Force for each policy year.
Ceded Risk In Force is the remaining reinsurer exposure and is calculated as follows:

A) Gross Risk In Force
B) Paid Loss
C) Uppper Limit
D) Attachment Point
E) Lessor of A+B or C
F) Greater of D or B
G) E - F = Ceded Inforce Risk

United Guaranty Residential Insurance Company
Original Accumulated Balances
Atrium Insurance Corporation #3-44
As of December 31, 2008

Policy Year / Certificate Effective Dates Covered	(1) Original Loan Count	(2) Original Principal Balance	(3) Original Risk
Policy Year 1994 (10/1/93-12/31/94)	$ 10,229	$ 1,265,496,586	$ 227,962,492
Policy Year 1995	9,271	1,180,530,026	286,058,676
Policy Year 1996 (1/1/1996-3/31/1997)	13,702	1,838,243,715	467,383,501
Policy Year 1997 (4/1/1997 - 12/31/1997)	13,146	1,859,079,217	479,888,947
Policy Year 1998	34,239	4,690,248,448	1,199,233,668
Policy Year 1999	43,581	5,911,645,037	1,498,053,602
Policy Year 2000	40,850	5,622,492,695	1,294,769,736
Policy Year 2001	32,259	4,444,006,907	1,092,018,568
Policy Year 2002	24,156	3,362,552,057	908,446,979
Policy Year 2003	12,931	1,849,506,740	505,264,550
Policy Year 2004	19,936	2,876,166,263	845,773,123
Policy Year 2005	10,139	1,575,775,972	466,374,906
Policy Year 2006	4,794	772,185,986	223,679,297
Policy Year 2007	8,551	1,409,927,836	378,794,343
Policy Year 2008	4,899	907,202,808	239,568,948
Total All Policy Years	282,683	$ 39,565,060,293	$ 10,113,271,336

United Guaranty Residential Insurance Company
Premium Settlement
Atrium Insurance Corporation #3-44
As of December 31, 2008

Policy Year / Certificate Effective Dates Covered	(1) Gross Premium Written Inception To Date	(2) Ceded Premium Written Inception To Date	(3) Inception To Date Commission Allowance	(4) Losses Paid To Date By Reinsurer	(5)=(2)-(3)-(4) Inception To Date Net Settlement	(6) Gross Premium Written Quarter To Date	(7) Ceded Premium Written Quarter To Date	(8) Quarter To Date Commission Allowance	(9) Losses Paid Quarter To Date By Reinsurer	(10)=(7)-(8)-(9) Quarter To Date Net Settlement
Policy Year 1994 (10/1/93-12/31/1994)	$ 16,671,799.07	$ 3,098,059.41	$ -	$ -	$ 3,098,059.41	$ -	$ -	$ -	$ -	$ -
Policy Year 1995 (1/1/95-12/31/1995)	24,253,341.99	4,626,148.00	-	-	4,626,148.00	-	-	-	-	-
Policy Year 1996 (1/1/1996-3/31/1997)	38,305,947.54	8,213,161.09	-	-	8,213,161.09	-	-	-	-	-
Policy Year 1997 (4/1/1997 - 12/31/1997)	36,243,266.58	15,374,957.73	2,790,305.57	-	12,584,652.16	-	-	-	-	-
Policy Year 1998 (1/1/1998 - 12/31/1998)	100,637,035.56	45,284,232.42	8,603,758.84	-	36,680,473.58	34,724.13	15,625.86	2,968.91	-	12,656.95
Policy Year 1999 (1/1/1999 - 12/31/1999)	113,169,889.07	50,926,450.08	9,676,025.51	-	41,250,424.57	230,425.09	103,691.29	19,701.34	-	83,989.95
Policy Year 2000 (1/1/2000 - 12/31/2000)	63,233,569.44	28,455,106.25	3,158,516.79	-	25,296,589.46	139,935.12	62,970.81	6,989.76	-	55,981.05
Policy Year 2001 (1/1/2001 - 12/31/2001)	61,536,602.77	27,691,471.25	3,073,753.31	-	24,617,717.94	378,741.96	170,433.89	18,918.16	-	151,515.73
Policy Year 2002 (1/1/2002 - 12/31/2002)	55,087,437.94	24,789,347.07	2,751,617.52	-	22,037,729.55	680,611.53	306,275.19	33,996.54	-	272,278.65
Policy Year 2003 (1/1/2003 - 12/31/2003)	40,868,791.79	18,390,956.31	2,041,396.15	-	16,349,560.16	911,426.93	410,142.12	45,525.77	-	364,616.35
Policy Year 2004 (1/1/2004 - 12/31/2004)	69,637,455.48	31,336,854.97	3,478,390.90	-	27,858,464.07	2,412,182.08	1,085,481.94	120,488.49	-	964,993.45
Policy Year 2005 (1/1/2005 - 12/31/2005)	36,368,694.40	16,365,912.48	1,816,616.29	-	14,549,296.19	2,053,136.11	923,911.25	102,554.15	-	821,357.10
Policy Year 2006 (1/1/2006 - 12/31/2006)	14,352,792.36	6,458,756.56	716,921.98	-	5,741,834.58	1,210,898.14	544,904.16	60,484.36	-	484,419.80
Policy Year 2007 (1/1/2007 - 12/31/2007)	13,284,917.25	5,978,212.76	663,581.62	-	5,314,631.14	2,513,619.49	1,131,128.77	125,555.30	-	1,005,573.47
Policy Year 2008 (1/1/2008 - 12/31/2008)	4,323,837.89	1,945,727.05	215,975.70	-	1,729,751.35	1,495,851.31	673,133.09	74,717.77	-	598,415.32
Total All Policy Years	$ 687,975,379.13	$ 288,935,353.43	$ 38,986,860.18	$ -	$ 249,948,493.25	$ 12,061,551.89	$ 5,427,698.37	$ 611,900.55	$ -	$ 4,815,797.82

Notes:
Premiums ceded on the following basis:
Policy Year 1-3: 1996 premium at 10%, 1997 premium at 19.1%, thereafter 25%
Policy Year 4-6: 1997 premium at 19.1%, thereafter 45% with 19% ceding commission allowance
Policy Year 7 and forward: 2000 premium at 45% with 11.1% ceding commission allowance

United Guaranty Residential Insurance Company
Earned Premium
Atrium Insurance Corporation # 3-44
As of December 31, 2008

Policy Year / Certificate Effective Dates Covered	(1) Ceded Premium Written Inception To Date	(2) Beginning Unearned Premium 10/1/1993	(3) Ending Unearned Premium 12/31/2008	(4)=(1)+(2)-(3) Inception To Date Earned Premium	(5) Ceded Premium Written Quarter To Date	(6) Beginning Unearned Premium 9/30/2008	(7) Ending Unearned Premium 12/31/2008	(8)=(5)+(6)-(7) Quarter To Date Earned Premium
Policy Year 1994 (10/1/93-12/31/1994)	$ 3,098,059.41	$ -	$ -	$ 3,098,059.41	$ -	$ -	$ -	$ -
Policy Year 1995 (1/1/95-12/31/1995)	4,626,148.00	-	-	4,626,148.00	-	-	-	-
Policy Year 1996 (1/1/1996-3/31/1997)	8,213,161.09	-	-	8,213,161.09	0.00	-	-	-
Policy Year 1997 (4/1/1997 - 12/31/1997)	15,374,957.73	-	-	15,374,957.73	0.00	-	-	-
Policy Year 1998 (1/1/1998 - 12/31/1998)	45,284,232.42	-	-	45,284,232.42	15,625.86	69.03	-	15,694.89
Policy Year 1999 (1/1/1999 - 12/31/1999)	50,926,450.08	-	2,011.52	50,924,438.56	103,691.29	2,172.99	2,011.52	103,852.76
Policy Year 2000 (1/1/2000 - 12/31/2000)	28,455,106.25	-	3,048.39	28,452,057.86	62,970.81	3,665.34	3,048.39	63,587.76
Policy Year 2001 (1/1/2001 - 12/31/2001)	27,691,471.25	-	5,548.32	27,685,922.93	170,433.89	5,644.54	5,548.32	170,530.11
Policy Year 2002 (1/1/2002 - 12/31/2002)	24,789,347.07	-	18,865.28	24,770,481.79	306,275.19	17,535.44	18,865.28	304,945.35
Policy Year 2003 (1/1/2003 - 12/31/2003)	18,390,956.31	-	21,310.65	18,369,645.66	410,142.12	22,024.28	21,310.65	410,855.75
Policy Year 2004 (1/1/2004 - 12/31/2004)	31,336,854.97	-	44,543.23	31,292,311.74	1,085,481.94	46,787.86	44,543.23	1,087,726.57
Policy Year 2005 (1/1/2005 - 12/31/2005)	16,365,912.48	-	37,367.37	16,328,545.11	923,911.25	37,817.21	37,367.37	924,361.09
Policy Year 2006 (1/1/2006 - 12/31/2006)	6,458,756.56	-	34,733.49	6,424,023.07	544,904.16	37,184.83	34,733.49	547,355.50
Policy Year 2007 (1/1/2007 - 12/31/2007)	5,978,212.76	-	36,257.04	5,941,955.72	1,131,128.77	37,253.00	36,257.04	1,132,124.73
Policy Year 2008 (1/1/2008 - 12/31/2008)	1,945,727.05	-	3,744.29	1,941,982.76	673,133.09	4,099.73	3,744.29	673,488.53
Total All Policy Years	$ 288,935,353.43	$ -	$ 207,429.58	$ 288,727,923.85	$ 5,427,698.37	$ 214,254.25	$ 207,429.58	$ 5,434,523.04

United Guaranty Residential Insurance Company
Contingency Reserve Calculation
Atrium Insurance Corporation #3-44
As of December 31, 2008

	Year Earned													
Earned Premium	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Policy Year 1994	$ 216,043.58	$ 629,077.60	$ 559,792.63	$ 562,712.45	$ 438,503.36	$ 317,439.67	$ 214,766.27	$ 121,776.43	$ 36,599.91	$ 1,347.51	$ -	$ -	$ -	$ 3,098,059.41
Policy Year 1995	437,211.16	884,715.00	1,003,012.88	701,344.12	612,095.99	407,989.05	279,609.41	169,287.93	77,587.63	53,214.46	80.37	-	-	4,626,148.00
Policy Year 1996	339,969.54	1,001,495.52	1,604,006.97	2,068,794.91	1,403,382.85	786,420.82	502,398.39	241,881.16	127,221.28	99,318.81	36,737.91	1,532.93	-	8,213,161.09
Policy Year 1997		559,027.84	3,513,935.60	3,772,467.42	2,652,349.84	2,164,384.82	1,368,372.30	653,303.15	304,924.28	211,081.23	117,116.63	57,994.62	-	15,374,957.73
Policy Year 1998			1,598,397.15	10,629,028.44	10,609,237.42	8,705,988.40	6,294,548.98	3,400,411.38	1,704,417.61	1,169,366.50	596,828.48	386,987.10	189,020.96	45,284,232.42
Policy Year 1999				3,516,027.17	14,227,215.31	13,252,170.66	9,328,104.66	4,607,628.77	2,481,276.80	1,582,328.60	855,494.32	615,914.59	458,277.68	50,924,438.56
Policy Year 2000					2,772,619.13	11,558,691.86	7,775,280.11	3,110,006.37	1,344,063.88	831,459.43	442,957.75	344,591.89	272,387.44	28,452,057.86
Policy Year 2001						2,409,440.09	10,016,384.11	6,775,008.40	3,445,610.81	2,204,947.46	1,180,606.63	926,219.48	727,705.95	27,685,922.93
Policy Year 2002							1,670,277.95	7,659,166.53	5,921,479.91	4,311,613.84	2,199,464.95	1,688,878.52	1,319,600.09	24,770,481.79
Policy Year 2003								1,000,980.29	5,120,207.88	5,452,813.88	2,847,111.23	2,187,451.92	1,761,080.46	18,369,645.66
Policy Year 2004									1,935,812.23	11,673,618.21	7,365,915.31	5,689,025.08	4,627,940.91	31,292,311.74
Policy Year 2005										2,392,431.52	5,475,581.24	4,570,105.51	3,890,426.84	16,328,545.11
Policy Year 2006											1,272,584.48	2,818,570.63	2,332,867.96	6,424,023.07
Policy Year 2007												1,320,056.75	4,621,898.97	5,941,955.72
Policy Year 2008													1,941,982.76	1,941,982.76
Total Earned Premium	$ 993,224.28	$ 3,074,315.96	$ 8,279,145.23	$ 21,250,374.51	$ 32,715,403.90	$ 39,602,525.37	$ 37,449,742.18	$ 27,739,450.41	$ 22,499,202.22	$ 29,983,541.45	$ 22,390,479.30	$ 20,607,329.02	$ 22,143,190.02	$ 288,727,923.85

Contingency Reserves	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**	
Beginning Balance	$ -	$ -	$ -	$ -	$ 10,625,187.26	$ 33,156,231.97	$ 52,957,494.67	$ 71,682,365.73	$ 85,552,090.95	$ 96,801,692.07	$ 111,793,462.79	$ 122,988,702.43	$ 133,292,366.95		
Additions:															
Policy Year 1994	$ 108,021.79	$ 314,538.80	$ 279,896.31	$ 281,356.23	$ 219,251.68	$ 158,719.84	$ 107,383.13	60,888.22	$ 18,299.95	$ 673.76	$ -	$ -	$ -	$ 1,549,029.71	$ 846,572.81
Policy Year 1995	218,605.58	442,357.50	501,506.44	350,672.06	306,048.00	203,994.53	139,804.70	84,643.96	38,793.82	26,607.23	40.18	-	-	2,313,074.00	1,150,604.48
Policy Year 1996	169,984.77	500,747.76	802,003.49	1,034,397.45	701,691.43	393,210.41	251,199.19	120,940.58	63,610.64	49,659.41	18,368.95	766.47	-	4,106,580.55	2,633,844.53
Policy Year 1997		279,513.92	1,756,967.80	1,886,233.71	1,326,174.92	1,082,192.41	684,186.15	326,651.58	152,462.14	105,540.61	58,558.32	28,997.31	-	7,687,478.87	5,713,881.68
Policy Year 1998			799,198.58	5,314,514.22	5,304,618.71	4,352,994.20	3,147,274.49	1,700,205.69	852,208.80	584,683.25	298,414.24	193,493.55	94,510.48	22,642,116.21	21,780,033.10
Policy Year 1999				1,758,013.59	7,113,607.66	6,626,085.33	4,664,052.32	2,303,814.39	1,240,638.40	791,164.30	427,747.16	307,957.29	229,138.84	25,462,219.28	25,462,219.28
Policy Year 2000					1,386,309.57	5,779,345.93	3,887,640.05	1,555,003.19	672,031.94	415,729.71	221,478.88	172,295.94	136,193.72	14,226,028.93	14,226,028.93
Policy Year 2001						1,204,720.05	5,008,192.05	3,387,504.20	1,722,805.41	1,102,473.73	590,303.31	463,109.74	363,852.98	13,842,961.47	13,842,961.47
Policy Year 2002						-	835,138.98	3,829,583.26	2,960,739.96	2,155,806.92	1,099,732.47	844,439.26	659,800.05	12,385,240.90	12,385,240.90
Policy Year 2003								500,490.15	2,560,103.94	2,726,406.94	1,423,555.61	1,093,725.96	880,540.23	9,184,822.83	9,184,822.83
Policy Year 2004									967,906.12	5,836,809.10	3,682,957.66	2,844,512.54	2,313,970.45	15,646,155.87	15,646,155.87
Policy Year 2005										1,196,215.76	2,737,790.62	2,285,052.76	1,945,213.42	8,164,272.56	8,164,272.56
Policy Year 2006											636,292.24	1,409,285.32	1,166,433.98	3,212,011.54	3,212,011.54
Policy Year 2007												660,028.38	2,310,949.48	2,970,977.86	2,970,977.86
Policy Year 2008													970,991.38	970,991.38	970,991.38
Total Additions	$ 496,612.14	$ 1,537,157.98	$ 4,139,572.62	$ 10,625,187.26	$ 16,357,701.97	$ 19,801,262.70	$ 18,724,871.06	$ 13,869,725.22	$ 11,249,601.12	$ 14,991,770.72	$ 11,195,239.64	$ 10,303,664.52	$ 11,071,595.01	$ 144,363,961.96	$ 138,190,619.22
Reversals:															
Policy Year 1994	(108,021.79)	(314,538.80)	(279,896.31)											$ (702,456.90)	
Policy Year 1995	(218,605.58)	(442,357.50)	(501,506.44)											(1,162,469.52)	
Policy Year 1996	(169,984.77)	(500,747.76)	(802,003.49)											(1,472,736.02)	
Policy Year 1997		(216,629.39)	(1,756,967.80)											(1,973,597.19)	
Policy Year 1998		(62,884.53)	(799,198.58)											(862,083.11)	
Total Reversals	$ (496,612.14)	$ (1,537,157.98)	$ (4,139,572.62)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (6,173,342.74)	
Ending Balance	$ -	$ -	$ -	$ 10,625,187.26	$ 26,982,889.23	$ 52,957,494.67	$ 71,682,365.73	$ 85,552,090.95	$ 96,801,692.07	$ 111,793,462.79	$ 122,988,702.43	$ 133,292,366.95	$ 144,363,961.96	$ 138,190,619.22	
													-	-	

United Guaranty Residential Insurance Company
Ceded Risk In Force and Loss Experience
Atrium Insurance Corporation #3-44
As of December 31, 2008

Policy Year / Certificate Effective Dates Covered	(1) UGI Net Losses Paid Since Inception	(2) UGI Gross Case Loss Reserves	(3) UGI IBNR Reserves	(4)=(1)+(2)+(3) UGI Incurred Losses Since Inception Plus Reserves	(5) UGI Original Risk	(6) Total Losses To Be Incurred Before Reinsurer Layer	(7) Total Losses To Be Incurred By Reinsurer	(8) Upper Limit of Reinsurer Layer	(9) Paid Losses Ceded Inception To Date To Reinsurer	(10) Case Loss Reserves Ceded To Reinsurer	(11) IBNR Reserves Ceded To Reinsurer	(12) Losses Incurred To Date By Reinsurer	(13) Premiums Earned To Date By Reinsurer
Policy Year 1994 (10/1/93-12/31/1994)	$ 1,942,243	$ 6,854	$ 685	$ 1,949,782	$ 227,962,492	$ 14,817,562	$ 13,677,750	$ 28,495,312	$ -	$ -	$ -	$ -	$ 3,098,059
Policy Year 1995	1,841,293	-	-	1,841,293	286,058,676	18,593,814	17,163,521	35,757,335	-	-	-	-	4,626,148
Policy Year 1996 (1/1/1996-3/31/1997)	1,911,530	12,960	1,296	1,925,786	467,383,501	30,379,928	28,043,010	58,422,938	-	-	-	-	8,213,161
Policy Year 1997 (4/1/1997-12/31/1997)	2,838,882	7,915	792	2,847,589	479,888,947	19,195,558	47,988,895	67,184,453	-	-	-	-	15,374,958
Policy Year 1998	5,626,942	845,655	84,566	6,557,163	1,199,233,668	47,969,347	119,923,367	167,892,714	-	-	-	-	45,284,232
Policy Year 1999	10,017,163	1,866,076	186,608	12,069,847	1,498,053,602	59,922,144	149,805,360	209,727,504	-	-	-	-	50,924,439
Policy Year 2000	8,829,208	1,573,134	157,313	10,559,655	1,294,769,736	51,790,789	129,476,974	181,267,763	-	-	-	-	28,452,058
Policy Year 2001	7,269,838	1,796,691	179,669	9,246,198	1,092,018,568	43,680,743	109,201,857	152,882,600	-	-	-	-	27,685,923
Policy Year 2002	6,803,626	3,245,331	324,533	10,373,490	908,446,979	36,337,879	90,844,698	127,182,577	-	-	-	-	24,770,482
Policy Year 2003	5,447,638	5,048,214	504,821	11,000,673	505,264,550	20,210,582	50,526,455	70,737,037	-	-	-	-	18,369,646
Policy Year 2004	16,946,846	15,703,869	1,570,387	34,221,102	845,773,123	33,830,925	84,577,312	118,408,237	-	-	390,177.00	390,177	31,292,312
Policy Year 2005	12,398,165	18,303,456	1,830,346	32,531,967	466,374,906	18,654,996	46,637,491	65,292,487	-	12,046,625	1,830,346	13,876,971	16,328,545
Policy Year 2006	6,851,993	14,583,078	1,458,308	22,893,379	223,679,297	8,947,172	22,367,930	31,315,102	-	12,487,899	1,458,308	13,946,207	6,424,023
Policy Year 2007	1,951,238	14,473,458	1,447,346	17,872,042	378,794,343	15,151,774	37,879,434	53,031,208	-	1,272,922	1,447,346.00	2,720,268	5,941,956
Policy Year 2008	-	2,627,523	262,752	2,890,275	239,568,948	9,582,758	23,956,895	33,539,653	-	-	-	-	1,941,983
Total All Policy Years	$ 90,676,605	$ 80,094,214	$ 8,009,422	$ 178,780,241	$ 10,113,271,336	$ 429,065,971	$ 972,070,949	$ 1,401,136,920	$ -	$ 25,807,446	$ 5,126,177	$ 30,933,623	$ 288,727,925

