# EXHIBIT 18

# In the Matter of:

## Captive Reinsurance

*December 11, 2013*
*Michael C. Schmitz*

**Condensed Transcript with Word Index**

For The Record, Inc.
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A The entire reinsurance arrangement? Yes.
**Q Okay.**
A Can I clarify one matter?
**Q Yes, please.**
A We would also segment it by book year. And I think I said that, but I don't recall if I said that or not.
**Q Okay. And explain what that means.**
A A book year would be -- the defined way in which a reinsurance agreement would function is that it would cover all of the loans insured in a particular loan origination year. So, for example, the 2005 book year would be all loans insured by that primary insurer for that lender in the reinsurance agreement that were originated during 2005.
**Q Okay. And why did you look at just that book year?**
A Because the reinsurance agreement is defined by -- the parameters of the reinsurance agreement are defined by the book year's performance.
**Q In what way?**
A All the loans in that book year are combined for purposes of determining the attachment point and limit for the reinsurance agreement.



**Q Okay. Did the methodology that Milliman used to conduct the risk transfer analysis change over time?**
A Yes.
**Q Okay. Let's walk through those changes over the period from 1995 till now. Describe for me what the methodology was then and then -- you know, making sure to include the things that will change that -- we can pick all of those up as we go along.**
A In the earliest risk transfer analysis that we conducted, we focused on a deterministic stress outcome and measured the performance of the contract under that particular deterministic stress outcome.
**Q Before you go on, would you please describe what is a deterministic stress outcome?**
A A deterministic stress outcome is a single scenario defined by a parameter that we would establish that measures how likely that stressed outcome is to occur.
**Q Okay. And what is that parameter and how does it work?**
A The probability of that stressed outcome occurring or an outcome worse than that is defined as -- by



a parameter, for example, 10 percent, representing the likelihood of that stressed event happening or something worse than it, so the probability of that outcome.
**Q Okay. But how would you determine the probability of that outcome? And, again, we're talking about this early version of the test.**
A Yes. The early stress tests were determined based on FASB 113's risk transfer guidance, which suggested that there should be a reasonable probability of a significant loss. So we utilized a 10 percent probability as the parameter for defining the stress tests that we used because we deemed 10 percent to be a reasonable probability.
**Q Okay. And how did you determine what the outcome was at that probability level?**
A We measured the performance of loss events from prior insured books of business and determined a statistical distribution of outcomes that we projected to occur for the prospective book year. And based on that distribution of outcomes and the curve we fit to the distribution of outcomes, we measured the point on that distribution for which 10 percent of the outcomes were more severe and 90 percent were less severe, and that became the



stressed event.
**Q Okay. How -- how did you come up with the distribution of outcomes?**
A By looking at the performance of previous books of insured business.
**Q But what about that -- how did you go from that to a distribution of outcomes presumably in the future? You were projecting future outcomes?**
A Yeah. We looked at the various books of business insured in prior years and looked at the variation of those loss outcomes around their central value and utilized that to fit a curve that approximated that histogram of annual outcomes.
**Q Okay. We'll come back -- I assume that this general methodology that you're describing of creating a distribution from prior information will be an element of your methodology going forward, not just -- this is not just unique to the 1995 version of your test, I assume? You will have that in later versions?**
A That's correct.
**Q Okay. So let's save that conversation then for the later versions. Okay. So what else -- what other relevant aspects are there of that early 1995 analysis?**

A So the earliest analyses would determine a stressed level, 10 percent chance of a worse outcome, 90 percent chance of a better outcome, and it could measure under that deterministic stress event what would the losses and premium look like for the reinsurer. And it would take those future losses and premiums projected under that stressed outcome and discount them to their present value at policy inception and measure the ratio of the losses over the premium to get a present value loss ratio.
**Q What constituted the prior book of business that you were looking at in terms of historical performance?**
A It would have included the policies insured in various calendar years going back to approximately 1980.
**Q Okay. In every calendar year or just some but not all calendar years from 1980 to '95?**
A We would look at all years available.
**Q Okay. But some years were not available?**
A Generally speaking, we had industry data going back to 1980 or 1981, and we felt -- we believed it was important to capture that full spectrum of data, including the losses over a long time



period, in order to cover the wider spectrum of economic conditions that can occur, and so it would include the long-term history going back that far.
**Q And did you include all mortgage insurers over that period of time or just some or --**
A It would depend on the client. In the case of a client for which that long-term history was not available, we had an industry data source that included a rate filing by United Guaranty that did go back that far, and we would augment their data with the United Guaranty rate filing.
**Q But if it was available, you'd use only the historical experience of that insurer?**
A As long as it covered a wide enough spectrum of years and economic conditions that we deemed it to be a reasonable basis upon which to build that assumption.
**Q Okay. What's the level of detail that's available in the industry data that goes back to 1980?**
A The frequency of loss and the severity of loss by book year or policy year.
**Q Okay. So it's not loan level?**
A Correct.
**Q Okay. Okay. Are there any other characteristics**



**of that early methodology?**
A So we would determine the present value loss ratio in the fashion I described earlier and determine whether the loss in excess of the present value premium was at least 10 percent of the present value premium or, in other words, that the present value loss ratio was at least 110 percent at that stressed deterministic scenario.
**Q Okay. And then how did it change over time from there?**
A At some point in approximately 2005 or 2006, we began looking at a wider view of stressed outcomes as opposed to a single specific deterministic outcome in order to capture additional detail and granularity about the stress scenarios that the reinsurance agreement was subjected to.
**Q Okay. But the way that you came up with the distribution of outcome stayed the same?**
A Yes, our methodology for determining the distribution of outcomes was similar.
**Q Okay. What was the effect of considering multiple stressed outcomes as opposed to just one?**
A It provided a more robust measurement of the degree of risk transferred by considering not just a single stressed outcome but the full spectrum of



projected outcomes at multiple stress levels.
**Q Okay. I'm going to come back to that, but your analysis considered the outcomes at multiple probability levels or stress levels?**
A Correct.
**Q Starting in 2005 or 2006?**
A Correct.
**Q Okay. Were there any other changes to the methodology over time?**
A As the underwriting characteristics of the blocks of business deteriorated at about that same time, 2005, 2006, it became much more relevant to assessing the risk characteristics of the book of business to tailor the risk characteristics for each block of business as opposed to assuming that the broad class of loans insured by that insurer or reinsured by that primary -- reinsured by that reinsurer would look similar across multiple deals. And --
**Q Okay. What do you mean by "block of business"? I'm sorry. If you're not done, please continue.**
A No, I'm done. If we were looking at the business originated by a particular lender and that -- and measuring the risk characteristics of that business, in our earlier analyses we would have

assumed that those risk characteristics would be similar for each of the primary insurers that that lender reinsured since it was our understanding that loans were, generally speaking, allocated in some random fashion amongst their various primary insurers, and, therefore, we would group all of that lender's experience in our earliest analyses together to get additional data volume and additional credibility and then assumed that each primary insurer that that lender-owned reinsurance company reinsured would look similar for a particular book of business.

However, in approximately 2004 or 2005, it became evident that there were some differences amongst those books of business and the underwriting quality of the loans was deteriorating, and it became relevant to tailor those risk assumptions to each individual book of business that that lender-owned reinsurer was reinsuring.

**Q Were there any other blocks, as you described it, that you took account of around this time?**

A No. I would characterize our methodology as evolving to look at each block of business individually and measure the risk characteristics



of each as opposed to aggregating the business of multiple primary insurers for one particular lender-owned reinsurer.

**Q Okay. So "block of business" just means each mortgage -- primary mortgage insurer separately?**

A And each book year.

**Q And each book year separately.**

A Yes.

**Q Things like loan characteristics, for example, loan-to-value levels, I believe I noticed that those were also taken into account. Was that something that was always the case?**

A It was always taken into consideration, the loan-to-value ratio was always taken into consideration; however, when we started to refine our methodology, we looked at each individual book year for each individual primary insurer/reinsurer combination and looked at them in isolation and measured the loan-to-value ratio's impact on risk at that granular level.

**Q All right. But you had always looked at the loan-to-value ratio in isolation, it's just that you aggravated all of the mortgage insurers together before?**

A We aggregated multiple primary insurers together



for a particular lender, yes.

**Q But you still separated by loan-to-value ratio even then?**

A We looked at loan-to-value ratio as well, yes.

**Q All right. How did you determine, I think you said 2005 or 2006, that these disparities between mortgage insurers existed?**

A When we looked at the loan-to-value characteristics and the credit score characteristics and other underlying characteristics for individual books of business, it appeared as though the dispersion of risk characteristics was wide enough that we deemed it reasonable to measure it at a more granular level.

**Q And was that not the case before 2005?**

A In general, before 2005, the experience was reasonably similar across those blocks of business, to the best of our knowledge.

**Q Do you know what happened in or around 2005 to cause this dispersion?**

A I would surmise that the largest contributing factor is that underwriting quality in general was deteriorating across the industry, and because of that, there was less consistent underwriting quality across different primary insurers and



lenders as a result of that.

**Q Were there any other methodological changes over time other than the ones you've described so far?**

A Not that I can recall.

**Q Were there changes to the way in which the results of risk transfer analyses were presented in reports?**

A Yes.

**Q There were? Okay. Please describe those.**

A Our earlier reports presented the results by outlining the stress test with respect to risk transfer that I described earlier, which included displaying the present value reinsure loss ratio at stressed outcomes, specifically the 10 percent probability level, and describing the risk parameters around that framework of a reasonable probability of a significant loss, as taken from FASB 113.

In approximately 2005, we restructured the presentation to both capture the wider distribution of stressed outcomes that I referred to earlier as opposed to looking at a single deterministic stressed outcome and also restructure the wording of the report to more specifically refer to the 1997 letter from -- from

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HUD to Sandy Samuels that outlined the parameters under which captive mortgage reinsurance would be permissible under RESPA law.
**Q Were there any other changes to the presentation in the reports?**
A Those were the primary changes that I recall.
**Q I want to go back real quick to this differentiation in risk characteristics between MI's -- by "MI's," I mean mortgage insurance companies -- that began to appear in 2005. What specifically were the risk characteristics that they differed on?**
A We would measure the risk characteristics along a number of dimensions, and I'll mention the most important ones. The most important ones would include credit score, FICA score, loan-to-value ratio, whether the loan was a fixed rate mortgage or an adjustable rate mortgage and the parameters thereon, whether the loan was for primary owner-occupied residence or a second home or investor property, whether the loan instrument had interest-only components or not. Those are the primary ones I recall off the top of my head.
**Q Okay.**
A In addition to that, whether the income, assets

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and employment of the borrower were fully documented was another fairly relevant one.
**Q Was there a change in the probability distribution of book years over time?**
A Yes. As the mix of business changed over time, we would adjust both our central estimate of loss and the distribution of loss around that accordingly.
**Q But did you also change your distribution function, or did that stay the same?**
A The functional form of the distribution stayed consistent as a gamma distribution in most cases.
**Q What were the cases in which it was not consistent with that?**
A I can recall a couple of instances of utilizing log normal distributions; however, the vast majority of instances utilized a gamma distribution.
**Q And did you use any other types of distributions?**
A For losses?
**Q Yes.**
A Those were the primary two. If we used other distributions for losses, it was very rare, and I don't recall them off the top of my head as I sit here.
**Q Did you project any other outcomes other than**

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**losses using distributions?**
A Yes. We would project the persistency of the blocks of insured loans over time in order to forecast the premium for the reinsured business, and that would also utilize a distribution of outcomes.
**Q And what distribution function did you use for that?**
A I believe we used a normal or log normal distribution for that, log normal primarily.
**Q And did that change over time?**
A Very early we did not vary the persistency assumption as we did the loss assumption, but beginning in approximately 2004 or 2005, we began to vary it, and when we did, we varied it in a similar fashion.
**Q Meaning what?**
A Utilizing a log normal distribution, as I described earlier.
**Q But how did you vary it?**
A By fitting the distribution of outcomes to a log normal distribution and simulating the outcomes around it, just as we fit the losses to a gamma distribution and simulated the outcomes around that.