Notes:
Attachment point for Policy Year 1-3 is 6.5%, with an upper limit of 12.5%
Attachment point for Policy Year 4 forward is 4%, with an upper limit of 14%

Gross IBNR 10%

Paid Loss/Original Risk Ratio (1)/(4):	
Policy Year 1	0.85%
Policy Year 2	0.64%
Policy Year 3	0.41%
Policy Year 4	0.59%
Policy Year 5	0.47%
Policy Year 6	0.67%
Policy Year 7	0.68%
Policy Year 8	0.67%
Policy Year 9	0.75%
Policy Year 10	1.08%
Policy Year 11	2.00%
Policy Year 12	2.66%
Policy Year 13	3.06%
Policy Year 14	0.52%
Policy Year 15	0.00%

Incurred Loss/EP Ratio (12)/(13):	
Policy Year 1	0.00%
Policy Year 2	0.00%
Policy Year 3	0.00%
Policy Year 4	0.00%
Policy Year 5	0.00%
Policy Year 6	0.00%
Policy Year 7	0.00%
Policy Year 8	0.00%
Policy Year 9	0.00%
Policy Year 10	0.00%
Policy Year 11	1.25%
Policy Year 12	84.99%
Policy Year 13	217.09%
Policy Year 14	45.78%
Policy Year 15	0.00%

United Guaranty Residential Insurance Company
Original Accumulated Balances
Atrium Insurance Corporation #3-44
As of December 31, 2008

Trust Account Calculation - 2nd Quarter 2007
Assuming Capital Release for 2001 and Prior
and Contingency Reserve Release on a Calendar Year Basis

		(cont. resvs are required for 2002 and after, but not used in this calc.)				
	Gross Original Risk	Reinsurer Layer	2002 & after @ 20%	Contingency Reserve	Unearned Premium	Capital Required
1993-1994	227,962,492	13,677,750		846,573	-	863,504
1995	286,058,676	17,163,521		1,150,604	-	1,173,617
1996	467,383,501	28,043,010		2,633,845	-	2,686,521
1997	479,888,947	47,988,895		5,713,882	-	5,828,159
1998	1,199,233,668	119,923,367		21,780,033	-	22,215,634
1999	1,498,053,602	149,805,360		25,462,219	2,012	25,973,515
2000	1,294,769,736	129,476,974		14,226,029	3,048	14,513,659
2001	1,092,018,568	109,201,857		13,842,961	5,548	14,125,480
2002	908,446,979	90,844,698	18,168,940	12,385,241	18,865	18,551,561
2003	505,264,550	50,526,455	10,105,291	9,184,823	21,311	10,329,134
2004	845,773,123	84,577,312	16,915,462	15,646,156	44,543	17,299,206
2005	466,374,906	46,637,491	9,327,498	8,164,273	37,367	9,552,163
2006	223,679,297	22,367,930	4,473,586	3,212,012	34,733	4,598,486
2007	378,794,343	37,879,434	7,575,887	2,970,978	36,257	7,764,387
2008	239,568,948	23,956,895	4,791,379	970,991	3,744	4,891,026
	10,113,271,336	972,070,949	71,358,043	138,190,619	207,430	160,366,051
				-		
Policy Years 2002 & Later: Greater of:						-
a)20% of Reinsurance Layer 2002 & later			71,358,043	71,358,043		
b) Contingency Reserves			52,534,473			
Contingency Reserve 2001 & prior				85,656,146		
Unearned Premium				207,430		
				157,221,619		
				x 102%		
Total Requirement				160,366,051		
Balance @ 12/31/2008		181,916,824				
Trust Excess				21,550,772		

United Guaranty Residential Insurance Company
Trust Deposits
Atrium Insurance Corporation #3-44
As of December 31, 2008

Month	Year	Premium Deposit	Capital Deposit	Dividend/ Interest Income (1)	Gain (Loss) on Sales	Fee Reimburse	FIT & Operating Expense	Excess Funds	Trust Fees	Cash Basis Ending Balance	Market Value
12	97		$ 460,000.00							$ 460,000.00	$ 460,000.00
2	98	$ 1,501,211.83								1,961,211.83	1,961,211.83
3	98									1,961,211.83	1,961,211.83
5	98	1,722,319.68				$ 250.00			$ (250.00)	3,683,531.51	3,717,269.44
6	98									3,683,531.51	3,733,360.69
7	98			$ 12,133.79						3,695,665.30	3,749,544.27
8	98	1,926,175.40		35,770.83						5,657,611.53	5,696,571.90
9	98									5,657,611.53	5,728,802.11
10	98			1,034.32						5,658,645.85	5,752,604.49
11	98	2,080,027.00		45,045.98						7,783,718.83	7,888,702.98
12	98	1,256,738.00								9,040,456.83	9,145,440.98
1	99			11,747.15						9,052,203.98	9,177,334.81
2	99	3,763,661.50		88,402.89						12,904,268.37	12,969,386.93
3	99									12,904,268.37	13,025,937.98
4	99			975.39		4,316.97			(4,316.97)	12,905,243.76	13,077,438.43
5	1999	3,845,026.75		85,235.84						16,835,506.35	16,972,389.87
6	1999			1,187.30						16,836,693.65	17,037,311.97
7	1999			39,789.75		2,184.25			(2,184.25)	16,876,483.40	17,109,407.25
8	1999	4,949,562.93		162,873.58						21,988,919.91	21,988,919.91
9	1999									21,988,919.91	22,229,067.75
10	1999			1,124.21						21,990,044.12	22,229,068.75
11	1999	4,101,150.71		179,689.11						26,270,883.94	26,501,998.72
12	1999			32,041.27						26,302,925.21	26,626,187.61
1	2000			12,726.31						26,315,651.52	26,732,224.88
2	2000	5,443,649.73		306,499.85						32,065,801.10	32,303,706.98
3	2000									32,065,801.10	32,470,424.76
4	2000			1,558.61						32,067,359.71	32,622,197.85
5	2000	6,872,198.34	17,000,000.00	316,496.50		9,895.79			(9,895.79)	56,256,054.55	56,766,505.16
6	2000			36,702.17						56,292,756.72	57,077,769.75
7	2000			16,487.54						56,309,244.26	57,325,861.11
8	2000	7,045,461.77		537,710.67		4,652.77			(4,652.77)	63,892,416.70	64,683,277.22
9	2000									63,892,416.70	65,041,083.80
10	2000			1,844.77						63,894,261.47	65,362,102.29
11	2000	7,586,745.53		1,126,671.08						72,607,678.08	73,334,796.89
12	2000			43,484.69		16,435.99			(16,435.99)	72,651,162.77	73,790,412.25
1	2001			18,342.09						72,669,504.86	74,257,440.98
2	2001	7,743,210.05		799,827.38						81,212,542.29	82,341,085.14
3	2001					9,857.18			(9,857.18)	81,212,542.29	82,761,104.08
4	2001		11,510,000.00	2,021.17						92,724,563.46	94,633,612.30
5	2001	8,006,032.89		1,412,807.00						102,143,403.35	103,019,685.17
6	2001			41,577.72						102,184,981.07	103,320,458.64
7	2001			15,430.25		12,379.20			(12,379.20)	102,200,411.32	103,644,066.33
8	2001	9,632,119.43		833,401.49						112,665,932.24	113,669,015.27
9	2001					13,555.51			(13,555.51)	112,665,932.24	114,153,490.62
10	2001			394,885.87						113,060,818.11	114,451,433.63
11	2001	8,460,973.55		817,401.36						122,339,193.02	123,160,008.01
12	2001			26,001.66		14,781.43			(14,781.43)	122,365,194.68	123,346,653.73
1	2002			11,004.17						122,376,198.85	123,515,369.72
2	2002	8,503,746.80		767,080.73						131,647,026.38	132,191,199.49
3	2002					16,014.42			(16,014.42)	131,647,026.38	132,368,827.86
4	2002			234,029.53						131,881,055.91	132,601,022.60
5	2002	8,334,872.14		489,408.26						140,705,336.31	141,168,658.81
6	2002			13,607.43						140,718,943.74	141,399,751.43
7	2002			5,072.24						140,724,015.98	141,618,373.67
8	2002	7,617,118.85		480,512.49						148,821,647.32	149,398,716.87
9	2002									148,821,647.32	149,655,212.31
10	2002			211,653.66						149,033,300.98	149,880,138.13
11	2002	7,547,996.06		594,832.86						157,176,129.90	157,656,605.66
12	2002		15,500,000.00	49,515.91	0.87		(32,800,000.00)			139,925,646.68	140,536,007.18
1	2003			5,505.63						139,931,152.31	140,686,952.78
2	2003	7,152,510.46		481,541.92						147,565,204.69	147,954,467.59
3	2003					18,185.87			(18,185.87)	147,565,204.69	148,131,277.14
4	2003			165,890.74						147,731,095.43	148,266,740.47
5	2003	6,616,135.38		268,537.87						154,615,768.68	155,034,431.22
6	2003			103,417.90		19,033.34			(19,033.34)	154,719,186.58	155,231,546.34
7	2003			3,871.37						154,723,057.95	155,336,654.60
8	2003	5,731,229.15		409,863.90						160,864,151.00	161,186,843.78
9	2003					19,967.08			(19,967.08)	160,864,151.00	161,359,756.11
10	2003			122,481.60						160,986,632.60	161,484,799.67
11	2003	4,329,811.04		250,363.91						165,566,807.55	165,953,359.54
12	2003			118,503.19		20,635.60	(10,500,000.00)		(20,635.60)	155,185,310.74	155,619,096.98
1	2004			3,067.15						155,188,377.89	155,738,425.94

United Guaranty Residential Insurance Company
Trust Deposits
Atrium Insurance Corporation #3-44
As of December 31, 2008

Month	Year	Premium Deposit	Capital Deposit	Dividend/ Interest Income (1)	Gain (Loss) on Sales	Fee Reimburse	FIT & Operating Expense	Excess Funds	Trust Fees	Cash Basis Ending Balance	Market Value
2	2004	4,154,648.16		339,056.21						159,682,082.26	160,002,631.07
3	2004					20,042.30			(20,042.30)	159,682,082.26	160,148,385.75
4	2004			108,047.41						159,790,129.67	160,268,233.78
5	2004	6,036,053.85		258,188.05						166,084,371.57	166,397,169.48
6	2004			84,623.30						166,168,994.87	166,500,952.05
7	2004			3,033.90						166,172,028.77	166,705,724.10
8	2004	4,601,677.70		350,027.06		20,408.53			(20,408.53)	171,123,733.53	171,522,958.17
9	2004					21,363.22			(21,363.22)	171,123,733.53	171,722,087.23
10	2004			113,359.84						171,237,093.37	171,946,562.07
11	2004	4,878,989.34		341,965.17						176,458,047.88	177,045,711.27
12	2004			145,160.35						176,603,208.23	177,389,051.50
1	2005			5,306.31		22,043.32			(22,043.32)	176,608,514.54	177,683,492.60
2	2005	5,248,652.77		659,036.26			(6,972,000.00)			175,544,203.57	176,221,900.27
3	2005									175,544,203.57	176,625,400.87
4	2005 (2)			207,015.68	0.29					175,751,219.54	177,050,471.20
5	2005	5,458,126.89		679,072.25		22,760.44			(22,760.44)	181,888,418.68	183,009,760.39
6	2005		2,309,849.00	212,964.27		22,681.31		(2,309,849.00)	(22,681.31)	182,101,382.95	183,397,094.79
7	2005			8,442.26						182,109,825.21	183,814,202.98
8	2005	5,362,675.88		1,040,927.77						188,513,428.86	189,763,857.11
9	2005			102,246.14		23,476.78		(7,000,000.00)	(23,476.78)	181,615,675.00	183,337,722.34
10	2005			215,925.25						181,831,600.25	183,786,556.35
11	2005	5,244,059.48		1,125,219.46				(4,000,000.00)		184,200,879.19	185,675,813.00
12	2005			274,489.10		23,498.32			(23,498.32)	184,475,368.29	186,335,125.75
1	2006			11,177.83						184,486,546.12	186,867,474.15
2	2006	5,100,571.50		1,461,319.21						191,048,436.83	192,588,102.87
3	2006			101,185.30				(5,800,000.00)		185,349,622.13	187,551,640.21
4	2006			168,070.68						185,517,692.81	188,189,318.15
5	2006	5,104,865.91		1,566,568.02						192,189,126.74	194,082,544.67
6	2006			381,742.30		24,048.67			(24,048.67)	192,570,869.04	194,872,393.35
7	2006			16,549.87		-			-	192,587,418.91	195,635,508.29
8	2006	5,100,158.07		1,948,463.38		-			-	199,636,040.36	201,645,172.05
9	2006			-		24,979.44			(24,979.44)	199,636,040.36	202,537,755.03
10	2006			207,884.16						199,843,924.52	203,292,876.43
11	2006	4,855,510.25		2,001,998.43				(11,000,000.00)		195,701,433.20	197,983,416.52
12	2006			468,536.84						196,169,970.04	198,916,492.95
1	2007			326,178.39				(14,000,000.00)		182,496,148.43	185,642,562.95
2	2007	4,716,320.60		1,995,903.18						189,208,372.21	191,106,354.04
3	2007			862,887.83				(52,563,805.00)		137,507,455.04	139,187,419.94
4	2007			116,343.84						137,623,798.88	139,771,252.61
5	2007	4,550,139.55		740,502.54						142,914,440.97	144,959,184.46
6	2007			471,679.72						143,386,120.69	145,551,680.87
7	2007			20,122.58		18,021.41			(18,021.41)	143,406,243.27	146,099,217.98
8	2007	4,464,710.18		2,169,053.80						150,040,007.25	151,682,738.75
9	2007					18,762.40			(18,762.40)	150,040,007.25	152,219,296.00
10	2007			120,121.91						150,160,129.16	152,712,905.84
11	2007	4,482,081.62		841,278.15						155,483,488.93	157,961,858.19
12	2007			470,923.69		19,564.11			(19,564.11)	155,954,412.62	158,373,630.26
1	2008			275,208.39						156,229,621.01	159,074,388.81
2	2008	4,704,078.95		2,008,635.28						162,942,335.24	164,177,849.94
3	2008					20,409.30			(20,409.30)	162,942,335.24	164,619,312.11
4	2008			101,409.11						163,043,744.35	164,801,279.86
5	2008	4,749,771.54		744,647.48						168,538,163.37	169,618,968.49
6	2008			325,300.80		21,075.16			(21,075.16)	168,863,464.17	169,899,603.45
7	2008			139,187.37						169,002,651.54	170,246,073.08
8	2008	5,034,127.06		917,005.53						174,953,784.13	175,588,640.36
9	2008					21,805.76			(21,805.70)	174,953,784.19	176,207,819.07
10	2008			38,818.44						174,992,602.63	176,517,652.07
11	2008	4,992,655.20		400,915.50						180,386,173.33	181,834,554.45
12	2008			218,216.99		22,539.71			(22,539.71)	180,604,390.32	181,916,823.61
		$ 240,609,559.47	$ 46,779,849.00	$ 40,160,634.63	$ 1.16	$ 549,625.58	$ (50,272,000.00)	$ (96,673,654.00)	$ (549,625.52)	$ 180,604,390.32	

Notes:

(1) Interest reported on a cash basis.

Agreement	PolicyYr	CountOfCertNo	ResvStatus	BaseLnAmt	OrigRisk	InsuredAmt	CurrentRisk	ReserveAmt
3-44	1994	4	1	275250	53148	275250	53148	0
3-44	1994	3	3	210400	39368	210400	39368	6854
3-44	1994	1	4	39400	9850	39400	9850	0
3-44	1995	6	1	473365	126435	473365	126435	0
3-44	1995	3	3	219700	57010	223783	58031	0
3-44	1996	9	1	602420	159844	600110	159151	0
3-44	1996	4	3	315700	73416	315700	73416	12960
3-44	1997	7	1	656825	197048	664543	199363	0
3-44	1997	5	3	456725	109472	456725	109472	7915
3-44	1998	46	1	4808999	1316081	4817261	1305285	152023
3-44	1998	6	2	615960	177303	615960	177303	58862
3-44	1998	25	3	2854507	796700	2858426	797170	605016
3-44	1998	1	6	110200	33060	110200	33060	29754
3-44	1999	97	1	10085243	2776638	10086692	2737976	821402
3-44	1999	2	2	283350	85873	283350	60313	36188
3-44	1999	43	3	4051760	1071070	4051760	1059544	847632
3-44	1999	5	4	607090	160854	607090	160854	160854
3-44	2000	76	1	6934128	1703722	6935300	1704015	511205
3-44	2000	7	2	645650	176105	645650	176105	105664
3-44	2000	43	3	3894005	929887	3894005	929887	743905
3-44	2000	8	4	651485	178831	654915	179860	179860
3-44	2000	1	6	122551	30638	122551	30638	32500
3-44	2001	86	1	8274024	2281861	8278962	2283308	684999
3-44	2001	9	2	835110	231344	836023	231344	138806
3-44	2001	41	3	3757152	1050010	3761172	1050733	840583
3-44	2001	6	4	485575	132303	485575	132303	132303
3-44	2002	126	1	13730176	4174130	13732689	4174130	1252245
3-44	2002	4	2	317024	89505	317024	89505	53703
3-44	2002	74	3	7533633	2284481	7533633	2284481	1827578
3-44	2002	5	4	468435	111805	468435	111805	111805
3-44	2003	173	1	20493933	6497490	20490377	6496423	1948946
3-44	2003	7	2	687300	209515	687300	209515	125709
3-44	2003	79	3	8992329	2772695	8996392	2772695	2218151
3-44	2003	17	4	2048392	661474	2048392	661474	661474
3-44	2003	2	6	319905	104372	319905	104372	93934
3-44	2004	454	1	56377626	17926011	56384960	17927215	5378230
3-44	2004	23	2	3341550	1102686	3341550	1102686	661612
3-44	2004	220	3	27927752	8963550	27927752	8963550	7170833
3-44	2004	55	4	6761710	2309644	6761710	2309644	2309644
3-44	2004	6	6	602375	203944	602375	203944	183550
3-44	2005	355	1	52035651	16179326	52073361	16191991	4857638
3-44	2005	20	2	3907520	1265936	3907520	1265936	759561
3-44	2005	245	3	37391596	11895839	37391596	11895839	9516662
3-44	2005	58	4	9807325	3169595	9807325	3169595	3169595
3-44	2006	242	1	39143565	12180410	39143565	12180410	3654156
3-44	2006	12	2	2229540	732261	2237143	734922	440954
3-44	2006	203	3	32428029	9667518	32428029	9660018	7728005
3-44	2006	45	4	8831718	2681244	8831718	2681244	2681244
3-44	2006	2	6	234900	82215	234900	82215	78719
3-44	2007	383	1	62736009	16937881	62736009	16937881	5081389
3-44	2007	25	2	4246800	1183093	4246800	1183093	709855
3-44	2007	184	3	30396055	8111443	30396055	8111443	6489149
3-44	2007	41	4	7733634	2193065	7733634	2193065	2193065
3-44	2008	102	1	18117623	5028850	18117623	5028850	1508661
3-44	2008	8	2	1093355	338811	1093355	338811	203287
3-44	2008	18	3	3916322	1103500	3916322	1103500	882800
3-44	2008	1	4	109250	32775	109250	32775	32775
3-44	2008	63	1	10,288,640	2,873,394	10,288,640	2,873,394	862,024
3-44	2008	2	2	190,830	23,169	190,830	23,169	13,901
3-44	2008	4	3	636,700	191,415	636,700	191,415	153,132

EXHIBIT 75

Download Data

Vdyh#Judsk

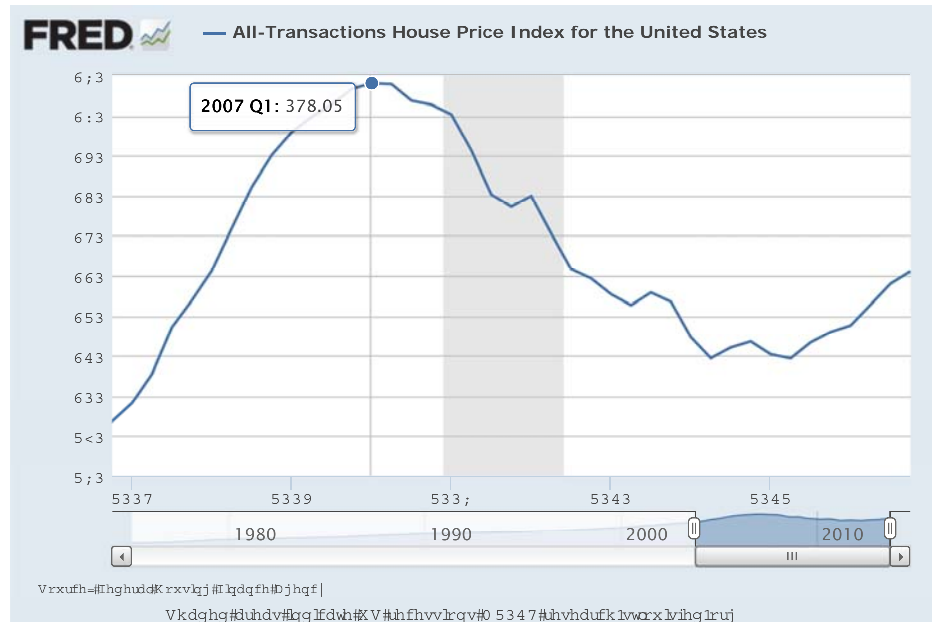
Ylhz#P|#Vdyhg#Judskv

Need Help?