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**Q Over time did the parameters that you used in any of those distributions that you've mentioned vary?**
A Yes.
**Q Okay. How so?**
A The most acute example of that, that I can recall, is when the underwriting quality of the business was deteriorating, as I referred to earlier, the loss assumptions underlying our analysis rose in a corresponding fashion.
**Q Did -- didn't any of the other primaries vary over time?**
A Yes. The persistency of business assumptions was also revised over time and, generally speaking, the persistency of business was assumed to shorten over time as the experience of policy years 2000 through 2004 experienced shorter than longer-term average lives.
**Q Okay. And you said that was over the period of 2000 to 2004?**
A Those were the years for which we were measuring faster terminations or longer persistency and as a result revised upward our termination rates in a corresponding fashion.
**Q Did your -- did the parameters vary across either mortgage insurance companies or reinsurer?**

A -- to the risk, yes.
**Q Okay. Good. Can you point me to the passage or the place in this document where the outcome of the risk transfer test is stated?**
A Yes. The outcome is stated in the Summary and Conclusions Section on Page 10.
**Q Okay.**
A And I would refer you to the bold type down below in the middle section. The top is outlining the scope, what we're looking at. It's the 2005 book year between United Guaranty and Atrium. And the outcome is stated with respect to risk transfer in bold the first section, A. Milliman is of the opinion that, from an actuarial and financial point of view, this reinsurance agreement has a reasonable probability of a loss to the reinsurer, which likely satisfies the transfer of risk test in the HUD letter.
**Q And is there a place in this document where a number or numbers are assigned to that conclusion?**
A Yes. The actual analysis itself is documented starting on the next page, Page 11, transfer of risk analysis. And so we outline in the second paragraph that we're looking at both a 10 percent probability of a present value loss ratio of 110



or more, and the remaining section talks about more particulars about how the tests came out and outlines the results of that test.
**Q Okay. So that middle paragraph on Page 11 describes what you termed the older version or the original version of the risk transfer test; is that right?**
A Yes.
**Q Okay.**
A Although we -- we looked at this test as well in our more recent opinions, but we focused more attention on the expected reinsurer deficit ratio.
**Q Okay. But this is the other test?**
A Correct.
**Q I've forgotten now the exact name that you used.**
A Deterministic stress scenario.
**Q Right.**
A Yeah.
**Q So this is -- this report, this analysis, used the deterministic stress scenario?**
A That's correct.
**Q Okay. And this -- in this report you say what the loss ratio is at the 10 percent probability level; is that right?**
A We do.



**Q And where is that?**
A That is on Page 12. The last paragraph states, Atrium incurs significant losses in many of the scenarios. Furthermore, approximately 10 percent of the scenarios generated a loss outcome at or above the stress scenario illustrated on Exhibit 1, which results in a 213 percent present value loss ratio.
**Q Okay. And the stress scenario illustrated on Exhibit 1 is the 10 percent probability level?**
A Yes.
**Q Okay. So at the 10 percent probability level, the present value loss ratio is 213 percent?**
A Yes.
**Q Okay. And because 213 percent is more than 110 percent, it passes the risk transfer test?**
A Yes.
**Q Okay. So, similarly, are the results of the compensation test reflected in this document?**
A They are.
**Q And where are they?**
A The analysis or the conclusions?
**Q Let's start with the conclusions.**
A The conclusions back on that Page 10, summary and conclusions, and so the bold section refers to the



results of our -- our tests. And it says, Milliman is of the opinion, from an actuarial and financial point of view, this reinsurance agreement, now going to Section 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.
**Q Okay. And is that conclusion reflected numerically in this document?**
A It is. That section begins on Page 15.
**Q Okay. And what are the numbers that justify that conclusion?**
A The rate of return numbers are cited on the bottom of 15, which cites an internal rate of return of 12 percent and a return on capital of 7 percent. And then the loss ratio comparison is outlined on -- beginning on Page 17, continued on Page 18 and 19, where Page 18 compares both the nominal and present value loss ratios of primary insurer United Guaranty gross to that of Atrium's ceded and to United Guaranty after the reinsurance, or United Guaranty net.
**Q Okay. And what's the probability level at which these loss ratios are evaluated?**

determined the scale parameter. But the shape parameter was consistent across book years.
**Q So we've been talking about the risk transfer test here for a while, but at the beginning of the day, we talked about some other kinds of tests. Did those other kinds of tests involve projections through simulations of future premiums and losses?**
A A lot of our analyses do. Do you have any particular ones that you want me to speak to?
**Q Any of the ones that you mentioned earlier. I think there were only four or so. But there was the reserve analysis, the pricing analysis, the capital adequacy analysis. Those were, I think, the main ones.**
A We can start with the reserve analysis. The reserving analysis is slightly different because when we're conducting an analysis of reserves, we're projecting losses for past events, so we're only concerned with forecasting losses for loans that are delinquent at any given point in time. And so when doing that, we will focus only on the delinquent loans in our forecast of IDNR, which would represent loans that are already delinquent but just haven't been reported to the insurer or the reinsurer, as the case may be. So when we're



projecting losses for loans that are delinquent, we look at different methodology for forecasting those losses.
**Q Okay. And can you briefly describe the methodology for that?**
A Yes. It's basically a frequency and severity analysis. We're looking at the delinquent loans and, based on the severity of the delinquency, how advanced that delinquency is. That has a significant impact on the forecasted frequency of loss of that delinquent loan becoming a claim as opposed to becoming a cure, which is what we call a loan that's delinquent that ultimately makes up principal and interest payments to become current again.
**Q So does that kind of projection involve the same type of simulation using the same type of distribution as is used in the risk transfer analysis?**
A No, it doesn't. It involves looking at the relationship between delinquency categories and frequency of loss based on an experience base, and looking at the severities of loss that have -- that have been experienced for similar loans that have already been paid as claims, and then based



on that review, looking at the existing delinquency inventory and applying a frequency of loss to each delinquent loan and a severity of loss to each delinquent loan to determine a central estimate of unpaid claim liabilities for each loan.
**Q Okay. And once you've done that, do you feed that into a distribution?**
A We do, although when we simulate reserves, the tails of the distribution are not as wide as they are when we're simulating ultimate losses, because delinquent loans have already defaulted and, therefore, they have a higher frequency of loss and smaller tails to the distribution.
**Q So what kind of distribution do you use?**
A We don't do as much simulation modeling on reserves, but when we are simulating reserves, we've typically looked at normal and log normal distributions.
**Q Okay. And what about the pricing analysis?**
A Pricing analyses use similar methodologies to the methodologies we've already discussed.
**Q Similar to the risk transfer methodology or reserving methodology?**
A The risk transfer analysis.