- Wxwruldov
- IDTv
- Hpdlo#Xv

Graph: All-Transactions House Price Index for the United States

Click and drag in the plot area or select dates: 4|u ¡#8|u ¡#43|u ¡#Pd{ 2003-10-01 wr 2013-10-01



Qrwhv# Judsk Vkduh H{sruw

Uhvwruh#ghidxow ¡#Vdyh#vhwwlqjv ¡#Dsso|#vdyhg#vhwwlqjv

JUDSK#VHWWLQJV

DGG#GDWD#VHULHV

TES

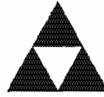
Subscribe to our newsletter iru#xsgdwhv#rq#sxeolvkhg#uhvhdufk/#gdwd#qhzv/#dqg#odwhvw#hfrqrplf#lqirupdwlrq1

Qdph=# Hpdlo=#

Subscribe

Ihghudo#Uhvhuyh#Edqn#ri#Vw1#Orxlv/#Rqh#Ihghudo#Uhvhuyh#Edqn#Sod}d/#Vw1#Orxlv/#PR#96435#

EXHIBIT 76



AMERICAN ACADEMY *of* ACTUARIES

REINSURANCE ATTESTATION SUPPLEMENT 20-1:

RISK TRANSFER TESTING PRACTICE NOTE

American Academy of Actuaries Committee on Property and Liability Financial Reporting

January 2007

The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces, and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions, and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

1100 17th Street NW Seventh Floor Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948
www.actuary.org

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000245

Respondents' Exhibit 0793

Reinsurance Attestation Supplement 20-1: Risk Transfer Testing Practice Note

Background and Purpose of Document

The Property and Casualty Annual Statement Instructions for 2005 issued by the National Association of Insurance Commissioners (NAIC) contained a new supplement, Supplement 20-1, titled the "Reinsurance Attestation Supplement: Attestation of Chief Executive Officer and Chief Financial Officer Regarding Reinsurance Agreements" (Reinsurance Attestation Supplement). The 2005 Annual Statement Instructions did not change the scope of the Statement of Actuarial Opinion to include an evaluation of risk transfer. Further, the Reinsurance Attestation Supplement places requirements on the company's chief executive officer (CEO) and chief financial officer (CFO) and not on the Appointed Actuary. However, the CEO or CFO may seek actuarial support related to the risk transfer analysis and documentation requirements outlined in the Reinsurance Attestation Supplement.

This communication by the American Academy of Actuaries' Committee on Property and Liability Financial Reporting (COPLFR) is intended to provide advisory, non-binding guidance to property/casualty actuaries regarding testing for risk transfer. It has been written by actuaries, for actuaries, and is not intended to be professional accounting guidance. Further, the guidance is not intended for use in life and health insurance.

This communication is not an Actuarial Standard of Practice. It has not been adopted by the Actuarial Standards Board (ASB) and is not binding on any actuary. It should not be deemed to describe or codify generally accepted actuarial practice. From the perspective of the actuarial profession, meeting the requirements of the Reinsurance Attestation Supplement is an evolving area and a generally accepted practice which may apply does not yet exist.

Changes from November 2005 Risk Transfer Testing Practice Note

Throughout this document, substantive changes from the November 2005 Practice Note are noted by shading text in grey. The primary change to this updated Risk Transfer Testing Practice Note is that additional guidance is provided as to where risk transfer is reasonably self-evident. The guidance provided in the section "*Safe Harbors: Where Risk Transfer is Reasonably Self-Evident*" from the November 2005 Risk Transfer Testing Practice Note (renamed in this updated Practice Note) has been enhanced in several aspects:

- The guidance more clearly defines the three categories of reinsurance contracts with respect to the level of risk transfer testing required; these include contracts exempt from risk transfer testing standards, contracts for which risk transfer is considered to

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000246

be reasonably self-evident, and contracts for which risk transfer is not reasonably self-evident.

- In addition, the concept of "reasonably self-evident" is discussed in the context of the accounting guidance in SSAP 62.

- Furthermore, this section describes three characteristics that would generally identify situations in which risk transfer is reasonably self-evident.

Another change was to remove "a copy of each draft of the reinsurance slip and contract" from the list of items that were considered to be of value for the contract file of the ceding entity based on feedback received by COPLFR.

We updated the answer to Question 15 in the "Frequently Asked Questions" regarding future possible changes to statutory and GAAP accounting related to risk transfer.

Finally, we included sample checklists some companies use for documenting the process of identifying reasonably self-evident contracts.

The Academy expects to reissue the Risk Transfer Testing Practice Note periodically in the future, as practice evolves and as more guidance on certain elements of the process is needed.

Reinsurance Attestation Supplement

The Reinsurance Attestation Supplement is part of the Annual Statement for property/casualty insurance companies and is public information. This supplement is required to be filed by March 1 each year. The requirements of the Reinsurance Attestation Supplement apply to a company's ceded reinsurance program, and not to any assumed reinsurance.

A complete copy of the Reinsurance Attestation Supplement is included as an attachment to this document. In summary, the supplement requires the CEO and CFO of the company to attest, with respect to active ceded reinsurance contracts, to the following four items:

- There are no separate written or oral agreements between the reporting entity and the assuming reinsurer that would reduce, limit, mitigate, or otherwise affect any actual or potential loss to the parties under the reinsurance contract;

- For each such reinsurance contract entered into, renewed, or amended on or after January 1, 1994, for which risk transfer is not reasonably considered to be self-evident, documentation concerning the economic intent of the transaction and the risk transfer analysis evidencing the proper accounting treatment is available for review;

- The reporting entity complies with the requirements set forth in SSAP 62; and

- The reporting entity has appropriate controls in place to monitor the use of reinsurance and adhere to the provisions of SSAP 62.

Actuarial Involvement in Reinsurance Attestation Supplement

A copy of the Reinsurance Attestation Supplement is provided as Appendix 3 to this Practice Note. The CEO and CFO are required to attest that a process is in place to fulfill the company's obligations under SSAP 62 and that the appropriate responsible parties have met their obligations regarding the accounting for reinsurance. Areas of actuarial involvement in support of the Reinsurance Attestation Supplement could include the selection, quantification, and documentation of ceded reinsurance contracts.

The wording of the Reinsurance Attestation Supplement recognizes that cash flow testing is unnecessary for contracts where risk transfer is considered to be reasonably self-evident. However, it does not define or describe the contracts or situations where risk transfer is considered to be reasonably self-evident. "Selection" refers to the evaluation of ceded reinsurance contracts to determine those where risk transfer is not reasonably self-evident, so that such contracts will require a cash flow analysis to evaluate risk transfer.

"Quantification" refers to the development of a cash flow analysis to evaluate the economics of the transaction, including the premiums, losses and other cash flows between the ceding company and the reinsurer under the reinsurance agreement. Two essential items considered by the decision-maker in deciding whether a reinsurance agreement meets the risk transfer requirements of SSAP 62 are as follows:

- the "reasonable possibility of", where the estimate measures the likelihood or probability of a given loss amount.

- "a significant loss", where the estimate measures the potential magnitude of an economic loss to the reinsurer, for example using different scenarios or a model.

In this document, we may refer to the quantification of economic losses as "cash flow testing" or "measuring risk transfer." However, it is typically not the responsibility of the actuary to decide whether a reinsurance contract meets the standards of SSAP 62; for many companies this decision is made by accounting professionals after considering the actuarial evaluation of the economics of the transaction.

"Documentation" refers to written materials, including risk transfer analyses, which are maintained on each reinsurance contract in which risk transfer is not considered to be reasonably self-evident, such that an auditor or regulatory examiner may follow the process used by the company to assess the proper reinsurance accounting treatment as required by SSAP 62.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000248

Contents of Practice Note

The remainder of this document contains the following sections:

- Key excerpts from statutory and GAAP reinsurance accounting standards;
- Documentation files for ceded reinsurance transactions;
- Considerations when evaluating whether risk transfer is self-evident;
- A summary of issues to be considered when performing cash flow testing;
- Appendix 1: Frequently asked questions and answers that may be helpful to the practicing actuary;
- Appendix 2: Sample checklists some companies use for documenting the process of identifying reasonably self-evident contracts; and
- Appendix 3: A copy of the Reinsurance Attestation Supplement.

In several places within the Practice Note, we refer to a report issued by the American Academy of Actuaries (Academy) in August 2005 titled "*Risk Transfer in P&C Reinsurance: Report to the Casualty Actuarial Task Force of the National Association of Insurance Commissioners*" (the Academy risk transfer report).

The report can be downloaded from the Academy website at the following addresses:

Casualty Web Page: http://www.actuary.org/naic/casual.asp
Full Report: http://www.actuary.org/pdf/casualty/risk_transfer.pdf
Report minus appendices: http://www.actuary.org/pdf/casualty/risk_transfer_abbrev.pdf

COPLFR appreciates the comments it has received since the issuance of the Risk Transfer Testing Practice Note in November 2005, and has incorporated many of them in this update. COPLFR would also welcome any suggested improvements for future updates of this practice note. Suggestions may be sent to Lauren Pachman, Staff Liaison to the Committee on Property and Liability Financial Reporting, with the American Academy of Actuaries.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000249

Committee on Property and Liability Financial Reporting (2005-2006 and 2006-2007)

Marc Oberholtzer, Vice Chair (2005-2006), Chair (2006-2007)
Nancy Watkins, Chair (2005-2006)
Robert Wainscott, Vice Chair

Mike Angelina (2006-2007)
Lisa Besman (2005-2006)
Kristi Carpine-Taber
Robert Eramo
Edward Ford
Thomas Ghezzi
Holmes Gwynn
Joseph Herbers
Andrew Kudera
Robb Luck (2006-2007)
Mary Miller (2006-2007)
Jay Morrow
Dale Ogden
Marc Pearl
Marvin Pestcoe
Sheldon Rosenberg
Paul Struzzieri (2006-2007)
Rae Taylor
James Votta
Tom Wallace
Scott Weinstein

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000250

Excerpts from Reinsurance Accounting Standards

SSAP 62

Guidance for the accounting underlying the completion of an insurer Annual Statement is provided in the Statement of Statutory Accounting Principles (SSAPs) issued by the NAIC and published in the NAIC's *Accounting Practices and Procedures Manual.* Guidance regarding the recording of reinsurance transactions is provided in *SSAP 62: Property and Casualty Reinsurance.* The actuary may find the following excerpts from SSAP 62 helpful when considering the issue of risk transfer.

Paragraphs 9 through 16 of SSAP 62 are subtitled "Reinsurance Contracts Must Include Transfer of Risk."

In paragraph 9 of SSAP 62 it is stated that "The essential ingredient of a reinsurance contract is the transfer of risk....Unless the agreement contains this essential element of risk transfer, no credit shall be recorded."

Paragraph 10 of SSAP 62 includes the statement that "Actual or imputed investment returns are not an element of insurance risk."

Paragraph 12 of SSAP 62 reads as follows:
"12. Indemnification of the ceding entity against loss or liability relating to insurance risk in reinsurance requires both of the following:

a. The reinsurer assumes significant insurance 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."

In paragraph 13 of SSAP 62 it is stated that "A reinsurer shall not 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."

Paragraph 14 of SSAP 62 states that "The ceding entity'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 companies under reasonably possible outcomes, without regard to how the individual cash flows are described or characterized. An outcome is reasonably possible if its probability is more than remote. The same interest rate shall be used to compute the present value of cash flows for each reasonably possible outcome tested. A constant interest rate shall be used in determining those present values because the possibility of investment income varying from expectations is not an element of insurance risk. Judgment is required to identify a reasonable and appropriate interest rate."

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000251

Paragraph 15 of SSAP 62 contains a description of one instance where cash flow testing is not required to demonstrate risk transfer. Paragraph 15 contains the comment that "In this narrow circumstance, the reinsurer's economic position is virtually equivalent to having written the insurance contract directly."

FAS 113

Statement of Financial Accounting Standards, No. 113: Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts... (FAS 113) was published in December 1992 and provides guidance regarding the accounting and reporting for reinsurance contracts under U.S. Generally Accepted Accounting Principles (GAAP). The actuary will likely also find this document helpful when considering the issue of risk transfer. There are many parallels between SSAP 62 and FAS 113. Of particular interest are paragraphs 9 and 11. Paragraph 9, similar to paragraph 12 of SSAP 62, reads as follows:

"9. 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 insurance contracts.

b. It is reasonably possible that the reinsurer may realize a significant loss from the transaction."

Paragraph 11 of FAS 113, similar to paragraph 15 of SSAP 62, reads as follows:

"11. Significance of loss shall be evaluated by comparing the present value of all cash flows, determined as described in paragraph 10, with the present value of the amounts paid or deemed to have been paid to the reinsurer. If, based on this comparison, the reinsurer is not exposed to the reasonable possibility of significant loss, the ceding enterprise shall be considered indemnified against loss or liability relating to insurance risk only if substantially all of the insurance risk relating to the reinsured portions of the underlying insurance contracts has been assumed by the reinsurer."

In describing the type of testing required to demonstrate significance of loss, paragraph 11 also describes a case where such testing is not required. When discussing this case, we will use the term "paragraph 11 exception," which is a commonly used term that refers back to FAS 113.

The above excerpts from FAS 113 and SSAP 62 are not intended to be a complete treatment of risk transfer as discussed in these documents. For example, in evaluating risk transfer the decision-maker normally considers such issues as the definitions of "significant," "reasonably possible" and "remote." Such issues involve interpretation of accounting guidance and are outside the scope of this Practice Note. The actuary may wish to read the remaining portions of SSAP 62 and FAS 113, including the questions

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000252

and answers to these statements. The actuary should also consider consulting with accounting and/or legal professionals as he or she deems appropriate to assist in understanding the issue of risk transfer in reinsurance contracts.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000253

Documentation Files for Ceded Reinsurance Transactions

Among other requirements, the Reinsurance Attestation Supplement contains the attestation that there is documentation concerning the economic intent of the transaction and the risk transfer analysis for certain contracts. According to a recent survey of insurers described in the Academy's risk transfer report, the following items were considered to be of value for the contract file of the ceding entity:

a. Relevant correspondence between the ceding and assuming entities. This might include any related agreements, including but not limited to interlinked reinsurance contracts or trust agreements.

b. A memorandum or other appropriate documentation from management describing the business purpose and the economic intent for the reinsurance cession.

c. A statement regarding risk transfer, either that the risk transfer is considered to be reasonably self-evident or a copy of the analysis that displays the possible outcomes, their likelihood, and their economic impact.

d. Signoff from management that risk transfer has been demonstrated or is believed to be reasonably self-evident.

e. Copy of signoff from an external auditor or other party as to risk transfer, if applicable and available.

To the extent the actuary is asked to quantify the risk transfer described in c. above, it might be helpful to have available documentation supporting the analysis and calculations sufficient for another actuary practicing in the area to follow. The risk transfer documentation will be available to state regulators and auditors. In developing such documentation, the actuary might wish to refer to Actuarial Standard of Practice (ASOP) 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving and Valuations*.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000254

Where Risk Transfer May Be Reasonably Self-Evident

The Reinsurance Attestation Supplement, and in particular its second paragraph, identifies several circumstances whereby contracts are excluded from all or a portion of the scope of the attestation:

- Contracts with No Amounts Recoverable. The introduction to the attestation statement identifies its scope as "all reinsurance contracts for which the reporting entity is taking credit on its current financial statement". As such, contracts that are not active, or where there are no unearned premiums, losses or other amounts recognized as recoverable as of the Annual Statement date, are excluded from the scope of the attestation.

- Certain Older Contracts. With regard to maintaining documentation evidencing risk transfer, the attestation statement requires that management only consider "each such reinsurance contract entered into, renewed, or amended on or after January 1, 1994," since this is the date when the current statutory accounting rules surrounding risk transfer in reinsurance contracts became effective. Prior to that date, no risk transfer analysis was required under statutory accounting rules. Note that this exception only relates to the second paragraph of the attestation statement.

- Risk Transfer Is Reasonably Self-Evident. Also with regard to evidencing risk transfer under the second paragraph, the attestation statement requires that management maintain documentation with respect to contracts "for which risk transfer is not reasonably considered to be self-evident." It is our understanding that the purpose of this clarification is to eliminate and/or avoid the time and expense associated with unnecessary analyses.

While the first two bullet point exclusions are self-explanatory, the last bullet point is not. Accordingly, the discussion below provides guidance to actuaries when assisting management in making the determination as to whether or not risk transfer is reasonably self-evident.

This section of the Practice Note summarizes certain approaches observed by practitioners in determining whether or not risk transfer is reasonably self-evident. In practice, there will be contracts and classes of contracts in addition to those identified in this section in which it can be determined that risk transfer is reasonably self-evident. In making this determination, important considerations include an evaluation of the substance of the arrangement, the existence, impact, and role of risk-limiting features, and the use of professional judgment.

The evaluation of reinsurance contracts as to whether risk transfer is reasonably self-evident is principles based, and therefore there is no bright line that can be used for its application. As a matter of practice, it would be more conservative to evaluate contracts for risk transfer when there is any doubt as to whether or not risk transfer is reasonably self-evident.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000255

Also, the regulators of individual states may have other and different views regarding risk transfer testing. Actuaries may find it beneficial to discuss this issue with their domiciliary regulators as questions arise.

"Reasonably Self-Evident" and SSAP 62 / FAS 113

The concept of "reasonably self-evident" was introduced by the NAIC during 2005 as part of the Reinsurance Attestation Supplement. It addresses contracts for which the risk transfer standard applies, but for which detailed risk transfer testing is not required in order to conclude that that standard has been met. As such, the concept of "reasonably self-evident" is not a change to the accounting standards promulgated in SSAP 62 and FAS 113, but rather a way to define reasonable levels of analysis and documentation in applying those standards.