**Q Okay.**
A As do the capital adequacy analyses.
**Q Okay. Great. So going back to the risk transfer analysis, why is it performed on a single book year?**
A Because risk transfer is evaluated prospectively for each deal, and, therefore, each book year has its attachment point in limit, and we evaluate the risk transfer for that contract. And after each book year is complete, the reinsurance can go into runoff or it can be extended another book year with new loan volume, and then we might test that next book year business prospectively as well, but each book stands on its own.
**Q When you perform a risk transfer analysis, one of the things that your client gives you is the contract between the parties establishing the reinsurance relationship?**
A Yes.
**Q Okay. That contract provides for reinsurance over many book years, does it not?**
A Yes. It facilitates a renewal clause whereby each successive book year might be reinsured under the same terms or it can be put into runoff at any point in time by the reinsurer or the primary

insurer.
**Q It can also be put into runoff in the middle of a book year?**
A That's correct, but what that would do is establish a shorter book year of less than 12 months.
**Q Whose decision is it to conduct the analysis on just a single book year?**
A When Milliman analyzes risk transfer, we do so on a prospective basis, because once a book is in runoff, the reinsurer can't cancel its reinsurance, and the primary insurer can't cancel its insurance once that policy is issued, so we have analogously chosen to analyze each book year on a standalone basis.
**Q So it's Milliman's determination that the analysis should be performed on a single book year?**
A Yes. We believe it's reasonable to look at it on a single book year basis.
**Q Okay. But does your client tell you to -- that they want your work product to be the analysis of just a single book year as opposed to the reinsurance arrangement as a whole?**
A We are engaged by our client to look at risk transfer, and when we do so, we do so for the



prospective book year. And it may be the case that we were engaged to look at prior book years, or we may not have been engaged to do so, but we would look at the prospective book year and model the prior book years only insofar as they would impact the risk transfer on the contract that the reinsurer is essentially reinsuring now and, therefore, can either, you know, terminate and go into runoff or continue to reinsure another book the next year, at which point it may or may not engage us to review another book year.
**Q Have you ever been engaged to review whether an entire reinsurance arrangement as a whole transfers risk as opposed to just one book year?**
A Including prior book years?
**Q Yes.**
A We typically would not do that because that -- those past contracts have already been written and the experience has developed, so they either contain risk or don't contain risk. They're either performing well or performing poorly. But risk transfer is inherently a prospective measurement of whether uncertainty has been transferred, and those prior book years have already begun to perform, and so because of that



are not within the scope of the risk transfer work that we would do.
**Q But even for prior book years, there are still -- there's still runoff to be done in the future, there's still premiums to be collected and losses to be incurred in the future; isn't that right?**
A Yes.
**Q And, in fact, you do project the performance of prior book years as part of the analysis of a single book year?**
A We do.
**Q Yeah. But you've never conducted an analysis of whether all outstanding book years at a given point in time involve risk transfer?**
A No, we haven't.
**Q So you've never determined whether all outstanding book years in a -- in a reinsurance arrangement would have at least a 10 percent probability of a loss ratio of 110 percent or more?**
A No, I don't see why we would.
**Q Okay. Why don't you see why you would do that?**
A Because past book years were insured or reinsured in the past, and the reinsurer or insurer is on the hook for that risk. And it has already given rise to insurable events, and, therefore, the



experience is developing on it. And when we measure risk transfer, we're only measuring risk transfer prospectively for insured events that the reinsurer has some control over whether they're insuring new policies or not.
**Q Well, if we take the example of the report we just looked at. That was issued in March of 2007. It's an analysis of the 2005 book year, so the reinsurer has already incurred its full obligations under that book year. There's no decision for it to be made anymore about whether to enter into that transaction; isn't that right?**
A Yes.
**Q So an insured event may have already occurred on that book year by the time your -- you give your report?**
A By the time the report was issued, as I indicated earlier, I believe we started work on that analysis much earlier than the final report date.
**Q But even then the book year has closed, all of the loans have been selected, insured, and selected for reinsurance?**
A That's correct. We would typically look at the book year either right after the end of the year when they have the data with respect to all the

# EXHIBIT 19

# REINSURANCE AGREEMENT

between

CMG MORTGAGE INSURANCE COMPANY

and

ATRIUM INSURANCE CORPORATION

Dated: December 1, 2006

# REINSURANCE AGREEMENT

This Reinsurance Agreement (the "Agreement") is dated as of December 1, 2006 and effective as of February 1, 2006 (the "Effective Date"), by and between CMG Mortgage Insurance Company, a mortgage guaranty insurance company organized under the laws of Wisconsin with its principal place of business at 22 Fourth Street, 13th Floor, San Francisco, CA 94103 (the "Company"), and ATRIUM INSURANCE CORPORATION, an insurance company organized under the laws of the State of New York with its principal place of business at 1230 Avenue of the Americas, Suite 766, New York, NY 10020 (the "Reinsurer").

## WITNESSETH:

In consideration of the mutual agreements contained herein, the Company and the Reinsurer, intending to be legally bound, mutually agree to enter this Agreement under the following terms and conditions:

## ARTICLE I

## DEFINITIONS

As used in this Agreement, (i) the following terms in quotation marks, when capitalized, shall have the meanings set forth below (definitions are applicable to both the singular and the plural forms of each term defined in this Article) and (ii) all accounting terms involving premium and loss calculations shall have meanings assigned to them under statutory accounting principles applicable to the Company.

1.01. "Accounting Period" shall mean the calendar quarter, except that the first Accounting Period shall be the period commencing with the Effective Date and ending with the last day of the then current calendar quarter, and the final Accounting Period shall be the period commencing with the first day of the calendar quarter that includes the Termination Date, and ending on such day.

1.02. "Affiliate" of a party shall mean any person or entity which, directly or indirectly, controls or is controlled by, or is under common control, with such party. For purposes of this definition, the term "control" (including, with correlative meanings, the terms "controlled by" and "under common control with") as used with respect to any person or entity, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person or entity, whether through the ownership of voting securities, or by contract, or otherwise.

1.03. "Aggregate Gross Written Premiums" shall mean, for any Underwriting Year, the total of all Gross Written Premiums received by the Company during the term of this Agreement.

1.04. "Aggregate Risk" shall mean, for each Underwriting Year, the sum determined by aggregating the Insured Risk arising under all Certificates issued in such Underwriting Year.

1.05. "Capital Deposit" shall have the meaning set forth in Section 12.03.

1.06. "Certificate" shall mean the initial certificate extending primary mortgage insurance coverage to an Eligible Loan (as that term is defined in Schedule A hereto) in accordance with the terms of a Policy by the Company to an Insured which is either:

(i) an Affiliate of the Reinsurer, or

(ii) another institution, or an assignee or successor of such institution, which has sold such loan within ninety (90) days of the loan origination date to an Affiliate of the Reinsurer,

provided however that such Certificate is not subject to any other agreement (including any pool insurance agreement) to which the Company is a party. For purposes of this Agreement, each Certificate shall be deemed to be issued in the Underwriting Year in which the loan it evidences coverage of is originated.