While "reasonably self-evident" is not explicitly referenced in either SSAP 62 or FAS 113, it is implicitly accepted based on the common practice of company management, auditors, and regulatory authorities. Since the adoption of the current accounting rules surrounding risk transfer, it has been common practice that risk transfer analyses and related documentation be completed only for contracts considered to be "finite" or "structured," as opposed to "traditional." In most cases, these analyses and documentation have not been completed for many traditional reinsurance contracts, presumably because risk transfer was deemed to be self-evident. Furthermore, risk transfer cash flow tests generally have not been required for traditional contracts by auditors or financial examiners performing regulatory functions. However, since there are no universally accepted definitions of the terms "finite" and "traditional," and the same contract features and/or structures may be present in either finite or traditional contracts, there is no simple way to divide the two groups.

The following discussion describes "reasonably self-evident" in the context of SSAP 62. There are many parallels between SSAP 62 and FAS 113, and as such the discussion below is applicable for FAS 113 as well.

SSAP 62 specifies that all contracts other than those meeting the limited exception provisions of paragraph 15 are required to meet the criteria for risk transfer listed in paragraphs 12a and 12b. (Paragraph 15 is similar to paragraph 11 of FAS 113, and both are referred to in this Practice Note as the "paragraph 11 exception". This exception is introduced in the section *Excerpts from Reinsurance Accounting Standards*, and more information on this exception is provided subsequently in this Practice Note under the "*Exempt Contracts*" heading in this section.) Paragraphs 14 and 15 of SSAP 62 include guidance on how the risk transfer would be evaluated:

"14. The ceding entity'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 companies under reasonably possible outcomes, without regard to how the individual cash flows are described or characterized [illegible]

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000256

"15. Significance of loss shall be evaluated by comparing the present value of all cash flows, determined as described in paragraph 14, with the present value of the amounts paid or deemed to have been paid to the reinsurer."

One possible interpretation of these portions of paragraphs 14 and 15 of SSAP 62 (and the corresponding language in FAS 113) could be that a quantitative cash flow analysis must be performed on every contract to support that the contract transferred insurance risk. However, a more commonly applied view is that these paragraphs simply emphasize that risk transfer evaluations should be based on present values and should contemplate all contractual cash flows.

In summary, the concept of "reasonably self-evident" does not imply that risk transfer analysis is not required. Rather, it means that in situations where the fundamental structure and substance of the contract would obviously result in compliance with the criteria defined in paragraphs 12a and 12b of SSAP 62, substantive contract-specific calculations are not necessary. Rather, in these instances a company may reach its conclusions about a contract by evaluating its adherence to risk transfer characteristics and/or the cash flow characteristics of the class of contracts to which it belongs.

Risk Transfer Characteristics Underlying "Reasonably Self-Evident"

There are several defining characteristics of those contracts for which risk transfer is considered to be reasonably self-evident:

- The potential loss to the reinsurer is much larger than the premium for the coverage provided;
- The contractual terms and conditions of coverage are standardized for the classification or type of contract; and
- The contract does not include provisions that enable the reinsurer to recover all or a significant portion of the covered losses.

In most instances, if a contract satisfies all three of these characteristics, the substance and economic purpose of the contract is generally considered to be risk transfer. Conversely, if a contract has any of the following features, it is unlikely that risk transfer is reasonably self-evident:

- The premium approaches the present value of the coverage provided;
- The contract is "manuscripted" using terms of coverage that are not standard for contracts within the classification or type of contract; or
- The contract includes provisions that enable the reinsurer to recover all or a significant portion of the covered losses.

There are reinsurance contracts that, in effect, comply with the "reasonably self-evident" principle by virtue of their membership in a particular classification of reinsurance contracts. For example, it is commonly understood that traditional high-layer property

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000257

catastrophe contracts transfer risk and should be accounted for as reinsurance. Few practitioners would feel they need a detailed probabilistic cash flow analysis to reach that conclusion because risk transfer would be considered to be reasonably self-evident.

In order to evaluate whether risk transfer for a particular contract is reasonably self-evident, management may wish to assess whether the contract, by virtue of its basic characteristics, meets the three risk transfer characteristics above.

For contracts that are not otherwise exempt from risk transfer testing, and for which risk transfer is not reasonably self-evident, some degree of contract-specific risk transfer testing is required. In general, the required rigor of such analyses is a function of the complexity of the contractual terms, and the degree to which the characteristics of the contract differ from the risk transfer characteristics listed above.

There is currently no standard or minimum practice as regards documentation of whether or not risk transfer is reasonably self-evident. As discussed above even for classes for which risk transfer is deemed to be reasonably self-evident, it may be appropriate to confirm and document how management arrived at this conclusion. Some companies have prepared checklists for this purpose; we have provided examples of a few checklists as Appendix 2 to this Practice Note.

Categorization of Contracts

With respect to the level of risk transfer testing required, this Practice Note groups contracts into the following three categories:

- Exempt: contracts exempt from risk transfer testing standards;
- Reasonably Self-Evident: contracts for which risk transfer is considered to be reasonably self-evident by virtue of the class and/or the individual characteristics of the contract; and,
- Not Reasonably Self-Evident: contracts for which risk transfer is not reasonably self-evident, so that some type of quantitative cashflow analysis must be performed in order to assess risk transfer.

There are other ways to categorize and describe contracts as well. We have avoided the use of the term "safe harbor" because it has multiple definitions and appears to cause confusion.

Exempt Contracts

Within FAS 113 and SSAP 62, the only contracts explicitly exempted from the risk transfer testing standards are contracts where "substantially all of the insurance risk relating to the reinsured portions of the underlying contracts has been assumed by the reinsurer", introduced in the section *Excerpts from Reinsurance Accounting Standards*, as the "paragraph 11 exception".

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000258

In a footnote to paragraph 11 of FAS 113, the paragraph 11 exception is further clarified as follows: "This condition is met only if insignificant insurance risk is retained by the ceding enterprise on the reinsured portions of the underlying insurance contracts." (SSAP 62 - Exhibit A, contains similar language in its response to Question 20, except that the word "insignificant" is replaced with "trivial".) The reinsurer in such instances acts as if it stands in the shoes of the original insurer. While it remains a matter of informed professional judgment as to what is insignificant, this footnote also defines insignificant to mean "having little or no importance; trivial."

There may be some diversity in practice in the application of the paragraph 11 exception and in the determination of when the criteria are met. Under the most restrictive criteria, the only type of contract for which the exception applies is a straight quota share, with all fixed terms and no risk-limiting or variable terms (including no sharing of positive experience), and with a fixed ceding commission that adequately compensates the ceding company for all acquisition costs. A less restrictive but generally accepted set of criteria for the paragraph 11 exception is the case of a straight quota share reinsurance contract with no risk-limiting features, other than a very high loss ratio cap with negligible effect on the economics of the transaction.

There are other suggested criteria for contracts that meet the paragraph 11 exception. In particular, one common interpretation is that the existence of a profit sharing arrangement that affects only positive experience would not by itself disqualify a quota-share contract from the paragraph 11 exception. Other ideas are contained in the CAS Working Party Paper on Risk Transfer, which was included in the appendix of the Academy risk transfer report issued in August 2005. However, as of the time of issuance of this practice note, the profit sharing and CAS Working Party paper interpretations are not widely accepted in practice.

In summary, straight quota-share contracts are typically exempt from risk transfer requirements under the paragraph 11 exception. However, the introduction of risk-limiting features to a quota-share contract, such as a loss ratio cap (other than one that is so high its effect on the economics of the contract is de minimis), a loss retention corridor, or a sliding scale commission, often prevents the contract from qualifying for the exception.

Also, as previously stated, the Reinsurance Attestation Supplement requirements further exempt contracts with no amounts recoverable and contracts entered into, renewed, or amended before January 1, 1994. While they are not exempt from risk transfer testing under SSAP 62 or FAS 113, documentation of risk transfer testing for contracts with no recoverables would rarely be required in practice. Further, SSAP 62 became effective in 1994 and FAS 113 became effective in 1992, so contracts older than those dates would not be subject to the provisions in those accounting standards.

Reasonably Self-Evident

Risk transfer is reasonably self-evident in most traditional per-risk or per-occurrence excess of loss reinsurance contracts. For these contracts, a predetermined amount of premium is paid and the reinsurer assumes all or nearly all of the potential variability in the underlying losses, and it is evident from reading the basic terms of the contract that the reinsurer can incur a significant loss. In many cases, there is no aggregate limit on the reinsurer's loss. The existence of certain experience-based contract terms, such as experience accounts, contingent commissions, and additional premiums, may reduce the amount of risk transfer and/or make it less likely that risk transfer is reasonably self-evident. Typically, the more risk retained by the ceding company through these terms, the less likely that risk transfer is self-evident.

Also, the "rate on line" is an important consideration with excess of loss reinsurance contracts that have aggregate limits. ("Rate on line" is defined here by dividing the premium paid to reinsure 100 percent of a layer of coverage divided by the aggregate limits of the layer of coverage.) Excess of loss contracts with no or minimal risk-limiting features and with relatively low rates on line are typically deemed to transfer risk. However, even if a contract has no risk-limiting features, as the premium approaches the present value of the limit of coverage, risk transfer is usually no longer deemed to be reasonably self-evident.

Based on the previously mentioned risk transfer characteristics, contracts in the following classes would typically be presumed to have met the risk transfer standards without individual quantitative analysis, because risk transfer is reasonably self-evident:

- Single year property catastrophe and casualty clash contracts with little or no risk-limiting features (e.g. sub-limits, exclusions, etc.) apart from a reinstatement premium common to these types of contracts.
- Most facultative and treaty per risk excess of loss arrangements with premium well below the present value of the aggregate limit of coverage, and without unusual provisions such as sub-limits, experience accounts or other risk-limiting contingent features.

Of course, as noted above, this list is not intended to be an exclusive or exhaustive list.

A company may have contracts for which risk transfer is determined to be reasonably self-evident even though they do not fall into a particular class. In these instances the company may support its risk transfer decisions by showing how the contracts adhere to the risk transfer characteristics outlined previously in this Practice Note.

As shown in the sample checklists provided in Appendix 2, companies may categorize their contracts based on some combination of contract type, contract features and degree of adherence to the risk transfer principles. *It is important to note that the checklists in Appendix 2 are provided for illustrative purposes only, and the Academy does not endorse any particular approach or make any representation that the checklists can assure adherence to risk transfer principles. For any given company, management must*

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000260

consider the specifics of its own business and reinsurance program in order to develop an appropriate categorization and documentation procedure.

Not Reasonably Self-Evident

While there are often exceptions, contracts that would not typically qualify for risk transfer being reasonably self-evident include:

- Aggregate excess of loss contracts--most of these contracts either contain significant risk-limiting features, and/or attach in an expected layer of loss so that the premium approaches the present value of the coverage provided;

- Contracts with experience accounts, experience rating refunds, or similar provisions, if such provisions have a significant impact on the contract's economics;

- Multiple year contracts—many of these have provisions that protect the reinsurer from changes in exposure over the contract period and make the analysis complicated, and/or have features that adjust the terms of later years explicitly or implicitly based on results in earlier years;

- Quota share contracts with risk-limiting features such as loss retention corridors, sliding scale commissions, loss ratio caps and/or sub-limits that significantly impact the amount of risk being transferred.

For a given reinsurance contract, once the determination is made that risk transfer is not reasonably self-evident, management will need to evaluate the amount of risk transferred and prepare documentation supporting the business rationale for the contract. In most cases, it would be expected that the rigor of the analysis and documentation would increase to the extent that the contract transfers less risk. The following section provides guidance for actuaries to consider when performing cash flow testing for reinsurance contracts.

A final observation is that failure to satisfy the "reasonably self-evident" standard does not necessarily mean that a contract has insufficient risk to qualify as reinsurance, nor that it is a finite risk contract. It simply means that more analysis is required in order to make a determination of risk transfer. In the context of the attestation by the CEO and CFO, it also means that there is a requirement for management to maintain documentation of that analysis, as described in the next section.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000261

Risk Transfer Cash Flow Testing

For contracts where risk transfer is not deemed to be reasonably self-evident, management will need to have documentation supporting risk transfer available for regulatory review. This section will focus on the cash flow testing as part of the risk transfer analysis and the issues to consider, current industry practice as it relates to incorporating parameter risk and handling various exposures, and the value of judgment to the process. It should be noted that the risk transfer measurement process is intended to be a prospective analysis, to be completed at the time of entering into the reinsurance contract.

When documenting risk transfer, there will likely be many instances in which management looks to its internal or external actuaries for assistance as regards the measurement of risk. While SSAP 62 is an accounting statement, and thus the need for risk transfer cash flow testing arises from the application of accounting rules, actuaries may provide significant input in, or even take the lead in, the evaluation and quantification of insurance risk. Nevertheless, despite the actuaries' role in quantifying a contract's risk, the final determination of whether that risk is sufficient is typically an accounting decision.

Risk transfer analyses may range from very simple premium to loss limit approaches for certain contracts, to highly sophisticated stochastic models with many inputs and variables for other contracts. Typically, the required rigor of such analyses increases as the contractual terms become more complex, and/or to the extent that risk transfer becomes more limited through risk-limiting contract features. In cases where the actuary is asked to perform cash flow tests as part of the risk transfer analysis, the actuary may wish to review the steps outlined in the remainder of this document before undertaking such an evaluation.

In reading this section, it is important to note that there are currently no actuarial standards of practice on risk transfer analysis, and practice is evolving rapidly. Though the goal of evaluation of risk transfer differs to some extent from the goals in pricing reinsurance contracts or setting loss reserves, parts of the approach and development of estimates require some of the same considerations that are outlined in existing statements of principles and standards of practice regarding property/casualty ratemaking and loss reserving. Though not directly applicable, these statements might be used as a resource by actuaries when performing cash flow tests for risk transfer.

Understand the Substance of the Agreement

In order to understand the substance of the agreement before evaluating and quantifying the amount of the economic losses being transferred, the actuary may wish to do the following:

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000262

- Obtain and review as much background to the transaction as practicable, including the business purpose and the substance of the transaction. In this regard, the actuary may wish to have discussions with management or other key personnel as applicable. Furthermore, the actuary may wish to obtain and review internal accounting memoranda or other relevant internal documentation.

- Obtain and read the entire agreement, as well as any related agreements, including but not limited to interlinked reinsurance contracts or trust agreements.

If it is not clear how certain contractual terms operate, the actuary might choose to seek assistance from accounting and legal professionals, as applicable. Should the actuary rely on the interpretation of contractual language from another person or party, the actuary usually discloses such reliance in his/her documentation.

In reviewing the contract, the actuary may encounter contract provisions which may create contingent rights or obligations that appear to reduce risk if applied. These include special termination clauses, warranties, and adjustable limits or deductibles. In some cases, these provisions are worded in indefinite or ambiguous ways that make modeling difficult and, perhaps, impossible unless one were to make assumptions about the behavior of one or both parties to the contract. In those cases, if it is not possible to clarify the intent of the parties, the actuary might not be able to complete a quantification of the economic losses transferred under the agreement. Further, if the actuary does make assumptions about the behavior of parties to the contract, it may be appropriate to incorporate documentation of these assumptions in the analysis documentation.

Develop Cash Flow/Scenario Testing of Subject Losses

Once the actuary understands the substance of the contract, the next step is usually to determine what losses or loss events subject to the contract are reasonably possible. As with any actuarial analysis, the use of informed judgment is critical when developing cash flow analyses under reinsurance agreements.

In some cases, in particular for those contracts in which a single event, such as a large catastrophe, is required to produce a significant loss to the reinsurer, an analysis of what is reasonably possible is sometimes limited to the identification of one scenario or several alternative scenarios, and discussion as to whether or not those are reasonably possible.

In other cases, the actuary may develop a stochastic model that projects estimates of subject losses using thousands of scenarios. In these models, there are several key assumptions that the actuary normally selects, such as:

- A mean and coefficient of variation of losses;
- An assumed distribution of such losses;
- Selected payout patterns, as well as variation in such patterns;
- Adjustments for parameter risk.

The modeled distributions may be based on aggregate losses, individual frequency and severity distributions, or some combination of these.

In many cases, the mean is selected by reviewing historical data where available, supplemented by industry or competitor company data when appropriate. There is often less data available to estimate the coefficient of variation of losses; while historical data is often used as a starting point, in many cases it is appropriate to supplement such data with other information and judgment.

Similar to a pricing application, it might be appropriate to adjust historical data to make it an unbiased estimator of results for the prospective analysis period. Possible adjustments might include: trending losses, on-leveling premiums, adjusting for changes in exposure, and adjusting for the presence or absence of large losses or catastrophic events.

When determining a loss distribution, a positively skewed distribution such as the lognormal distribution is often used. Again, this is largely a matter of judgment and will depend on the individual situation.

Payout patterns are usually determined from historical payout patterns, if available, or from industry patterns. While variation in such patterns is a feature that is modeled by actuaries, there is little, if any, practical guidance on how to vary a payout pattern, or how much variation could be reasonably expected. It is normally a matter of actuarial judgment to determine whether the resultant approach and amount of variation in the payout pattern is reasonable.

Finally, the inclusion of parameter risk is usually an important element to cash flow testing. Parameter risk in this context refers to the potential inaccuracy in the form and parameters of the loss distribution. The sources of parameter risk are typically numerous in a reinsurance risk transfer analysis; there is a very good discussion of this in the Casualty Actuarial Society (CAS) white paper contained in Appendix 2 of the Academy's risk transfer report.

By definition, parameter risk is very difficult to model and measure. In many cases, the actuary will account for parameter risk by increasing the coefficient of variation (CV) in the modeled analysis. In other cases, the actuary might adjust the mean or weigh together multiple models, each having its own mean and CV, to encompass parameter risk. More elaborately, parameter risk can be incorporated by explicitly treating the parameters of the loss distribution as stochastic variables themselves. In any case, the selection and application of parameter risk is complex and usually involves the significant application of professional judgment on the part of the actuary.[1]

[1] A possible resource for understanding and modeling parameter uncertainty is *Parameter Uncertainty in (Log) Normal Distributions*, by Rodney E. Kreps.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000264

Overlay the Contractual Terms

Whether determined through the selection of a single scenario or through thousands of scenarios via stochastic simulation, the actuary normally considers the amount and timing of cash flows that would be ceded under the contract for each loss scenario that is being modeled. Cash flow items may include loss payments, loss adjustment expense payments, initial premiums, additional premium payments, payment of profit or experience-based commissions, and other related cash flows. An appropriate quantification of the economics under an agreement includes contractual terms to the extent they affect cash flows between ceding company and reinsurer.

For certain contracts, modeling of contractual terms can become very difficult. This is often the case when there are notional experience accounts, funds-held accounts, and other accounts where there are interest credits and charges. Further, the impact of commutation, cancellation, or similar clauses may also significantly complicate the analysis.

For some contracts, there might be more than one applicable term for a given scenario. For example, the reinsurance company might have the option to cancel a contract, or not cancel and receive more premium. Usually, for purposes of evaluating risk transfer, it is appropriate to presume that the company with the option (in this case the reinsurer) will act in its financial best interest. Often the reinsurer will be required by the contract to exercise its option before it is clear how losses will ultimately develop. In those cases it is common practice to attribute "perfect knowledge" to the reinsurer. While computationally easier, this assumption might inappropriately understate the reinsurer's risk. If it is not clear how such contractual terms interact with each other, the actuary may find it prudent to seek clarification or other assistance from accounting and legal professionals.

There are other circumstances in which the actuary may choose to seek assistance from accounting and legal professionals. These include contracts with the following provisions:

- Multiple year arrangements--some multiple year contracts, particularly those covering more than two years, contain contractual features that reduce the risk to the reinsurer through clauses that are very difficult to reflect when modeling the contractual cash flows.

- For crediting funds-held and/or experience accounts, interest rates that are significantly below or above risk-free rates, and/or different from the rate that is used to present-value the cash flows.

- Ceding commissions paid in the future or at the expiration of the contract.

- Consideration of maintenance fees--while such fees are usually considered to be additional consideration to the reinsurer in an evaluation of risk transfer, it might depend on the contract language.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000265

- Existence of commutation clauses, cancellation rights, or similar clauses--the existence of such clauses in some contracts provides either or both parties with rights that might appropriately be considered in the quantification of the economics under an agreement.

Sometimes, the existence of the above features can significantly complicate the actuary's ability to appropriately quantify cash flows.

Once the loss scenarios are determined and the contractual terms are applied, the actuary may present-value the cash flows and quantify the economics of the reinsurance agreement under various scenarios.

Interest Rate Used to Present-Value Cash Flows

SSAP 62 does not specify a method for choosing the interest rate to be used for discounting; it specifically refers to this as an area to which judgment should be applied. SSAP 62 does, however, require that a single interest rate be used to present-value the cash flows, and that the interest rate reflect the time value of money.

While not specified in the regulations, a commonly used approach is to use a risk-free interest rate, with duration approximately equal to that of the net cash flows. Based on current industry practice, an interest rate is often selected based on U.S. Treasury securities with similar durations. Typically, this is either performed based on a weighted average of the cash flows with U.S. Treasury yield curve analysis using zero-coupon securities, or through the selection of a single rate based on a simple review of U.S. Treasury rates and judgment.

Summary of Ceded Cash Flows

According to SSAP 62, significance of loss shall be evaluated by comparing the present value of all cash flows with the present value of the amounts paid or deemed to have been paid to the reinsurer. This comparison is frequently developed through a ratio comparison whose numerator and denominator are developed as follows:

- The numerator reflects the present value of the cash flows between the parties. This would include premiums less losses, ceding commissions if applicable, and other contractually determined cash flows, if any.

- The denominator reflects the present value of the total consideration to the reinsurer regardless of how it is characterized. This may include the initial premium, plus additional premiums, reinstatement premiums, maintenance fees, etc., less experience-based profit commissions or similar cash flows. Such premiums are typically not reduced for ceding commissions, brokerage payments, or other fees.

- There are several items that are specifically not considered--brokerage paid to an intermediary, investment risk, and general and other expenses of the reinsurance company that are not cash flows between the parties.

Where the actuary performed stochastic testing, estimated cash flow would typically be presented by percentile in a manner similar to the following:

Percentile or Scenario	*Nominal Total Ceded Premium*	*NPV Total Ceded Premium*	*Nominal Ultimate Ceded Loss*	*NPV Ultimate Ceded Loss*	*NPV Reinsurer's Profit / (Loss)*	*NPV Profit/ (Loss) to NPV Premium*
5.0%	44,586	46,718	43,386	41,718	5,000	10.7%
10.0%	50,062	51,983	48,862	46,983	5,000	9.6%
15.0%	54,305	56,062	53,105	51,062	5,000	8.9%
20.0%	57,960	59,577	56,760	54,577	5,000	8.4%
25.0%	61,179	62,672	59,979	57,672	5,000	8.0%
30.0%	64,027	65,411	62,827	60,411	5,000	7.6%
35.0%	67,224	68,485	66,024	63,485	5,000	7.3%
40.0%	70,223	71,368	69,023	66,368	5,000	7.0%
45.0%	73,392	74,415	72,192	69,415	5,000	6.7%
50.0%	76,845	77,735	75,645	72,735	5,000	6.4%
55.0%	79,781	80,559	78,581	75,559	5,000	6.2%
60.0%	83,308	83,950	82,108	78,950	5,000	6.0%
65.0%	86,874	87,379	85,674	82,379	5,000	5.7%
70.0%	90,774	91,100	89,544	86,100	5,000	5.5%
75.0%	95,970	96,125	94,770	91,125	5,000	5.2%
80.0%	100,000	100,000	99,613	95,781	4,219	4.2%
85.0%	100,000	100,000	106,301	102,213	(2,213)	-2.2%
87.5%	100,000	100,000	112,109	107,797	(7,797)	-7.8%
90.0%	100,000	100,000	117,391	112,876	(12,876)	-12.9%
92.5%	100,000	100,000	120,000	115,385	(15,385)	-15.4%
95.0%	100,000	100,000	120,000	115,385	(15,385)	-15.4%
97.5%	100,000	100,000	120,000	115,385	(15,385)	-15.4%
Mean	76,180	77,096	77,939	74,941	2,155	2.8%

Following is a brief summary of the columns in the table:

- "Percentile or Scenario" represents a common way to present results of stochastic simulation. For this particular table, outcomes from stochastic simulation are ordered in terms of losses ceded to the reinsurer.

- "Nominal Total Ceded Premium" reflects the total premium under the contract. These amounts are stated gross of ceding commissions, and are increased for additional premiums and reduced for experience-based profit commissions, as applicable, for each of the respective scenarios presented in the table. "NPV Total

Ceded Premium" reflects these amounts discounted to present value. The fact that the NPV Total Ceded Premium is sometimes greater than the Nominal Total Ceded Premium, while unexpected, is a function of the particular terms of the contract represented by this table.

- "Nominal Ultimate Ceded Loss" reflects the total losses and expenses, as applicable, for which the reinsurer would be obligated to pay under the contract. "NPV Ultimate Ceded Loss" reflects these amounts discounted to present value.

- The "NPV Reinsurer's Profit or Loss" column is the difference between the NPV Total Ceded Premium and the NPV Ultimate Ceded Loss columns. This amount is then divided by the "NPV Total Ceded Premium" column to generate the percentages in the final column.

There are a variety of ways one might show the results of such testing; the above chart is an illustration only.

Quantification of Cash Flows

The information in the above table could be used as input to the method used to quantify the economics under an agreement, the results of which could provide meaningful input to decision-makers when deciding whether the reinsurance agreement meets the risk transfer requirements of SSAP 62. No one method for evaluating risk transfer may be appropriate for use in all cases. Company management must decide which method or methods on which to rely, and in this decision they may be aided by the advice of an actuary. It is typically not the responsibility of the actuary to decide whether the risk transfer so measured is sufficient to meet the standards of SSAP 62; for many companies this decision is made by accounting professionals after considering the actuarial input.

Methods that have been proposed or used by actuarial practitioners include relative risk approaches, Value at Risk (VaR) methods, and Tail Value at Risk (TVaR) methods, including an Expected Reinsurer Deficit method. For a description and discussion of various methods, please see the Academy's risk transfer report, in particular Appendix 2. It is important to note that such proposed or used methods may or may not be suitable for evaluating risk transfer under any given agreement. Therefore, the decision-maker may want to consult with actuaries and accounting professionals when considering which method or methods are suitable for evaluating risk transfer under a specific agreement.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000268

Appendix 1: Questions and Answers on Risk Transfer

Question 1: Which contracts should be subject to a risk transfer cash flow analysis?

Answer: Beginning with the 2005 Annual Statement, insurance companies are required to attest that they maintain risk transfer analysis documentation. This requirement applies to all ceded reinsurance contracts that satisfy the following criteria:

1. The contract is effective or amended after Jan. 1, 1994;
2. The ceding company is "taking credit for" the contract in its current financial statement (i.e. has either established an asset or reduced a liability);
3. Risk transfer is not "reasonably self-evident."

Question 2: What is the "reasonably self-evident" standard and how is it applied?

Answer: The CEO and CFO of the ceding company are required to attest that they maintain documentation of the risk transfer analysis for certain contracts. Contracts for which risk transfer is reasonably self-evident are exempt from this requirement. This exemption relieves the burden of requiring risk transfer analysis for all contracts.

"Reasonably self-evident" is a principles-based standard. Thus, judgment needs to be applied. In addition, this particular standard has not been tested. The *Where Risk Transfer May Be Reasonably Self-Evident* section of this Practice Note contains more guidance with respect to this area. In the event of uncertainty, it may be wise to err on the side of performing a risk transfer analysis. Nevertheless, it is possible to make a number of observations about the application of the standard.

The first observation is that risk transfer would normally be reasonably self-evident for most traditional reinsurance contracts that are written using standard contract features and for which the motivation is simple risk transfer. For these contracts, it may be easy to conclude that it is reasonably possible (i.e. more than remote) that the reinsurer can incur a significant loss.

A second observation is that even for traditional reinsurance contracts, it is normally prudent to pay particular attention to contracts with aggregate limits that cap the reinsurer's total loss. For these contracts it is often useful to compare the reinsurer's premium to the present value of its aggregate limit.

A final observation is that failure to satisfy the "reasonably self-evident" standard does not necessarily mean that a contract has insufficient risk to meet the requirements of SSAP 62, nor that it is a finite risk contract. It simply means that a risk transfer analysis is required in order to evaluate whether the reinsurance agreement meets those accounting requirements. In the context of the attestation by the CEO and CFO, it also means that there is a requirement to maintain documentation of that analysis.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000269

Question 3: Who determines the meaning of "reasonably self-evident"?

Answer: The "reasonably self-evident" standard is a principles-based standard, and as such, judgment is required in its application. It is also consistent with the guidance of SSAP 62. As with any statutory rule, company management is responsible for making this judgment, although the judgment may be made after consultation with internal and/or external advisors.

Question 4: What is the actuary's responsibility in the risk transfer analysis process?

Answer: Actuaries can be expected to play several roles, depending on the circumstances.

In-house actuaries are likely to be asked to help company management develop guidelines for the risk transfer analysis process, including operational procedures for determining which contracts are reviewed, the methods used for the analysis, and the format of the documentation. It is also likely that actuaries will provide significant input in, or even take the lead in, the evaluation and quantification of insurance risk.

Actuaries will also likely be involved in supporting the review work performed by external auditors and regulators.

Nevertheless, while actuaries may take the lead role in quantifying a contract's risk, it is important to remember that the determination of whether that risk is sufficient for a given accounting treatment is typically an accounting rather than an actuarial decision.

Question 5: Will the Appointed Actuary need to certify certain elements of risk transfer?

Answer: No, this is not a responsibility of the Appointed Actuary. The guidance on the Statement of Actuarial Opinion Instructions from the NAIC Casualty Actuarial Task Force (CATF) specifically notes that the scope of the opinion does not include an evaluation of risk transfer.

The selection of the individual who is to perform the risk transfer analysis is the responsibility of management. It need not be the Appointed Actuary, nor need it be an actuary at all. Although an actuary may be asked to play a role in cash flow testing for risk transfer, there is no requirement to this effect.

Question 6: What is the 10/10 rule and how does it relate to the quantification of sufficient risk transfer in a reinsurance contract?

Answer: SSAP 62 includes a risk transfer standard that states that a contract has sufficient risk for reinsurance accounting treatment if the reinsurer has a "reasonable probability" of a "significant loss." SSAP 62 goes on to define "reasonably probable" as

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000270

"not remote." No further guidance is provided and the SSAP 62 risk transfer test remains a principles-based rather than a bright-line test.

The 10/10 rule is a frequently cited test for determining if there is enough risk in a contract to satisfy the risk transfer standard laid out in SSAP 62. Specifically, the 10/10 rule equates "reasonable possibility" with "at least a 10 percent chance" and "significant loss" with "a net present value loss at least equal to 10 percent of the reinsurer's net present value premium." The 10/10 rule may be thought of as a specific case of a more general Value at Risk method for measuring economic losses under a reinsurance agreement.

The Academy's risk transfer report notes that many actuaries believe the 10/10 rule is inadequate for purposes of testing across the spectrum of all reinsurance agreements, particularly for agreements that reinsure low frequency/high severity risks. Further, COPLFR does not believe a bright-line approach, without allowance for judgment, is optimal. These conclusions were supported by the NAIC's CATF in its comment letter on the Academy's risk transfer report.

Question 7: What interest rate should be used in each evaluated scenario to make the present value calculation?

Answer: Paragraph 14 of SSAP 62 states that "The same interest rate shall be used to compute the present value of cash flows for each reasonably possible outcome tested. … Judgment is required to identify a reasonable and appropriate interest rate." Similarly, paragraph 66 of FAS 113 states that "A constant interest rate is used in determining these present values because the possibility of investment income varying from expectations is not an element of insurance risk. The Board concluded that it was not necessary to specify in detail the interest rate used in the calculation; judgment is required to identify a reasonable and appropriate rate."

While not specified in the regulations, a common approach is to use a risk-free interest rate, with duration approximately equal to that of the net cash flows. Based on current industry practice, an interest rate is selected based on U.S. Treasury securities with similar durations. Typically, this is either performed based on a weighted average of the cash flows with U.S. Treasury yield curve analysis using zero-coupon securities, or through the selection of a single rate based on a simple review of U.S. Treasury rates and judgment.

Some contracts may specify interest rates for crediting funds-held and/or experience accounts that are significantly below or above risk-free rates, and/or different from the rate that is used to present-value the cash flows. In these situations, the actuary may choose to seek assistance from accounting and legal professionals in determining how to model the contract terms.

Question 8: Let us assume our company plans to improve the content and documentation in the underwriting file prospectively, and we discover that some currently in-force

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000271

contracts meet the risk transfer standard but are not sufficiently documented in the file. What could we do?

Answer: According to regulators who drafted the Reinsurance Attestation Supplement, it is permissible to add explanatory memoranda to the underwriting file as long as it is clear that this material is dated after entering into the contract and is being provided for ease of explanation purposes.

Question 9: If a company did not complete a risk transfer analysis at the time the reinsurance contract was written and then retrospectively constructs a risk transfer analysis for inclusion in the documentation file, would it base the analysis on the most current information and loss experience?

Answer: No. The analysis would be completed as though it were prospective, using the information available to the company at the time at which it entered into the contract. As noted in the answer to Question 8, the analysis would be dated when completed, noting that it has been added to the documentation file for ease of explanation purposes.

As a separate matter, such retrospective analyses should only be completed when necessary. It is the view of regulators that compliance with SSAP 62 requires that documentation supporting risk transfer be prepared at the time the contract is agreed upon between the parties.

Question 10: May a ceding company use a risk transfer analysis performed by a third party, such as a reinsurance intermediary, as support in satisfying the requirements of the Reinsurance Attestation Supplement?

Answer: Yes. Management may obtain expert advice from third parties. However, company management must select the appropriate parties to advise them, must take ownership of the results of the analysis, and must be responsible for maintaining the documentation. These responsibilities cannot be delegated to an outside entity.

Question 11: May a ceding company and a reinsurer reach different conclusions regarding risk transfer on a reinsurance contract?

Answer: Yes, it is possible that this may happen. A reinsurer and a ceding company may reach agreement on the terms of a reinsurance contract without agreement upon the expected loss ratio or the potential distribution of results on the subject business. Each company is responsible for its own assessment of risk transfer. Typically, the ceding company and the reinsurer do not share their analyses of risk transfer. Given the potential for a difference in knowledge of the subject business and in factors that may affect ceded experience between the ceding company and the reinsurer, and given the amount of subjective judgment that may be involved in the analysis, there is a reasonable possibility that two entities might reach different conclusions regarding risk transfer on the same reinsurance contract.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000272

Question 12: Does a risk transfer analysis always need to include probability distributions of cash flow estimates?

Answer: No. Sometimes it may be sufficient to generate one or several scenarios to support the risk transfer analysis. The amount of work that is appropriate is a matter of judgment. It typically depends on factors such as the level of complexity of the reinsurance contract, the materiality of the contract, and the nature of any risk-limiting features.

Question 13: If a prospective risk transfer analysis indicates that there is significant risk under a treaty, but subsequent loss experience is different than estimated, does that mean the risk transfer analysis is faulty and that the company may need to revise its accounting treatment?

Answer: No. The fact that loss experience is different than originally estimated, even if no losses are sustained under the contract, does not imply that there was not risk transfer at inception.

Question 14: Where may I find additional information from the CAS or Academy regarding risk transfer standards and testing?

Answer: In August 2005, the Academy issued its risk transfer report. The report contains the results of a survey on current industry practices in the evaluation of risk transfer. It includes a variety of alternatives to evaluating risk transfer suggested by actuarial professionals practicing in the area as well as the thoughts of professionals on the subject of which types of contracts should qualify for reinsurance accounting without a risk transfer cash flow analysis. It also includes thoughts on how risk transfer could be measured. Among the attachments to the report is a paper produced by a Research Working Party on Risk Transfer formed by the CAS, as well as insights from 18 individuals who responded to a June 2005 letter asking respondents to address the following four questions: What is an effective test for risk transfer? What criteria should be used to determine whether a reinsurance contract transfers significant risk to the reinsurer? What safe harbors, if any, should be established so that a full risk transfer analysis does not have to be completed for each and every reinsurance contract? What are the advantages and disadvantages of the suggested approach versus other approaches commonly used?

The actuary may also find it helpful to review a paper produced by the CAS Valuation, Finance and Investments Committee (VFIC), "*Accounting Rule Guidance Statement of Financial Accounting Standards No. 113 Considerations in Risk Transfer Testing*". The paper may be found in the 2002 fall edition of the CAS Forum. The paper was written to provide some considerations to CAS members on risk transfer testing.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000273

As the questions of risk transfer and "reasonably self-evident" are principles-based conclusions, the actuary may find this material useful when measuring risk and giving advice on issues surrounding the Reinsurance Attestation Supplement. However, it is important to note that the material in these publications falls in the category of research ideas and does not constitute official guidance.

Question 15: I understand that the NAIC is exploring possible changes to statutory accounting for ceded reinsurance. What changes have been made for 2005 and 2006, and what is the NAIC considering for 2007 and beyond? Is the FASB considering similar changes for US GAAP accounting?

Answer: During 2005, the NAIC adopted certain changes to SSAP 62 effective beginning with the 2005 Annual Statement. In addition to the Reinsurance Attestation Supplement described herein, the NAIC also increased disclosure requirements for property/casualty insurance companies. The Reinsurance Attestation Supplement and the new disclosures are part of the Annual Statement for property/casualty insurance companies and are public information. These disclosure requirements were revisited in 2006 and some changes are expected for the 2007 annual statement.

In addition, during 2005 the NAIC's Property and Casualty Reinsurance Study Group considered a proposal to change SSAP 62 to require bifurcation of reinsurance agreements that meet certain criteria. As described in the proposal, bifurcation of a reinsurance agreement would entail accounting for a reinsurance transaction in two parts, such that the part of the transaction transferring insurance risk is accounted for as reinsurance and the part of the transaction financing losses and not transferring insurance risk is accounted for as a deposit. This change was not adopted by the NAIC.

During 2005 and 2006, the FASB also engaged in a project to clarify what constitutes transfer of significant insurance risk in insurance and reinsurance contracts, and to improve accounting by more clearly defining which contracts, or portions thereof, should be accounted for as insurance versus deposits. The FASB issued an Invitation to Comment on bifurcation and other topics during 2006. The primary topic was a comprehensive bifurcation model for reinsurance contracts.

The majority of the comment letters did not support a bifurcation model for insurance and reinsurance contracts, and the FASB is no longer pursuing a comprehensive bifurcation model. However, beginning in 2006 and continuing in 2007, the FASB is considering editorial changes to FAS 113 to clarify the level of insurance risk transfer required for a contract to be accounted for as reinsurance. The FASB will also be considering changes to clarify that non-insurance company policyholders must evaluate whether contracts they hold transfer significant insurance risk. In addition, the FASB is developing improved insurance and reinsurance disclosure requirements.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000274

Appendix 2: Sample Checklists

The sample checklists in Appendix 2 were provided by individual companies and were not developed or substantively modified by COPLFR. The purpose of providing these checklists is to provide examples of how certain companies address their internal compliance monitoring with respect to the evaluation and documentation of risk transfer in reinsurance agreements. The checklists are provided for illustrative purposes only, and the Academy does not endorse any particular approach or make any representation that the checklists ensure adherence to risk transfer principles or are sufficient to meet the requirements of the Reinsurance Attestation Supplement. Accordingly, the sample checklists should only be considered in conjunction with the guidance contained in the main portions of this practice note. For any given company, management must consider the specifics of its own business and reinsurance program in order to develop an appropriate categorization and documentation procedure.