1.07. "Claim" means a request or demand for payment of a Loss made by an Insured under a Policy.

1.08. "Claim Payment" shall mean, with respect to a Reinsured Loan, the amount actually paid by Company based on a Claim, including any compromise or settlements thereon, and any Ex Gratia Payments, but excluding any payment or amount described in Section 2.03 hereof.

1.09. "Commissioner" shall mean the Insurance Commissioner of the State of Wisconsin.

1.10. "Company" shall have the meaning set forth in the Preamble.

1.11. "Contingency Reserves" shall mean, as of any date, the portion of the contingency reserves, as calculated in accordance with the applicable parts of the NAIC Mortgage Guaranty Insurance Model Act, assumed by Reinsurer under this Agreement with respect to the Reinsured Loans.

1.12. "Covered Business" for the Underwriting Year shall mean all Certificates issued by the Company with respect to Reinsured Loans and with an initial effective date during such Underwriting Year.

1.13. "Cumulative Underwriting Year Net Losses" shall mean, as of the end of any Accounting Period, the aggregate amounts paid on Reinsured Loans by the Company after the Effective Date of this Agreement, separately determined and calculated for each Underwriting Year based on Claim Payments and Expenses incurred on all Certificates issued in such Underwriting Year, less the aggregate amount of all Salvage or Recovery actually received by the Company at the time any calculation hereunder is made and relating to Certificates issued in such Underwriting Year.

1.14. "Cumulative Underwriting Year Net Loss Percentage" shall mean the percentage obtained by dividing the Cumulative Underwriting Year Net Losses by the total original Aggregate Risk for the same Underwriting Year.

1.15. "Default" shall have the same meaning in this Agreement as that term or an equivalent term has in a Policy.

1.16. "Effective Date" shall have the meaning specified in the first paragraph of this Agreement.

~~1.17. "Ex-Gratia Payment" shall mean a payment not necessarily required by a Policy but made as a~~ commercial accommodation by the Company to the Insured in accordance with customary mortgage insurance settlement practices.

1.18. "Expenses" shall mean all allocated loss adjustment expenses paid by the Company to unaffiliated third parties with respect to Claim Payments, and all other reasonable out-of-pocket expenses incurred by the Company in connection with the payment or the settlement of Losses or Claims, but excluding any payment or amount described in Section 2.03 hereof.

1.19. "GAAP" shall mean generally accepted accounting principles in effect from time to time in the United States of America.

1.20. "Gross Written Premiums" shall mean, with respect to Reinsured Loans, gross written premiums received by the Company, after the Effective Date of this Agreement, less cancellation and return premiums.

1.21 "Initial Capital Deposit" shall have the meaning set forth in Section 12.03.

1.22. "Insured" shall have the same meaning in this Agreement as that term or an equivalent term has in a Policy.

1.23. "Insured Risk" shall mean, with respect to each Certificate, the amount obtained by multiplying the percentage of loss specified in such Certificate by the original principal amount of the loan insured under such Certificate.

1.24. "Loss Reserves" shall mean the portion of Loss (including losses incurred but not reported) and Expense reserves attributable to Reinsured Loans ceded by Company to Reinsurer under this Agreement. Loss Reserves shall be calculated by Company using commonly accepted actuarial principles reasonably applied and shall be commensurate with the risk layer assumed by the Reinsurer.

1.25. "NAIC" shall mean the National Association of Insurance Commissioners.

1.26. "Policy" shall mean any mortgage guaranty insurance policy or master policy issued to an Insured, and any certificates issued thereunder and endorsements attached thereto, that provides coverage for a Reinsured Loan.

1.27. "Property" shall have the same meaning in this Agreement as that term or an equivalent term has in a Policy.

1.28. "Reinsurance Claim" shall mean the amount payable by Reinsurer to Company in accordance with the terms of this Agreement.

~~1.29. "Reinsurance Premiums" shall have the meaning specified in Section 4.01.~~

1.30. "Reinsured Loan" shall mean a loan originated by an Insured and covered by a Certificate issued during an Underwriting Year by the Company under a Policy that meets the definition of "Eligible Loan" as set forth in Schedule A.

1.31. "Reinsured Loan Amount" shall mean the total original principal amount of the Reinsured Loan.

1.32. "Reinsurer" shall have the meaning set forth in the Preamble.

1.33. "Reinsurer Layer" shall mean, with respect to an Underwriting Year (or portion thereof, with respect to the calculation of the Initial Capital Deposit or subsequent Capital Deposits), the maximum amount of Cumulative Underwriting Year Net Losses for which Reinsurer shall be liable (Reinsurer's Exit Percentage – Reinsurer's Entry Percentage) x Aggregate Risk.

1.34. "Reinsurer's Entry Percentage" shall mean the Cumulative Underwriting Year Net Loss Percentage specified on Exhibit "A".

1.35. "Reinsurer's Exit Percentage" shall mean the Cumulative Underwriting Year Net Loss Percentage specified on Exhibit "A".

1.36. "Required Amount" shall have the meaning specified in Section 12.06 hereof.

1.37. "Required Reserves" shall mean the sum of (a) Contingency Reserves, (b) Loss Reserves, and (c) Unearned Premium Reserves.

1.38. "Risk in Force" shall mean, at any time, the sum of Reinsurer Layers for all Underwriting Years.

1.39. "Salvage or Recovery" shall mean all amounts recovered or received by the Company in connection with any Property covered by a Certificate or as a result of the Company's exercise of any subrogation rights set forth in a Policy, less all expenses incurred by the Company in obtaining such amounts, but shall not include amounts recoverable by Company under any other reinsurance agreement.

1.40. "Termination Date" shall mean the date on which any termination of either party's participation under this Agreement, as provided in Article IX, is effective.

1.41. "Termination Report" shall mean the report required to be prepared in accordance with Section 9.08 and providing the calculations for the terminal accounting and settlement described in Section 9.07.

~~1.42. "Trust Account" shall have the meaning set forth in Section 12.01.~~

1.43. "Trust Agreement" shall have the meaning set forth in Section 12.01.

1.44. "Underwriting Year" shall mean (a) for 2006, the period commencing on the Effective Date and ending on December 31, 2006 and (b) for all years subsequent to 2006, the period commencing on January 1st of such year and ending on December 31st of such year, or, if earlier, on the Termination Date.

1.45. "Unearned Premium Reserve" shall mean, as of any date, Reinsurer's pro-rata portion of unearned premiums relating to the Reinsured Loans as determined by the Company in accordance with statutory accounting principles.