Checklist #1
Risk Transfer Evaluation for Reinsurance Contracts

Account Name:
Agency or Certificate #(s):
Contract Effective Date:

Underwriter:
Evaluation Date:

As outlined within the Reinsurance Compliance Policy and the Guidelines for Determining Risk Transfer document, and in conjunction with Accounting Principles, a risk transfer evaluation is to be completed to ensure compliance with FAS 113 and SSAP 62 & 75 requirements for reinsurance contracts.

This document has been compiled to help identify reinsurance contract conditions that highlight if a contract or subsequent amendment may not pass the FAS 113 or SSAP 62 & 75 risk transfer tests. It also is utilized to document the conclusions reached related to whether or not risk transfer exists for a specific reinsurance placement. Conclusions should be documented within the "Risk Transfer Conclusion Statement" section of this document and stored with the underwriting files.

Risk transfer determination can be subjective. A complete understanding of the contract and its underlying business is required before that determination can be made.

SAMPLE

Contract Evaluation Checklist:

The following checklist has been established to help bring consistency and more objectivity around identifying potential reinsurance agreements that may not pass risk transfer. If any of the "Underwriting Review of Contract Terms/Conditions" are noted as a "Y", meaning they apply to the contract under review, then the rationale as to why the condition does not inhibit significant insurance risk (underwriting and timing) from occurring should be clearly documented in the "Risk Transfer Conclusion Statement" section of this document. The existence of any of the following features should not be construed as confirmation that a contract does not pass the risk transfer guidelines.

#	Underwriting Review of Contract Terms/Conditions	Y=Yes, N=No
1.	Is the reinsurance contract written with features that limit the reinsurer from suffering a combined ratio greater than x%?	
2.	Is the reinsurance contract written with features that delay the timing of premium, commission or loss payments under the contract?	
3.	Does the reinsurance contract include a retrospective premium adjustment feature (e.g. swing rating)?	
4.	Is the reinsurance contract written in a manner that no cash is transferred between the reinsurer and the reinsured?	
5.	Does the reinsurance contract contain an aggregate limit feature applicable to the principle coverage provided within the contract (this includes any feature which limits coverage to a maximum amount, e.g. limited reinstatements)? If yes, answer question 5.a. for short tail business or 5.b.for long tail business.	
5.a.	For short tail business, is the reinsurance premium x% or greater of the total aggregate limit?	
5.b.	For long tail business, is the reinsurance premium x% or greater of the total aggregate limit?	
6.	Does the reinsurance contract contain a loss corridor feature?	
7.	Does the reinsurance contract contain an annual aggregate deductible feature?	
8.	Does the reinsurance contract contain a loss ratio cap feature?	
9.	Does the reinsurance contract contain a payback feature for losses from prior years?	

Checklist #1
Risk Transfer Evaluation for Reinsurance Contracts

#	Underwriting Review of Contract Terms/Conditions	Y=Yes, N=No
10.	Does the reinsurance contract contain a profit, contingent or sliding scale commission feature?	
11.	Does the reinsurance contract contain a no claims bonus feature?	
12.	Does the reinsurance contract have an unusually high commission rate?	
13.	Does the reinsurance contract contain a mandatory commutation feature (i.e., commutation can be forced by either party, completed on a specific date, or tied to experience account provisions)? *	
14.	Does the reinsurance contract contain a funds withheld or experience account feature?	
15.	Does the reinsurance contract contain an interest rate feature where the interest rate differs (i.e., is higher) from the prevailing market rate?	
16.	Is the reinsurance contract term continuous, for an extended period of time or renew automatically?	
17.	Is the reinsurance coverage provided on a retroactive basis (including loss portfolio transfers)?	
18.	Does the reinsurance contract contain a carryover feature of experience or benefits from one contract period to another?	
19.	Is there a linkage of experience between different reinsurance contracts?	
20.	Are you aware of circularity between this reinsurance contract and any other reinsurance contract(s) (i.e. exposure ceded under one contract and reassumed under another)?	
21.	Are there any verbal or written side-agreements in conjunction with this reinsurance contract?	
22.	Does the reinsurance contract have any unusual triggers or provisions?	

* Note: The Xxx standard treaty commutation clause providing Xxx with the sole right to demand commutation subject to specific triggers described as Termination Events relating to financial conditions of the reinsurer is deemed not to impede risk transfer. Therefore if the only commutation provision is that provided by Xxx's standard clause, the question above relating to commutations may be answered "N".

For all captive reinsurance contract placements, financial modeling to assess risk transfer must be completed. An exception to this rule is for 100% quota share contracts containing no limitations changing the nature of the exposure thereby allowing for an application of the paragraph 11 rule within FAS 113. Such exception should be designated by checking the box indicating such within the **Risk Transfer Conclusion Statement.**

MLE

For all other reinsurance contracts, if any of the items within the "Underwriting Review of Contract Terms/Conditions" have been answered with a "Y" and a reasonable explanation as to applicability of risk transfer can not be provided, or for some other reason there is question as to whether it is reasonably possible that the reinsurer may realize a significant loss, then financial modeling should be completed to assess risk transfer.

#	Risk Transfer Analysis Financial Modeling	Y=Yes, N=No
1.	Has modeling of the nature described in paragraphs 10 & 11 of FAS 113 been completed that reveals the reinsurer may have at least a x% probability of incurring at least a x% net present value underwriting loss from the transaction?	

******Complete the Risk Transfer Conclusion Statement based upon the following criteria.******

If the above condition is answered as a "Y", such analysis and related documentation should become part of the underwriting file and the conclusion should be documented within the "Risk Transfer Conclusion Statement" section below.

If the above condition is answered as an "N" due to the conclusion that the numerical analysis is not prescribed based on the "Underwriting Review of Contract Terms/Conditions" analysis, documentation of such should be included within the "Risk Transfer Conclusion Statement" section below. Note, this option is not applicable for captive reinsurance contracts.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000277

Checklist #1
Risk Transfer Evaluation for Reinsurance Contracts

If the numerical analysis has been completed and the above condition is answered as an "N", determination must be given as to whether the transaction passes risk transfer. This is still possible, as all the facts and conditions of the contract must be considered. Documentation should be completed within the "Risk Transfer Conclusion Statement", as appropriate. By falling within this category, the contract falls within the "grey zone" as defined by the Xxx Accounting Principles Policy and therefore must be referred to the following for approval: (1) Business Unit CUO & CFO; (2) Corporate Assistant Controller (3) Head of Reinsurance. Additionally, notification must be made to Reinsurance Operations. All analysis, related documentation, conclusions and approvals should be documented within the "Risk Transfer Conclusion Statement" section below.

If it is determined that the contract does not pass risk transfer the presumption is to not pursue the contract. Other considerations may be taken into account however, as to the desirability of writing the contract, which would require the following levels of approval: (1) Business Unit CUO & CFO; (2) Head of Reinsurance; (3) Corporate Assistant Controller. Additionally, Reinsurance Operations must be notified to ensure the application of proper accounting procedures (i.e. deposit accounting). Any such contract considerations, conclusions and approvals must be documented.

Risk Transfer Conclusion Statement:

Mark the box to the right with an X if the statement below is applicable to the contract being analyzed.	
As the contract herein referenced is a 100% quota share containing no conditions changing the nature of the exposure, it is deemed that **Risk Transfer Analysis Financial Modeling** was not prescribed to verify the level of risk transfer through application of the paragraph 11 rule within FAS 113.	

MLE

Signature of Underwriter: ______________________

Approvals/Notifications (as required above for "grey zone" issues and/or deposit accounting):

BU CUO: ______________________ **Corp. Asst. Controller:** ______________________

BU CFO: ______________________ **Head of Re:** ______________________

RO notification provided to: ______________________

rev 09/15/2006)

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000278

Checklist #2

Section I: Account Information and Identification of Characteristics

Treaty Name: ______________________________
Treaty Number: ______________________________
Effective Dates: ______________________________
Treaty Type: ______________________________
Lines of Coverage: ______________________________
Summary of Policy Limits: ______________________________
Named Insured Loss Retention: ______________________________

As part of the risk transfer evaluation for the treaty noted above, answer all questions to document whether the treaty has any of these characteristics.

_____ (Yes/No) *Experience accounts:* These arrangements allow the reinsured to share in the favorable experience of the underlying contracts by reference to an "experience account" that typically tracks premiums, less losses incurred (i.e. paid plus any outstanding reserve), less applicable expenses, plus interest. Experience provisions also can require the reinsured to share in unfavorable experience by requiring additional payments to the reinsurer in the event that the experience account is negative. Experience accounts can be referred to under different terms, such as experience balances or profit sharing accounts (beyond those described below).

_____ (Yes/No) *Profit and loss sharing provisions:* Profit and loss sharing agreements where the reinsured can share in excess of x% of the net profits after an allocation of reinsurers expenses, not to exceed x% of the written premium. Net profits are generally defined to be premiums written less losses incurred less commissions incurred.

_____ (Yes/No) *Claims Bonuses or Sliding Scale Commissions:* Any provisions that include No Claim Bonuses or Sliding Scale Commissions which can vary the ultimate net profit by more than x% of Premium Written.

_____ (Yes/No) *Non-standard cancellation provisions:* These provisions can be structured to reduce the risk to the reinsurer, for example, by allowing, under certain circumstances, the reinsurer to terminate the policy without paying all of the losses that would otherwise be covered under the policy.

_____ (Yes/No) *High Premium-to-Limits Ratio:* An aggregate loss limit or caps on loss limits where the premium relative to the limits exposed is greater than the following per line of coverage: Property Coverages (x%), Short Tail Casualty Lines (x%), and Long Tail Casualty Lines (x%). These thresholds may indicate that the premium may begin to approximate the present value of the limit.

Checklist #2

_____ (Yes/No) *Funds held provisions:* Any funds withheld other than provided by the terms of the Company's Long-tail or Short-tail Security Clause or pursuant to local law or regulation.

_____ (Yes/No) *Loss corridors:* This feature, which may exist in various forms including inner aggregate retentions, serves to eliminate or limit the risk of loss for a specified percentage or dollar amount of claims within the contract coverage. For example, in a contract providing coverage for a policyholder's first $3,000,000 of losses, the reinsurer will pay the first million and last million of losses but will exclude the corridor from $1,000,000 to $2,000,000.

_____ (Yes/No) *Premium adjustment features:* Any provision that requires the payment of additional premiums in the event of claims may mitigate the amount of risk to the reinsurer. In particular, retrospective rating features that do not have minimum or maximum premium amounts nor a per occurrence limitation on the amount of losses that affect the premium adjustment are more likely to mitigate risk transfer. Premium adjustment features include reinstatement premiums, whereby the contract may require the reinsured to pay for reinstated coverage for the balance of the contract period, although reinstatements that are at the option of the reinsured are less likely to have an adverse effect on the risk transfer analysis. This does not apply to adjustments driven by changes in assumed exposure base **(As respects reinstatement premiums on excess of loss treaties, a "yes" answer will require completion of Section II (Risk Transfer Documentation) only where: (i) the ratio of the treaty's expected premium to the treaty limit is more than x%; or (ii) the additional premium for any reinstatement is more than x% of the original premium. However, any "yes" answer must be considered in the development of the Risk Transfer Conclusion (Section III).)**

_____ (Yes/No) *Deferred premium or claim payments:* Features that delay timely receipt of premiums or reimbursement of losses may act to mitigate the transfer of insurance risk by affecting the present value of contractual cash flows. This does not include scheduled installment premiums as long as the premiums are due before they are earned. It also does not include provisions that call for claim payments that, for administrative ease, are due according to a periodic schedule, as long as the payments are at least as frequent as annual and are not fixed as to amount.

SAP

Checklist #2

_____ (Yes/No) *Retroactive coverage:* Any coverage of events that are known to have occurred, excluding "roll forward" provisions within the termination clause of the agreement.

_____ (Yes/No) *Adjustable (or floating) limits and/or attachment points and/or retentions:* These features are generally intended to modify terms and conditions as a result of the emergence of facts not (precisely) known at the inception of the treaty. To the extent the emerging facts relate to claims experience, there is likely to be some mitigation of risk transfer. Evaluating the potential effect on risk transfer may be complicated, but it is necessary.

_____ (Yes/No) *Commutation provisions:* While the parties to an agreement can always negotiate a modification or commutation of the agreement, a commutation agreement is generally bilateral in nature. To the extent that the commutation allows the reinsured a unilateral provision to commute the agreement and/or specify the amount, or a formula for determining the amount to be paid upon commutation, it may serve to mitigate risk transfer.

_____ (Yes/No) *Mandatory renewals:* Treaties that must be renewed or that mandate the exercise of extended reporting provisions may be designed to assure that the reinsurer does not suffer a significant loss.

_____ (Yes/No) *Multi-year treaties or reinsurance agreements:* Treaties and reinsurance agreements with terms longer than one year may reduce the risk of loss to the reinsurer particularly where the terms and conditions call for the interim adjustment of premium. Continuous treaties should not be deemed multi-year.

_____ (Yes/No) *Dual trigger provisions:* Treaties or reinsurance agreements that require more than one loss event and/or the combination of a covered loss event with other qualifying conditions generally reduce the risk to the reinsurer.

_____ (Yes/No) *Blended coverages:* Any reinsurance contract that blends clearly unrelated coverages not triggered by a common loss event or multi-line or multi-peril policies, for the express purpose of justifying risk transfer.

_____ (Yes/No) *Embedded Derivatives:* Where the contract contains an embedded derivative, as defined in SFAS No. 133, the risk transfer assessment must be performed independent of the embedded derivative.

SAP

Checklist #2

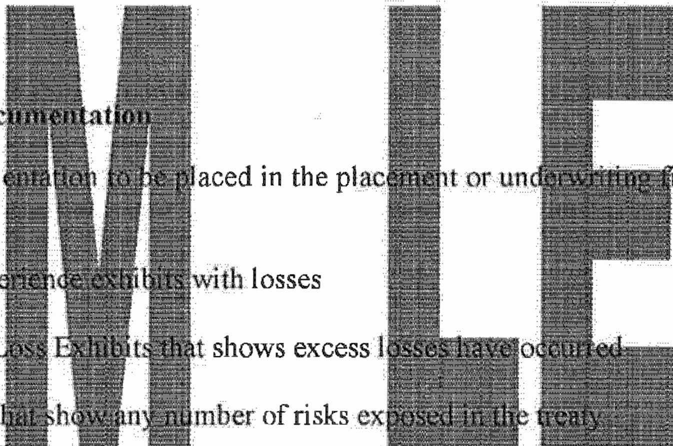
_____ (Yes/No) *Affiliated Reinsurance*: Any contracts between a Company affiliate and a non-affiliate where it is known that the non-affiliate intends to retrocede back to the same or other affiliated Company.

Other Concerns: Please describe

____
____
____

_____ NONE OF THE ABOVE ITEMS APPLY

If any of the items above have a "yes" answer, the following risk transfer documentation (Section II) is required, otherwise proceed to Section III.



Section II: Risk Transfer Documentation

Items 1-10 list required documentation to be placed in the placement or underwriting file (to the extent applicable):

1) ☐ Treaty year experience exhibits with losses

2) ☐ Historic Large Loss Exhibits that shows excess losses have occurred.

3) ☐ Policy profiles that show any number of risks exposed in the treaty

4) ☐ Loss Triangles available in file

5) ☐ Market quotes based upon Rate-on-Line (ROL)

6) ☐ Aggregate summaries showing exposed limits

7) ☐ All available cash flows

8) ☐ Rating model output with estimates of 1 in 100/250 year events

9) ☐ Industry experience for similar type insurance products

Checklist #2

Section III: Risk Transfer Evaluation and Conclusion
Description of transaction including economic intent:

Risk Transfer Conclusion (ensure all "Yes" answers are considered in the development of the conclusion):

Sufficient Risk Transfer: _______ (Yes/No)

Section IV: Sign-Offs:

By my signature below I hereby certify that: i) I have read and understand the Risk Transfer Policy, ii) I agree with the risk transfer conclusion, and iii) I have no reason to believe that the reinsured is trying to achieve a misleading financial result. I have not been a party to any side agreement and am not aware of any such agreements associated with this contract.

M LE

If no "Yes" answers to above questions:

Reinsurance Manager: ____________________
Date: ____________________

If "Yes" answers to above questions:

Reinsurance Officer: ____________________
Date: ____________________

Business Unit Chief Financial Officer (or designee) ____________________
Date:

Checklist #3

Reinsurance Contract Review

Contract Name: ______________________

Stated Effective Date: ______________________

Date Contract Entered Into: ______________________

Expiration Date: ______________________

Business Covered: ______________________

Type of Contract (Q/S, XL): ______________________

Review performed on: ______________________

A. Determination of Contract Terms Impacting Analysis:

Assumption		Contract Terms
1. Does the contract include normal indemnity features against loss and liability relating to insurance risk? (SFAS 113, para. 6)	Yes/No	

If the answer is "No," the contract does not constitute a reinsurance agreement and is not subject to FAS 113. If "Yes," continue on with Question 2.

2. Does the contract have more than one layer of coverage with substantially different reinsurer and different probabilities of loss on each layer?	Yes/No	

3. Does the contract cover more than one type of business (i.e. prop. & liab.) and contain separate limits for each?	Yes/No	

4. Are there any other contracts that cover substantially the same business that should be combined with the contract for risk analysis?	Yes/No	

If the answer to either Questions 2 and 3 is "Yes," consider whether there is a need for each layer of the contract to be separately analyzed for risk transfer. If the answer to Question 4 is "Yes," multiple contract may need to be combined for the risk transfer analysis. The specific contract terms and the availability of data will be the determining factors. Continue on with analysis using appropriate contract segmentation.

Refer to assumptions/procedures document for further instructions on completing the risk determination section.

B. Determination of Risk Transfer

Assumption		Rationale
1. Is there more than a remote probability of a significant variation in the ultimate amount received from the reinsurer in all layers? (SFAS 113, para. 9a)	Yes/No	
2. Is there timely reimbursement of covered losses from the reinsurer (at least quarterly in most cases)? (SFAS 113, para. 9a)	Yes/No	
3. Does the contract provide for stipulated payment schedules, accumulating retention or other features which reduce the variability of the timing of loss reimbursement? (SFAS 113, para 9a.)	Yes/No	

If the answer to Question 1 or 2 is "No" <u>OR</u> if the answer to Question 3 is "Yes," the contract does not meet the risk transfer test to qualify for accounting as reinsurance and must be recorded as a deposit. Skip to Section (E). Otherwise, continue on with Question 4.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000285

4. Can it be readily determined that the reinsurer has assumed substantially all of the insurance risk relating to the reinsured portion of the underlying contract? (SFAS 113, para 11)	Yes/No	

If the answer to Question 4 is "Yes," continue on with Questions 5- 11 to identify the contract provisions that may require accruals and then skip to Section (C). Otherwise complete all of Section (B) (Questions 5-16).

SAMPLE

Provision		Contract Terms
5. What is the annual premium?		
6. Is there a profit sharing arrangement?	Yes/No	
7. In the event of a loss, can coverage be reinstated? At what cost?	Yes/No	
8. Are there any additional retrospective premium adjustments based on contract experience?	Yes/No	
9. Is there any contractual obligations to pay back losses?	Yes/No	
10. Are there any changes to contract limits with no corresponding change in cost?	Yes/No	
11. Other	Yes/No	

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000286

12. Based on the above provisions plus expected loss recoveries, is it readily apparent that at least x% of the time, the present value of expected cash flows from the reinsurer exceed the present value of all amounts paid or deemed to have been paid to the reinsurer by more than x%? (SFAS 113, para. 10)	Yes/No	

If the answer to Question 12 is "Yes," skip to Section (C); otherwise perform a cash flow analysis and continue on with Question 13.

13. Based on the cash flow analysis, are there scenarios where the ratio of the present value of expected cash flows from the reinsurer to the present value of all amounts paid or deemed to have been paid to the reinsurer exceeds x% (i.e. the reinsurer has experienced at least a x% loss)?	Yes/No	

14. Is the total probability of the occurrence of the "x% loss" scenarios referenced in Question 13 greater than x%?	Yes/No	

If the answer to Question 14 is "Yes," it is reasonably possible for the reinsurer to realize a significant loss, the contract meets the risk transfer test and it should be recorded as reinsurance. Skip to Section (C). If the answer is "No," continue on with Question 15.