## ARTICLE II

## COVERAGE

2.01. Coverage. The Reinsurer shall provide to the Company excess layer reinsurance and, in connection therewith, as of the Effective Date, Reinsurer shall indemnify Company for net excess cumulative liability, as provided in Section 2.02 below, with respect to Reinsured Loans on Covered Business that may accrue to Company as a result of any Cumulative Underwriting Year Net Losses incurred during the term of this Agreement, subject to the exclusions set forth in Section 2.03 below, provided that the effective date on which the Certificate underlying the Claim or Expense giving rise to the Cumulative Underwriting Year Net Loss was issued (a) on or after the Effective Date of this Agreement and, in any event, (b) before the termination of this Agreement.

2.02. Coverage Amount. The Reinsurer shall not be liable for any Cumulative Underwriting Year Net Losses until the Cumulative Underwriting Year Net Loss Percentage exceeds the Reinsurer's Entry Percentage and then the Reinsurer shall be liable for one hundred percent (100%) of Cumulative Underwriting Year Net Losses sustained by the Company until the Company's Cumulative Underwriting Year Net Loss Percentage exceeds the Reinsurer's Exit Percentage. The Reinsurer shall not be liable for any Cumulative Underwriting Year Net Losses in excess of the

Reinsurer's Exit Percentage. The liability of the Reinsurer shall be calculated and payable at the end of each Accounting Period, in accordance with the procedures set forth in Article VIII hereof.

2.03. Exclusions. This Agreement does not cover, without limitation, and specifically excludes from coverage hereunder: (1) business reinsured by the Company other than Covered Business, (2) bad faith, dishonesty, punitive, exemplary or special damages or any other extra-contractual liability asserted against the Company, its officers, directors, employees or agents, (3) overhead and office expenses of the Company and salaries or other compensation of officials and employees of the Company, (4) any payments arising from (i) the marketing, underwriting, issuance, cancellation or administration of the Policies, the investigation, defense, trial or handling of claims or payments arising out of or relating to the Policies and (ii) any payments for class action settlements or judgments or (5) liability of the Company, arising by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary in an Insolvency Fund. "Insolvency Fund" includes any guaranty fund, insolvency fund, plan, pool, association, fund or other arrangement, howsoever denominated, established or governed, which provides for any assessment of or payment or assumption by the Company of a part or all of any claim, debt, charge, fee or other obligation of an insurer, or its successors or assigns, which has been declared by a competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.

2.04. Follow the Fortunes and Settlements. Except as provided in Section 2.03 above, the Reinsurer's obligations and liabilities (including extra-contractual obligations or liabilities) shall attach simultaneously with those of the Company and shall be subject in all respects to the same risks, terms, conditions, interpretations, waivers, and settlements (whether by way of compromise, ex gratia or otherwise) and to the same modifications, alterations and cancellations as the respective insurance and liability of the Company, the true intent of this Agreement being that the Reinsurer shall, in every case to which this Agreement applies, follow the fortunes, settlements and liabilities of the Company with respect to Reinsured Loans.

## ARTICLE III

## GENERAL PROVISIONS

3.01. Inspection. The Reinsurer or its designated representative may inspect, with reasonable advanced notice, at the offices of the Company where such records are located, the papers, books or other documents of the Company to the extent necessary to verify Reinsurance Claims or the calculation of Gross Written Premium, Cumulative Underwriting Year Net Losses or Cumulative Underwriting Year Net Loss Percentages. Such inspection shall take place during normal business hours for such period as this Agreement is in effect or for as long thereafter as the Company seeks payment or performance by the Reinsurer pursuant to the terms of this Agreement. The information provided and obtained shall be used only for purposes relating to reinsurance under this Agreement, and the Reinsurer shall hold and keep all such information confidential, delivering such information only to Reinsurer's officers, directors, employees, accountants or attorneys who need to know such information for the purposes set forth herein, or as otherwise required by law. The Reinsurer's rights under this Section shall survive termination of this Agreement.

3.02. Compliance with Applicable Laws and Regulations.

(a) Agreement to be Construed in Accordance with Existing Law. It is the intention of the parties that this Agreement shall comply with all applicable State and Federal laws and regulations, and all applicable guidelines issued by any government sponsored entity, as from time to time are or may be in effect.

(b) Notification of Disapproval or Change in Law. Each party to this Agreement shall promptly notify the other party of (i) any disapprovals or recommended changes regarding the Agreement that are made by any insurance regulatory or tax authorities to such party and (ii) any change (of which such party becomes aware) in law, regulation or rulings affecting the Agreement. Each party shall be allowed to make its own defense of the Agreement with said authorities, in cooperation with any defense made by the other party.

3.03. Setoff and Recoupment. Any debts or credits, matured or unmatured, liquidated or unliquidated, regardless of when they arose or were incurred, in favor of or against either the Company or the Reinsurer with respect to this Agreement are deemed mutual debts or credits, as the case may be, and shall be set off, and only the net balance shall be allowed or paid. This setoff provision (to the extent permitted by any applicable law) shall not be modified or reconstrued due to the insolvency, liquidation, rehabilitation, conservatorship, or receivership of either party.

3.04 Confidentiality. The Company and the Reinsurer each agrees to keep this Agreement, the terms hereof, and all documents and information relating hereto, or furnished pursuant to or in connection herewith, confidential, except as may be required by law or by accounting requirements. Notwithstanding the foregoing, nothing in this Section 3.04 shall prohibit the Company or the Reinsurer from disclosing such confidential information to (a) state or federal regulators, Fannie Mae, Freddie Mac or rating agencies, (b) the Company's or the Reinsurer's parent or affiliated companies, whether direct or indirect, provided such parent or affiliated companies also agree to keep such information confidential, (c) the outside legal, financial, actuarial or accounting advisors of the Company or Reinsurer, (d) other third party consultants or vendors engaged by the Company or the Reinsurer, provided that such consultants or vendors are themselves subject to a written confidentiality agreement no less strict than that contained in this section, and (e) other parties, with the prior written consent of the Company or Reinsurer as the case may be. This Section 3.04 shall survive termination of this Agreement, but shall in any event expire and be of no further force and effect on the date that this Agreement is terminated on a cut-off basis with portfolio transfer under Section 9.06, or the date of automatic termination of the last Underwriting Year reinsured hereunder under Section 9.09, whichever shall occur first; provided, however, the parties' respective obligations under this Section 3.04 with respect to Insured customer information shall survive the termination of this Agreement.

ARTICLE IV

REINSURANCE PREMIUMS AND PREMIUM TAXES

4.01. Reinsurance Premiums. In the manner provided in Article VIII below, the Company shall pay the Reinsurer reinsurance premiums equal to the percentage of the Gross Written Premium set forth on Exhibit "A" attached hereto (the "Reinsurance Premiums"). All Reinsurance Premiums shall be deposited by Company into the Trust Account.

4.02. Premium Taxes. Company shall be liable for any and all premium taxes imposed on premiums written with respect to Policies covering Reinsured Loans. Reinsurer shall be liable for any and all premium taxes imposed on any Reinsurance Premiums paid to Reinsurer hereunder.

ARTICLE V

CAPITAL AND RESERVES

5.01. Statutory Capital and Reserves. The Reinsurer shall establish and maintain (a) all such capital and (b) all such reserves as may be required under the insurance laws and regulations of its domiciliary state with respect to unearned premiums, loss reserves, incurred but not reported loss reserves, contingency reserves, claims, loss or loss adjustment expenses relating to each risk under this Agreement (the "Reserves").

5.02. [Reserved.]

ARTICLE VI

POLICY CLAIM SETTLEMENT

6.01. Policy Claim Settlement. All Claim Payments, Expenses and allowances in consequences of a Claim for benefits under a Policy shall be evaluated, defended, paid or settled by Company without notice to or consultation with the Reinsurer. The Company agrees to settle each Claim under a policy in accordance with the terms and conditions of the Policy as interpreted in good faith by the Company, provided, however, that the Company shall have the authority to grant reasonable extensions of time to file Claims, to waive notice requirements and other technical policy violations as Company deems reasonable, and to make Ex Gratia Payments.

6.02. Salvage or Recovery. All decisions regarding Salvage or Recovery shall be made by the Company, without notice to or consultation with the Reinsurer, in accordance with customary mortgage insurance industry standards.

ARTICLE VII

REINSURANCE CLAIM PROCEDURE

7.01. Filing a Reinsurance Claim. Company shall, in conjunction with the quarterly reports to be provided pursuant to Section 8.01, file Reinsurance Claims with Reinsurer as provided for herein in a form approved by the parties to this Agreement. Payments due from Reinsurer for Reinsurance Claims shall be made to Company, as provided herein.

7.02. Claim Filing Method and Timing. All Reinsurance Claims shall be filed within the time period set forth in Section 8.01 below. Reinsurance Claims filed after this time period are still covered hereunder but shall be reduced by the amount, if any, by which such Reinsurance Claim is greater then it would have been if filed on a timely basis. Such Reinsurance Claims shall be submitted in writing to the Reinsured at the address specified in Section 15.02 hereof. Reinsurer shall pay all Reinsurance Claims within the time period and in the method set forth in Article VIII below.

ARTICLE VIII

ACCOUNTING AND SETTLEMENT

8.01. Quarterly Reports. Within forty-five (45) days after the end of each Accounting Period, Company shall submit to Reinsurer reports relating to the Covered Business by Underwriting Year for such Accounting Period containing the following information:

(a) Insurance in Force. As of the end of such Accounting Period, Risk in Force, including gross risk outstanding and gross unearned premiums thereon, before any deduction for reinsurance hereunder, and Aggregate Risk, all in summary fashion.

(b) Premiums. The aggregate loan balances for which either an initial payment or renewal premium therefor was paid to Company during such Accounting Period, the Gross Written Premiums and unearned premiums both in gross and in the portion thereof due Reinsurer, and showing cancellation and return premiums, all in summary fashion.

(c) Delinquency Reserves/Property Acquired. As of the end of such Accounting Period, the number of delinquent mortgage loans reported to the Company pursuant to a Policy and the amount of reserve (not including IBNR) therefore that Company has established, without any deduction for reinsurance. As of the end of such Accounting Period, the number of Properties that Company has acquired (and those sold) pursuant to a Policy, its cost in acquiring such Properties, the amount of reserve therefor that Company has established, without any deduction for reinsurance.

(d) Salvage. The aggregate amount recovered by the Company as Salvage or Recovery, less recovery and salvage expenses, during such Accounting Period, the Underwriting Year to which those recoveries relate, and any credit to be given, or amount to be paid, to Reinsurer as a result of such Salvage or Recovery.

(e) Reinsurance Claims. Cumulative Underwriting Year Net Losses, Cumulative Underwriting Year Net Loss Percentage and the Reinsurance Claims, if any, due to Company from Reinsurer.

(f) Reinsurance Premiums. Aggregate Gross Written Premiums for each Underwriting Year, and Reinsurance Premiums due to Reinsurer from Company.

(g) Trust Account Calculation. A calculation of the amount then required to be maintained in the Trust Account, including the Minimum Capital and Required Amount, together with such financial information as may be required to demonstrate the basis for such calculation.

(h) Calculation of Ratios. A calculation of the ratio of Cumulative Underwriting Year Net Losses to Aggregate Gross Written Premiums for each Underwriting Year.

(i) Additional Information. Such additional information relating to the Company as may be reasonably requested by the Reinsurer to allow the Reinsurer to meet all requirements of the Insurance Commissioner of the State of New York, the NAIC, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or any rating agency.

8.02. Annual Reports. Within forty-five (45) days after the end of each calendar year, Company shall submit to Reinsurer a report for that calendar year listing Policies, Gross Written Premiums, Insurance in Force, and Risk in Force under this Agreement in the aggregate and by state for all states

8.03. Information from Reinsurer. Reinsurer shall deliver to Company, within sixty (60) days after the end of each fiscal quarter, and within ninety (90) days after the end of each fiscal year, (a) the income statement and balance sheet of the Reinsurer for such fiscal quarter or year, as appropriate, with respect to the quarter-end statement, prepared on a statutory basis and, with respect to the year-end statement, prepared both on a statutory basis and in accordance with GAAP, which year-end statement shall be audited by Reinsurer's independent certified public accountants, and (b) such additional information relating to the Reinsurer as may be reasonably requested by the Company to allow the Company to meet all requirements of the Commissioner, the NAIC, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or any rating agency.

8.04. Remittances. The balance after set off (as provided in Section 3.03 above) that is due to a party by the other party hereunder shall be paid:

(a) if to Company, within thirty (30) days following the receipt by Reinsurer of the report delivered pursuant to Section 8.01 hereof, which payment shall be made by withdrawal from the Trust Account; or

(b) if to Reinsurer, then such remittance shall be made by the Company to the Trust Account.