15. Can the contract be categorized as a "Catastrophe cover?"	Yes/No	

16. After review of the contract terms (i.e. funding provisions, arms length status, other variability-restricting provisions), can it be determined that risk has been transferred?	Yes/No	

If the answer to Questions 15 or 16 is "No," the contract does not qualify for accounting as reinsurance and must be recorded as a deposit, skip to Section (E). If the answer to both questions is "Yes," the contract meets the risk transfer test and should be recorded as reinsurance. Continue on to Section (C).

C. Determination of Prospective vs. Retroactive Classification:

Assumption		Contract Terms
1. Does the contract cover only losses incurred as a result of future insurable events? (SFAS 113, para. 5)	Yes/No	

If the answer to Question 1 is "Yes," the contract is prospective and should be recorded as reinsurance. Skip to Section (D). If the answer is "No," continue on with Question 2.

2. Does the contract cover only losses incurred as a result of past insurable events? (SFAS 113, para. 9)	Yes/No	

If the answer to Question 2 is "Yes," the contract is retroactive and should be recorded using modified deposit accounting. Skip to Section (D). If the answer is "No," continue with Question 3.

3. If the contract covers losses incurred as a result of both future and past insurable events, can the respective provisions be accounted for separately? (SFAS 113, para. 99)	Yes/No	

If the answer is "No," the entire contract is considered retroactive and should be recorded using modified deposit accounting. If the answer is "Yes," then each provision should be accounted for accordingly, continue with Section (D).

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000288

D. Determination of Future Obligations:

Provision	Accrual Required
1. Profit Sharing	Yes/No
2 Reinstatement Premium	Yes/No
3. Additional retrospective premium adjustments	Yes/No
4. Payback of losses	Yes/No
5. Reduced limits	Yes/No
6. Other	Yes/No

If any of the above items require accrual, provide responsible area with appropriate procedures. Continue with Section (E).

AHL

E. Related Arrangements:

1. Reinsurance Operations acknowledges that the contract constitutes the entire understanding between the parties and does not provide any financial guarantees to the assuming company. Yes ____ No ____

F. Additional Procedures

If a document other than the final contract was used for the review, the following additional procedures should be completed upon receipt of the final agreement:

1. Compare terms in the final contract to those in the document used in the initial review to make sure there are no significant differences.

   Note: Significant differences should be treated as contract amendments; therefore, risk transfer and the reporting of accruals must be reassessed.

2. Update the Reinsurance Contract Review form deleting references to the previous document and adding references to the new contract.

G. Conclusion:

Contract meets risk transfer criteria: Yes ____ No ____
Contract is: Prospective ____ Retroactive ____ Both ____
Contract accounted for as: Reinsurance ____ Deposit ____

Prepared by: ______________________ Date: ______________

Reviewed by: ______________________ Date: ______________ (Underwriting)

Reviewed by: ______________________ Date: ______________ (Accounting)

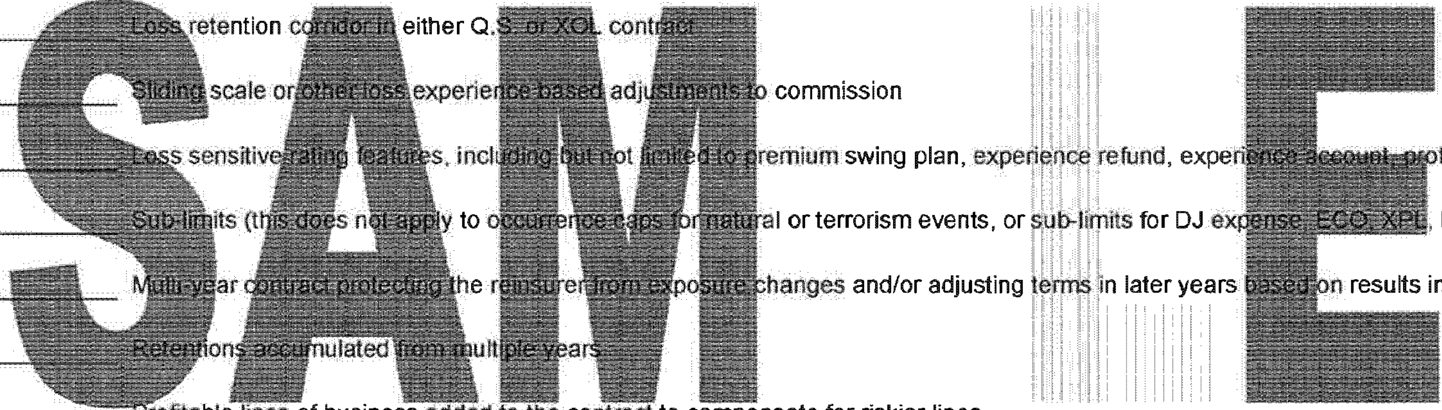
S MP E

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000290

Checklist #4: Checklist for Risk Transfer and Self-Evident Contracts

If any items are checked yes, or are questionable, refer contract to ___prior to placement
Include completed checklist with referral and copy of proposed contract

Name of Company: **ABC Company**



Y	N	Art.#	
☐	☐	____	Aggregate Stop Loss Contracts
☐	☐	____	Aggregate limit or loss ratio cap (not including traditional cat covers or clash covers)
☐	☐	____	Loss retention corridor in either Q.S. or XOL contract
☐	☐	____	Sliding scale or other loss experience based adjustments to commission
☐	☐	____	Loss sensitive rating features, including but not limited to premium swing plan, experience refund, experience account, profit sharing > x%
☐	☐	____	Sub-limits (this does not apply to occurrence caps for natural or terrorism events, or sub-limits for DJ expense, ECO, XPL, LAE)
☐	☐	____	Multi-year contract protecting the reinsurer from exposure changes and/or adjusting terms in later years based on results in earlier years
☐	☐	____	Retentions accumulated from multiple years
☐	☐	____	Profitable lines of business added to the contract to compensate for riskier lines
☐	☐	____	Total potential premium that approaches the present value of the total aggregate limit (this does not apply to per risk limit but rather aggregate limit). When in doubt, refer if maximum premium to aggregate coverage limit is > x% for clash, x% for property per risk and cat, and x% for all casualty
☐	☐	____	Conditional cancellation clause when coverage already provided is reduced or removed
☐	☐	____	Commutation clause that reduces the risk of the Reinsurer under some event This does not apply to traditional commutation where payment is present value of liability at reasonable terms
☐	☐	____	Loss portfolio transfer, retroactive contract or novation (other than name change)
☐	☐	____	Any provision that could be perceived as a delay in loss payments or does not provide for at least quarterly reporting and settlement of losses When in doubt, refer if payments are permitted > x days from account or billing or upon presentation of satisfactory proof of loss

ALL DOUBTS SHOULD BE RESOLVED IN FAVOR OF REFERRAL

Checklist #5

"Items to consider when determining whether or not a reinsurance contract is <u>Reasonably Self-Evident of risk transfer</u>":

1. **COPLFR, Nov 2005 Risk Transfer Testing Practice Notes, Common Safe Harbors section, pg 11, Typically Considered Safe Harbors**
    - *"A straight quota share with no risk-limiting features other than a loss ratio cap with negligible effect on the economics of the transaction;"*
    - *"Single year property catastrophe and casualty clash contracts with little or no risk limiting features apart from reinstatement premium common to these types of contracts."* Casualty clash structures are addressed in the bullet point: COPLFR, Nov 2005 Risk Transfer Testing Practice Notes, Common Safe Harbors section, pg 10, paragraph 3.
    - *"Most facultative and treaty per risk excess of loss arrangements with rates on line well below the present value of the limit of coverage, or without aggregate limits, sub-limits, or contingent features."* These structures are also addressed in the bullet point: COPLFR, Nov 2005 Risk Transfer Testing Practice Notes, Common Safe Harbors section, pg 10, paragraph 3.

    To follow COPLFR, risk transfer is reasonably self-evident.

2. **COPLFR, Nov 2005 Risk Transfer Testing Practice Notes, Common Safe Harbors section, pg 11, Contracts Not Typically Considered Reasonably Self-Evident**
    - *"Aggregate excess of loss contracts—most of these contracts either contain significant risk-limiting features, and/or attach in an expected layer of loss so that the premium approaches the present value of the coverage provided."* Risk transfer analysis is recommended on all aggregate excess of loss contracts.
    - *"Contracts with experience accounts, experience rating refunds, or similar provisions, if such provisions have a significant impact on the contract's economic."* Risk transfer analysis is recommended on all accounts with loss sensitive premium, swing commissions unless the structure at the minimum commission satisfies the underwriting margin comparison test criteria (see attached example), profit commissions unless the structure before a profit commission satisfies the underwriting margin comparison test criteria, loss corridors, caps/limits at levels having greater than minimal impact on contract expected loss and variability. This provision will require the judgment of the accountant and actuary in determining self-evidence.
    - *"Multiple year contracts—many of these have provisions that protect the reinsurer from changes in exposure over the contract period and make the analysis complicated, and/or have features that adjust the terms of later*

MLE

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000292

Checklist #5

years explicitly or implicitly based on results in earlier years." Risk transfer analysis is recommended on all multi-year contracts with termination provisions based on mutual consent of the cedent and reinsurer. Otherwise, the contract may be viewed as an annual contract in determining self-evidence. If an agreement is considered to be multi-year, the terms are to be modeled on a multi-year basis. Modeling is to take place before the first contract year incepts. Repeat modeling in subsequent years of a multi-year agreement is only necessary when there is a change in contract terms.

- *"Quota share contacts with risk limiting features such as loss retention corridors, sliding scale commissions, loss ratio caps and/or sub-limits that significantly impact the amount of risk being transferred."* Risk transfer analysis is recommended for contracts with loss corridors, loss-sensitive commissions, caps/limits at levels having greater than minimal impact on contract expected loss and variability.

3. **Further expansion on property per risk and casualty per occurrence structures.**

COPLFR, Nov 2005 Risk Transfer Testing Practice Notes, Common Safe Harbors section, pg 10, paragraph 3 – *"Risk transfer is reasonably self-evident in most traditional per-risk and per-occurrence excess of loss reinsurance contracts. For these contracts, a predetermined amount of premium is paid and the reinsurer assumes nearly all or all of the potential variability in the underlying losses, and it is evident from reading the basic terms of the contract that the reinsurer can incur a significant loss. In many cases, there is no aggregate limit on the reinsurer's loss. The existence of certain experience-based contract terms, such as experience accounts, profit commissions, and additional premiums, generally reduce the amount of risk transfer and make it less likely that risk transfer is reasonably self-evident."*

To follow COPLFR, risk transfer for property per risk, casualty per occurrence excess of loss contracts is:

- Reasonably self-evident for contracts with no loss-sensitive features, no experience funds, caps/limits at levels having minimal impact on contract expected loss and variability.
- Is not reasonably self-evident for contracts with loss-sensitive features, caps/limits at levels having greater than minimal impact on contract expected loss and variability, sub-limits for exposures (ex. Terrorism) that are not the primary exposure intended for cession.
- Gray areas that will require judgment of the accountant and actuary as to whether self-evident:
  - Occurrence and aggregate limits on per risk (Aggregate limits on per occurrence contracts) contracts with relatively low rate on line,

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000293

Checklist #5

particularly if the limit significantly caps exposure to loss of the entire contract. The same can be applied to sub-limits for exposures (Ex. Terrorism) that are not the primary exposure intended for cession.

- Contracts with reinstatement premiums where the likelihood of a reinstatement is not minimal. A more extreme example: It is uncommon, but reinstatement wording has appeared on lower layers in order to spread the premium collection over a longer period of time to benefit the cedent's cash flow. In these scenarios, it can be the norm, and not the exception, to pay reinstatement premiums.

- Additional Multi-Year Determinations Beyond Multi-Year Contracts: Contract terms may seem reasonably self-evident on a one-year basis. Factoring in termination provisions may introduce the need to look at a contract on a multi-year basis. This may cause a contract not to be interpreted as self-evident.
    - Continuous Contracts – Notice of cancellation by either party within a specified period of time ends the relationship. There is no guarantee that either party will continue the reinsurance relationship. The contract should be viewed on an annual basis for the determination of self-evident and for risk transfer analysis if not deemed self-evident.
    - Multi-Year Block Adjustments or deficit/credit carryforwards on loss sensitive premiums and ceding commissions, annual term/continuous contract – Risk transfer analysis is recommended on blocks and carryforwards. There is no guarantee that either party will continue the reinsurance relationship. As a result, it is recommended that the contract be modeled on an annual basis, but the impact of historical contract years on the pending contract year should be modeled. In other words, the loss sensitive element from prior contract years, that will impact the pending contract year, should be incorporated into the modeling for the pending contract year. In the first year of a block or carryforward provision, only the one year should be considered. In the second year, the impact and the variability of the impact of the first year should be considered when modeling the second year,... In modeling prior year(s) impact, the emerged years should be considered according to how the experience has actually emerged.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000294

Checklist #5

Methodologies to Determine Risk Transfer for Contracts Determined to NOT be reasonably self-evident

Many methodologies have been proposed and are under development to replace the 10-10 rule due to its inadequate handling of low frequency/high severity risks.

COPLFR, Nov 2005 Risk Transfer Testing Practice Notes, Risk Transfer Cash Flow Testing section, pg 13, paragraph 3 – *"Risk transfer analysis may range from very simple premium to loss limit approaches for certain contracts, to highly sophisticated stochastic models with many inputs and variables for other contracts. Typically, the required rigor of such analysis increases as the contractual terms become more complex, and/or to the extent that risk transfer becomes more limited through risk-limiting contract features."*

COPLFR, Nov 2005 Risk Transfer Testing Practice Notes, Risk Transfer Cash Flow Testing section, pg 14, paragraph 6 – *"In some cases, in particular for those contracts in which a single event, such as a large catastrophe, is required to produce a significant loss to the reinsurer, an analysis of what is reasonably possible is sometimes limited to the identification of one scenario or several alternative scenarios, and discussion as to whether or not those are reasonably possible."*

COPLFR, Aug 2005 Risk Transfer in P&C Reinsurance: Report to the Casualty Actuarial Task Force of the NAIC, Risk Transfer Alternatives section, pg 16, paragraph 8/Risk metric – *"Some tests recommended in various submissions that focus on the reinsurer's results are as follows: CAS Working Party: Expected Reinsurer Deficit."*

SAP

To follow COPLFR/CAS Working Party:

- Scenario testing, UW margin comparison, payback calculation and other simplistic methods can be relied upon to perform risk transfer testing. See UW margin comparison example on a subsequent page.
- In cases where full-blown cash flow analysis is warranted, the expected reinsurer deficit method appears to be a much improved method over the 10-10 rule. The proposed threshold for the ERD method is x% or greater deficit. See example on a subsequent pages.
- Actuarial judgment on a case-by-case basis must be applied to determine the most appropriate method of testing risk transfer.
- As appropriate methodologies evolve in the insurance industry, they should be incorporated into risk transfer testing.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000295

Checklist #5

Underwriting Margin Comparison Example

Cedent direct expense ratio = 20%
Cedent direct breakeven loss ratio = 1 - 20% = 80%

Quota Share Reinsurance structure:
Min CC / LR = 19.5% / 73.0%
Prov CC / LR = 30.0% / 62.5%
Max CC / LR = 39.0% / 50.5%

Subject Loss Ratio	Cedent Expense Ratio	Cedent Margin	Reinsurance Ceding Commission	Reinsurance Margin
50.5%	20%	29.5%	39.0%	10.5%
62[illegible]	20%	17.5%	30.0%	7.5%
73.0%	20%	7.0%	19.5%	7.5%
Breakeven 80.0%	20%	0.0%	19.5%	0.5%
80.5%	[illegible]0%	-0.5%	19.5%	0.0%
[illegible]	[illegible]0%	-10.0%	19.5%	-9.5%
100.0%	20%	-20.0%	19.5%	-19.5%

SAMPLE

If the cedent's direct margin equals or is greater than the reinsurer's margin beyond breakeven, the reinsurer has assumed substantially all of the cedent's downside risk.

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000296

Checklist #5

Expected Reinsurer Deficit

= Probability of (Frequency of a Present Value Underwriting Loss) **X**
Average Severity of a Loss Given There is a Loss

Example:

Trial Number	NPV of Profit/(Loss) As Pct of PV of Prem	Trial Number	NPV of Profit/(Loss) As Pct of PV of Prem
1	**-21.8%**	11	7.3%
2	8.0%	12	17.7%
3	**-5.0%**	13	**-36.8%**
4	31.1%	14	7.3%
5	13.4%	15	16.7%
6	1.4%	16	11.7%
7	7.3%	17	9.2%
8	20.5%	18	15.7%
9	**-1.2%**	19	5.5%
10	11.7%	20	**-15.8%**

Frequency of Loss: 5 of 20 = 25%

Severity of Loss Given A Loss: -16.1% or the average of

-21.8%, -5.0%, -1.2%, -36.8%, -15.8%

Expected Reinsurer Deficit: 3.95% deficit or 25% **X** -16.1%

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000297

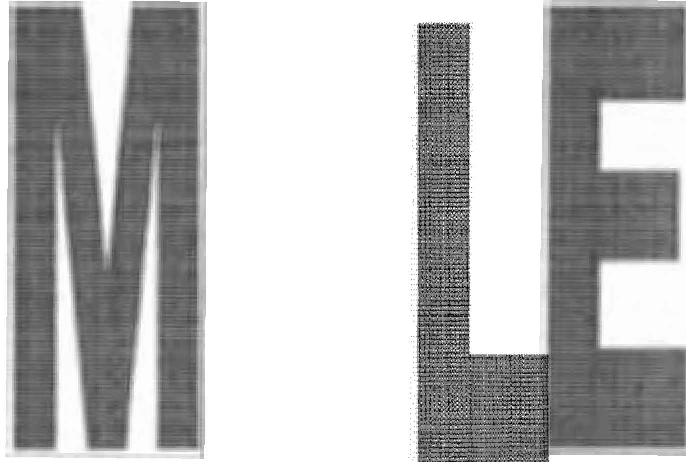
Checklist #5

Sources for this document include:

SSAP 62 and SSAP 5

Risk Transfer in P&C Reinsurance: Report to the Casualty Actuarial Task Force of the National Association of Insurance Commissioners
American Academy of Actuaries, Committee on Property and Liability Financial Reporting August 2005

Risk Transfer Testing of Reinsurance Contracts: Analysis and Recommendations
CAS Research Working Party on Risk Transfer Testing August 2005
A copy can be found at: http://www.casact.org/research/risk-transfer-wp-report.pdf



CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000298

Checklist #6
Ten Characteristics Triggering Risk Transfer Testing

1) Quota Share:
   i. If terms include any type of loss sensitive or loss limiting feature, including but not limited to sliding scale commissions, loss corridors, deductibles, profit commissions, profit sharing, occurrence caps (if less than x% of assumed premium), aggregate caps, or experience accounts. Note that a fixed ceding commission in itself would not trigger risk transfer testing under these guidelines, unless the commission is below the ceding company's acquisition costs.
   ii. If the ceding commission is below the ceding company's acquisition costs.

2) Aggregate Excess (or Aggregate Stop Loss), except for the following cases:
   i. The ceding entity is a non-insurance company or does not file an NAIC statutory financial statement, or
   ii. The transaction is not otherwise triggered by these characteristics.

The eight characteristics below apply to all contract types, whether quota share, excess, or aggregate excess.

3) Retroactive coverage, including but not limited to Adverse Development Covers and Loss Portfolio Transfers.

4) Any transaction containing a profit sharing mechanism, including but not limited to profit commissions, sliding scales, swing rating, and experience accounts.

5) Any transaction containing additional premium features, whereby additional premium or fees are due the reinsurer as a result of either ceded losses or other contingent events, except if the following applies:
   i. If the transaction is either a Property Catastrophe cover, a stand-alone Clash cover, a Catastrophic Worker's Compensation cover, a Surety Excess of Loss cover (provided that the cedant purchases multiple layers of coverage and MRAm assumes equal shares on all excess layers), or a stand-alone Terrorism cover, AND
   ii. The transaction is not otherwise triggered by the characteristics listed in this document.

6) Any transaction containing a term longer than x months, unless it is a first party Builders Risk transaction and does not meet any of the other nine characteristics.

SAP

7) Any transaction containing terms for reporting or payment of losses less frequently than a quarterly basis.

8) Any transaction containing a loss payment schedule, accumulating or variable retentions, or any feature designed to delay timing of reimbursement.

9) Any transaction containing a unilateral right to commute by either party, other than in the event of a downgrade.

10) Any transaction containing a cancellation, termination or commutation provision requiring the reporting entity or its affiliates to enter into another reinsurance transaction.

SA P

Checklist #7

The following are illustrative. For each contract, think about individual circumstances and exercise judgment

Feature	**Analyst Action**
single year casualty clash cover	check rate-on-line, show < x%
single year property cat cover	check rate-on-line, show < x%
quota share with fixed ceding commission	show that company's actual expense ratio is less than or approximates ceding commission
any feature	show that price with feature approximates price without feature
xol, with limitations	premium (incl. 1st reinst. prem) to full single npv limit (non cat/clash layer) < x% total nominal aggregate coverage/ premium incl. all reinstatements > x% premium / expected loss < x% show pv losses reasonably exceed premium by curve fitting or examination of experience
xol, free & unlimited	premium (incl. 1st reinst. prem) to full single npv limit (non cat/clash layer) < x% premium / expected loss < x% show pv losses reasonably exceed premium by curve fitting or examination of experience
quota share	show pv losses reasonably exceed premium by curve fitting or examination of experience

Notes:
Always confirm that the treaty is exposed to loss under the scenarios considered (consider policy limits, potential of loss hitting layer, exclusions, sublimits, etc.)
If contract has more than one risk-mitigating feature, must satisfy Analyst Action for each
Perform calculations for self-evidence consideration with premium net of ceding commission, but for cash flow testing, use premium gross of ceding commission
Contracts with swing rates will generally need to be cash flow tested

Appendix 3: Copy of Reinsurance Attestation

REINSURANCE ATTESTATION SUPPLEMENT

ATTESTATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER REGARDING REINSURANCE AGREEMENTS

Insurers are required to file a supplement to the annual statement titled "Reinsurance Attestation Supplement" by March 1 each year. All insurers are required to complete and file a signed attestation including those that do not utilize reinsurance. However, if an insurer does not take any credit for reinsurance on its current financial statement the attestation should be filed with those facts.

The following terms or phrases are used within this attestation and are defined as follows to encourage consistent reporting.

All reinsurance contracts for which the reporting entity is taking credit - As discussed in SSAP No. 62, Property and Casualty Reinsurance, Exhibit A question 10, a contract is not defined but is essentially a question of substance. For purposes of this attestation, the insurer should utilize this same guidance. This specifically excludes involuntary pools as defined in SSAP No. 63, Underwriting Pools and Associations Including Intercompany Pools, as well as residual market mechanisms including Fair Plans and the National Flood Insurance Program, that are included in the mandatory pool section of Schedule F of the Annual Financial Statement.

Current financial statement - Represents the annual statement that this attestation applies to. However, even though the current financial statement is prepared on a comparative basis, the current financial statement is not meant to apply to the prior year and should ONLY apply to the current year.

Documentation available for review - SSAP No. 62, Property and Casualty Reinsurance, Exhibit A, question 7 states that the determination of risk transfer is made at contract inception. This attestation requires that all contracts for which risk transfer is not reasonably self-evident, entered into, renewed, or amended on or after January 1, 1994 should have documentation concerning risk transfer and economic intent available for review. To the extent that risk transfer is not considered reasonably self-evident and if documentation for the contract(s) is not available for review, a statement to this effect should be included in the exceptions section of this attestation.

Entered into, renewed, or amended on or after January 1, 1994 - This language is included because the risk transfer requirements as set forth in SSAP No. 62, Property and Casualty Reinsurance, (and the Q&A Appendix) were actually adopted by the NAIC in 1994 with this language. Therefore, these requirements have been in place for some time. It applies for all contracts **entered into, renewed, or amended on or after January 1, 1994 and the company is taking credit on it's current financial statements.**

Economic intent - Means the risk that is intended to be transferred to the assuming reinsurer under the reinsurance contract.

Taking credit - As discussed in Appendix A-785 of the *Accounting Practices and Procedures Manual*, credit for reinsurance represents either the establishment of an asset or a reduction of a liability.

There are no separate written or oral agreements - A reinsurance agreement consists of the wording itself (including the reinsurers' individual Interest and Liability Agreements), any amendments, and any documents expressly incorporated by reference in the wording or amendments and considered in the transfer of risk analysis. All other documents will be considered separate written or oral agreements for the purpose of the attestation.

©1984 – 2006 National Association of Insurance Commissioners

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000303

The below provides a list of what is required within this filing.

The Chief Executive Officer and Chief Financial Officer shall attest, under penalties of perjury, with respect to all reinsurance contracts for which the reporting entity is taking credit on its current financial statement, that to the best of their knowledge and belief after diligent inquiry:

(I) Consistent with SSAP No. 62, Property and Casualty Reinsurance, there are no separate written or oral agreements between the reporting entity (or its affiliates or companies it controls) and the assuming reinsurer that would under any circumstances, reduce, limit, mitigate or otherwise affect any actual or potential loss to the parties under the reinsurance contract, other than inuring contracts that are explicitly defined in the reinsurance contract except as disclosed herein;

(II) For each such reinsurance contract entered into, renewed, or amended on or after January 1, 1994, for which risk transfer is not reasonably considered to be self-evident, documentation concerning the economic intent of the transaction and the risk transfer analysis evidencing the proper accounting treatment, as required by SSAP No. 62, Property and Casualty Reinsurance, is available for review;

(III) The reporting entity complies with all the requirements set forth in SSAP No. 62, Property and Casualty Reinsurance; and

(IV) The reporting entity has appropriate controls in place to monitor the use of reinsurance and adhere to the provisions of SSAP No. 62, Property and Casualty Reinsurance.

If there are any exception(s), it should be noted in the attestation filed electronically with the NAIC and the details of the exceptions shall be filed in hard copy with the domestic regulator.

Signed:

Chief Executive Officer

Chief Financial Officer

©1984 – 2006 National Association of Insurance Commissioners

CONFIDENTIAL
PHH-ROSENTHAL-CFPB-000304

EXHIBIT 77

MADISON CONSULTING GROUP

PROGRAM NAME: CALIFORNIA EARTHQUAKE AUTHORITY

SOURCE: http://www.trading-risk.com/california-earthquake-authority-obtains-longer-reinsurance-terms

Register for your FREE online trial now!

Insight and Intelligence on (Re)insurance Convergence with the Capital Markets

21 April 2014

California Earthquake Authority obtains longer reinsurance terms

11 October 2013

The California Earthquake Authority (CEA) added a new three-year $100mn contract to its reinsurance programme in the mid-year renewals as it increased multi-year cover to more than a third of its overall limit.

The three-year $100mn contract priced at a rate-on-line of 5.6 percent, according to board meeting documents from the authority.

Collateralised participation on the CEA reinsurance programme fell by 20 percent following the mid-year renewals, while traditional reinsurance limit inched up 3 percent as the organisation reduced its...

You are currently viewing an incomplete version of this article. If you are a subscriber then please login now. If you are a non-subscriber but would like to be able to view this article, then please select from the purchasing options below.

Email Address Password Login

Purchase

Subscription

Trading Risk

Share: Tweet

This article was published as part of issue **October 2013/1**

Other articles of interest

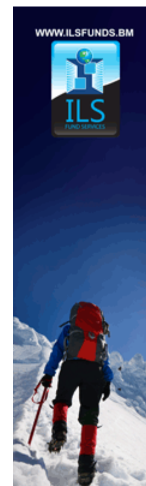
DE Shaw leads collateralised reinsurance leap for Florida Citizens

California quake insurer gets green light for $150mn cat bond

CEA places $1.1bn limit at 1 January

Towers Watson places $12mn private Florida bond

Res Re takes 2010 ILS to $2.4bn



Insider Publishing Limited - 3rd Floor, 41 Eastcheap, London, EC3M 1DT, United Kingdom. The content of this website is copyright of Insider Publishing Limited 2014. All rights reserved Insider Publishing Limited actively monitors usage of our website and products and reserves the right to terminate accounts if abuse occurs.

EXHIBIT 78

MADISON CONSULTING GROUP

STATES:	FLORIDA & HAWAII
DATA CATEGORY:	LOSS RATIO
CALENDAR YEAR:	1992
SOURCE:	NAIC 2000 PROFITABILITY REPORT BY LINE BY STATE
PAGES:	170, 178

11/08/2001

Andrew

2000 Profitability Report
Florida
Percent of Direct Premiums Earned
Losses Incurred

Line Of Business	(1) 1991	(2) 1992	(3) 1993	(4) 1994	(5) 1995	(6) 1996	(7) 1997	(8) 1998	(9) 1999	(10) 2000	(11) AVG
Private Passenger Auto Liability	72.3	70.5	73.1	70.9	68.9	62.9	59.4	60.8	69.9	82.7	69.1
Private Passenger Auto Physical	54.5	89.9	69.7	68.3	71.2	67.6	63.3	62.6	66.4	69.5	68.3
Private Passenger Auto Total	66.8	76.4	72.1	70.1	69.6	64.3	60.6	61.4	68.7	78.2	68.8
Commercial Auto Liability	64.3	68.0	67.7	61.4	72.6	67.4	73.4	77.0	85.5	85.7	72.3
Commercial Auto Physical	41.1	76.1	57.0	56.2	62.4	62.8	61.6	63.9	67.5	67.6	61.6
Commercial Auto Total	59.4	69.5	65.7	60.4	70.6	66.4	70.8	74.2	81.4	81.5	70.0
Homeowners Multiple Peril	64.1	990.3	100.6	38.4	58.5	37.5	33.9	33.2	33.3	31.8	142.2
Farmowners Multiple Peril	69.8	250.0	151.8	66.1	92.3	64.6	55.7	35.3	50.3	62.0	89.8
Commercial Multiple Peril	53.2	384.1	67.0	44.5	61.9	44.5	43.1	44.2	51.3	39.5	83.3
Fire	41.7	714.4	38.5	39.3	35.3	29.1	24.6	36.7	31.7	33.0	102.4
Allied Lines	20.6	502.5	108.5	21.9	112.7	48.5	16.0	36.0	38.6	30.9	93.6
Inland Marine	46.2	158.0	49.9	47.6	48.9	32.2	39.7	52.8	42.6	42.8	56.1
Medical Malpractice	45.4	64.7	54.6	76.4	86.2	70.8	98.2	89.0	84.8	125.1	79.5
Other Liability	82.4	77.4	60.7	61.7	67.3	69.6	63.0	52.8	67.2	66.9	66.9
Workers Compensation	106.3	119.7	99.2	72.3	91.6	73.7	53.5	69.7	64.6	64.0	81.5
All Other	72.0	89.7	58.7	42.0	56.4	53.4	55.5	47.5	50.7	56.4	58.2
Total All Lines	69.4	210.2	74.2	59.6	69.7	59.1	54.0	56.1	59.8	63.0	77.5

USERS OF THIS REPORT SHOULD BE AWARE OF THE EXPLANATIONS AND QUALIFICATIONS CONTAINED IN THE INTRODUCTION.

Copyright 2001 National Association of Insurance Commissioners. All Rights Reserved.

11/08/2001

Iniki

2000 Profitability Report
Hawaii
Percent of Direct Premiums Earned
Losses Incurred

Line Of Business	(1) 1991	(2) 1992	(3) 1993	(4) 1994	(5) 1995	(6) 1996	(7) 1997	(8) 1998	(9) 1999	(10) 2000	(11) AVG
Private Passenger Auto Liability	87.4	69.2	64.2	61.1	54.7	45.6	37.9	45.0	36.2	48.3	55.0
Private Passenger Auto Physical	46.9	63.6	44.3	46.9	45.6	48.7	49.6	48.6	53.6	59.4	50.7
Private Passenger Auto Total	76.6	67.9	59.7	57.9	52.5	46.3	40.8	45.9	41.0	51.5	54.0
Commercial Auto Liability	98.8	71.4	70.8	54.2	48.5	52.4	36.1	44.9	37.5	34.5	54.9
Commercial Auto Physical	50.7	65.8	41.9	41.4	41.1	40.5	49.9	44.7	41.6	52.1	47.0
Commercial Auto Total	87.9	70.3	65.2	51.4	47.0	50.0	39.0	44.9	38.3	37.6	53.2
Homeowners Multiple Peril	50.8	1,089.6	39.8	18.2	16.2	20.8	23.1	17.0	15.1	18.0	130.9
Farmowners Multiple Peril	2.3	290.2	125.7	4.4	(19.2)	6.5	240.3	8.6	13.0	14.2	68.6
Commercial Multiple Peril	33.2	468.1	146.6	37.7	29.2	29.5	23.8	30.3	50.1	32.9	88.1
Fire	49.3	496.5	73.3	11.9	1.1	6.5	10.6	6.2	10.0	24.8	69.0
Allied Lines	15.0	2,223.1	31.8	0.2	5.5	12.6	10.8	15.9	(0.1)	13.1	232.8
Inland Marine	13.9	666.1	70.2	9.6	29.5	39.7	7.2	7.0	30.0	21.8	89.5
Medical Malpractice	69.2	(39.1)	86.6	92.2	62.2	58.9	8.8	73.3	115.4	46.2	57.4
Other Liability	36.1	36.4	32.4	39.3	46.7	55.4	41.1	38.9	46.8	96.7	47.0
Workers Compensation	75.6	96.0	95.7	66.7	39.8	57.0	41.0	51.6	75.6	74.7	67.4
All Other	46.4	93.6	28.6	32.4	54.2	38.1	58.1	68.7	46.4	58.1	52.5
Total All Lines	65.0	178.3	68.8	49.7	42.0	43.8	36.2	41.4	43.6	50.6	61.9

USERS OF THIS REPORT SHOULD BE AWARE OF THE EXPLANATIONS AND QUALIFICATIONS CONTAINED IN THE INTRODUCTION.

Copyright 2001 National Association of Insurance Commissioners. All Rights Reserved.

EXHIBIT 79

MADISON CONSULTING GROUP

STATE:	FLORIDA & LOUISIANA
DATA CATEGORY:	LOSS RATIOS
CALENDAR YEAR:	2004 (FL ONLY), 2005 (FL& LA)
SOURCE:	NAIC 2005 PROFITABILITY REPORT BY LINE BY STATE
PAGE:	179, 215

04/18/2007

Katrina

2005 Profitability Report
Louisiana
Percent of Direct Premiums Earned
Losses Incurred

Line Of Business	(1) 1996	(2) 1997	(3) 1998	(4) 1999	(5) 2000	(6) 2001	(7) 2002	(8) 2003	(9) 2004	(10) 2005	(11) AVG
Private Passenger Auto Liability	68.3	64.3	63.5	70.0	80.8	84.5	76.5	71.8	64.1	62.3	70.6
Private Passenger Auto Physical	72.3	68.8	71.0	65.5	87.1	70.2	67.2	58.8	52.0	142.7	75.5
Private Passenger Auto Total	69.5	65.8	66.2	68.2	83.5	78.4	72.6	66.5	59.3	93.2	72.3
Commercial Auto Liability	77.5	85.5	97.6	113.8	93.5	102.6	76.1	91.3	81.6	65.4	88.5
Commercial Auto Physical	55.7	57.2	65.7	59.3	78.4	55.6	54.6	39.3	55.1	186.7	70.8
Commercial Auto Total	73.0	79.7	91.0	102.0	90.1	91.9	71.7	80.2	76.8	89.2	84.6
Homeowners Multiple Peril	56.5	46.0	56.3	47.0	119.3	62.4	98.6	43.2	35.1	832.5	139.7
Farmowners Multiple Peril	94.0	83.3	67.1	68.5	69.0	60.9	125.9	65.3	45.7	294.8	97.5
Commercial Multiple Peril	60.1	64.0	78.9	62.4	78.3	67.2	72.5	48.9	44.5	959.1	153.6
Fire	125.8	(35.3)	28.1	50.9	68.9	36.5	51.1	38.8	31.6	516.5	91.3
Allied Lines	32.3	64.8	75.5	39.0	56.3	79.4	93.6	21.2	24.7	5,524.5	601.1
Inland Marine	30.6	44.3	48.8	59.9	42.4	37.0	43.7	48.7	43.0	483.0	88.1
Medical Malpractice	47.7	28.2	52.1	33.6	44.9	40.9	25.3	59.3	39.0	38.6	41.0
Other Liability	87.0	87.4	85.6	83.5	75.4	70.0	137.9	87.3	76.4	67.8	85.8
Workers Compensation	56.7	55.8	80.4	57.8	88.9	63.6	59.3	64.3	66.2	55.3	64.8
All Other	59.0	56.8	59.7	70.0	62.5	67.3	70.0	79.5	75.6	119.6	72.0
Total All Lines	65.7	61.3	68.8	65.7	83.2	71.4	78.1	63.1	57.3	485.0	110.0

Users of this report should be aware of the explanations and qualifications contained in the introduction.

© 1974-2007 National Association of Insurance Commissioners

EXHIBIT 80

MADISON CONSULTING GROUP

STATE:	NEW YORK
DATA CATEGORY:	LOSS RATIO
CALENDAR YEAR:	2001
SOURCE:	NAIC 2005 PROFITABILITY REPORT BY LINE BY STATE
PAGE:	271

04/18/2007

2005 Profitability Report
New York
Percent of Direct Premiums Earned
Losses Incurred

9/11

Line Of Business	(1) 1996	(2) 1997	(3) 1998	(4) 1999	(5) 2000	(6) 2001	(7) 2002	(8) 2003	(9) 2004	(10) 2005	(11) AVG
Private Passenger Auto Liability	62.3	63.5	69.4	74.4	89.1	82.5	79.4	58.6	51.4	47.8	67.8
Private Passenger Auto Physical	56.4	53.2	52.6	53.9	57.6	57.5	54.9	51.4	46.8	50.1	53.4
Private Passenger Auto Total	60.5	60.2	63.8	67.5	78.3	74.1	71.4	56.3	49.9	48.5	63.1
Commercial Auto Liability	74.9	73.8	84.0	77.9	97.4	97.6	80.3	67.1	56.2	52.8	76.2
Commercial Auto Physical	52.2	52.9	56.7	59.0	58.0	59.1	36.1	35.7	37.0	38.8	48.6
Commercial Auto Total	70.7	69.7	79.1	74.5	90.0	90.5	72.8	62.1	53.3	50.7	71.3
Homeowners Multiple Peril	61.8	45.3	50.1	51.0	46.8	55.6	47.8	51.5	47.7	43.3	50.1
Farmowners Multiple Peril	96.1	56.9	96.2	65.2	69.8	58.6	57.6	54.0	67.0	51.0	67.2
Commercial Multiple Peril	57.5	64.4	71.6	69.6	77.5	236.0	76.6	46.4	44.2	34.2	77.8
Fire	52.2	47.2	47.7	56.7	44.9	1,288.8	(93.9)	23.6	(51.7)	34.7	145.0
Allied Lines	71.2	27.8	95.1	47.0	52.6	2,468.0	(21.7)	45.0	152.9	(20.8)	291.7
Inland Marine	49.3	39.3	36.3	37.6	34.6	194.6	39.3	46.3	34.7	26.6	53.9
Medical Malpractice	49.5	21.9	78.5	76.7	35.8	105.2	103.9	100.5	114.1	84.7	77.1
Other Liability	106.8	101.6	91.6	72.3	81.4	100.7	133.3	91.4	101.5	72.8	95.3
Workers Compensation	76.8	75.9	58.7	68.3	73.2	123.1	74.0	73.4	74.2	77.7	77.5
All Other	67.2	49.9	66.7	31.5	47.5	71.8	36.6	28.6	61.5	54.0	51.5
Total All Lines	68.0	63.2	67.6	63.6	69.8	136.3	71.5	60.4	62.9	54.3	71.8

Users of this report should be aware of the explanations and qualifications contained in the introduction.

© 1974-2007 National Association of Insurance Commissioners