8.05. Interest on Delayed Payments. If any payment due to either the Reinsurer or the Company is not paid when due, such delayed payment shall accrue interest for the period that payment is overdue at a rate that is two percent per annum in excess of the "prime rate" in effect from time to time and as published in the Wall Street Journal, which rate of interest shall be adjusted concurrently with each change in such "prime rate".

ARTICLE IX

TERM AND TERMINATION

9.01. Term. The term of this Agreement shall commence at 12.01 a.m., Eastern Standard Time, on the Effective Date and shall remain in effect until terminated in accordance with this Article IX.

9.02. Unilateral Termination upon Ninety Days' Notice. Either party may terminate this Agreement as of 11:59 p.m. Eastern Time, at the end of an Accounting Period, by providing at least ninety (90) days' prior written notice thereof to the other party.

9.03 Termination for Failure to Make Trust Deposits. If the Initial Capital Deposit, any subsequent Capital Deposit, or any additional deposit payable by Reinsurer under Section 12.03 or 12.06 hereof is not paid within 30 days of when such amount becomes due and payable, Company shall notify Reinsurer in writing that such payment is due and if such payment is not received within ten (10) Business Days after receipt of such notice by Reinsurer, then (i) coverage under this Agreement shall automatically terminate without the requirement of any waiting period or additional notice by or to either party, (ii) all Trust Assets shall be transferred to the Company and (iii) the Company shall reassume all liabilities theretofore ceded to Reinsurer pursuant to this Agreement. All rights and obligations of parties under this Agreement shall be extinguished as of the date of such termination, including, but not limited to, the right of Reinsurer to receive Reinsurance Premiums.

9.04. Termination by Company. Company shall have the right, at its option, to terminate this Agreement upon thirty (30) days prior written notice in the event that Reinsurer shall fail to maintain adequate capital and reserves as required by its state or country of domicile, or if any law or regulation of any federal agency or any state in which Company is doing business would render this Agreement illegal or would prevent the Company from obtaining reinsurance credit, or if either the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation enacts new or revises existing eligible mortgage insurer guidelines that prohibits the Company from participating in captive reinsurance arrangements altogether or on the terms provided hereunder. Company may cease ceding additional risk under this Agreement or terminate this Agreement if so ordered by the Commissioner or any other regulatory authority in any jurisdiction in which the Company is licensed. Company may terminate this Agreement if, at any time, the Reinsurer is in material breach or fails to comply with any of its representations, warranties or obligations set forth herein (other than its obligations to make the Initial Capital Deposit, subsequent Capital Deposits and amounts required to be deposited into the Trust Account under 12.06(s), in which case termination is automatic under section 9.03) and said breach has not been cured within thirty (30) days after written notice to cure said breach has been delivered to Reinsurer.

9.05. Termination by Reinsurer. Reinsurer may terminate its participation in this Agreement if (1) any payment to be made hereunder by the Company is not paid when due and said payment has not been made within thirty (30) days after written notice to pay has been served upon the Company, (2) there is a material breach by the Company with respect to any of its representations or obligations set forth herein, and said breach has not been cured within thirty (30) days after written notice to cure said breach has been delivered to Company, or (3) the Company's claims-paying ratings from Standard & Poor's Corporation or Moody's Investors Service, Inc. is revoked, suspended or reduced below investment grade, or (4) either Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation revokes or suspends the Company's status as an insurer eligible to insure mortgage loans to be sold to either such agency.

9.06. Reinsurer's Liability After Termination. Other than as provided under section 9.03, following termination under this Article IX Reinsurer shall continue to be liable, subject to all other terms and conditions of this Agreement, with respect to all Reinsured Loans covered by a Certificate issued prior to the Termination Date until the natural expiration, cancellation or termination of coverage of each such Reinsured Loan, in which event Reinsurer shall continue to receive the applicable Reinsurance Premiums with respect thereto, unless Company and Reinsurer agree that such termination shall be on a cut-off basis with portfolio transfer, in which event Reinsurer shall not continue to (a) be liable with respect to the Reinsured Loans, or (b) receive Reinsurance Premiums or other payments or credits with respect thereto except for those due prior to the Termination Date. If the parties cannot agree on whether such termination shall be on a run-off basis or a cut-off basis with portfolio transfer, such termination shall be on a run-off basis. In the event termination of this Agreement is ordered by a court or regulator, such termination shall be in accordance with such order, anything to the contrary herein notwithstanding. If such order does not specify the method of termination, such termination shall be on a run-off basis unless the parties agree otherwise.

9.07. Payments on Termination. In the event that this Agreement is terminated pursuant to this Article IX and such termination is to be on a cut-off basis with portfolio transfer pursuant to Section 9.06 above, a net accounting and settlement as to any balance due under this Agreement shall be undertaken by the Company and delivered to the Reinsurer. Any net payment required under such terminal accounting and settlement will become due, and shall be paid by the Reinsurer or the Company, as appropriate, no later than twenty (20) days after the Termination Report described in Section 9.08 is provided; provided, however, such twenty (20) period shall be tolled in the event that Reinsurer disputes the amount or content of the net payments due until such disputes are resolved. Net payments required under such terminal accounting and settlement shall consist of:

(a) the settlement for the final Accounting Period, as set forth in Sections 8.01 and 8.04 of this Agreement;

(b) the amount of Unearned Premium Reserves and Loss Reserves to be repaid by Reinsurer to Company (if any);

(c) any interest due pursuant to Section 8.05 of this Agreement; and

(d) the cost Company will incur to establish the reassumed Contingency Reserves.

9.08. Termination Report. If the termination of Reinsurer's participation under this Agreement is to be effected on a cut-off basis with portfolio transfer, as described in Section 9.06 hereof, then, within ninety (90) Business Days after the Termination Date, the Company shall supply the Reinsurer with a report that shall show the terminal accounting and settlement described in Section 9.07 above (the "Termination Report"). Such Termination Report shall contain the following information:

(a) information for the final Accounting Period as specified in Section 8.01 of this Agreement;

(b) the calculation of final balance due, as specified in Section 8.04 of this Agreement;

(c) any interest due pursuant to Section 8.05 of this Agreement;

(d) the cost Company will incur to establish the reassumed Contingency Reserves.

(e) year-to-date information, up to and including the Termination Date, listing Policies in force, Gross Written Premiums, Insurance in Force, and Risk in Force under this Agreement in the aggregate and by state for all states.

9.09 Automatic Termination. Anything to the contrary herein notwithstanding, the obligation of the Reinsurer to indemnify the Company in accordance with Article II, and the obligation of the Company to pay reinsurance premiums to the Reinsurer in accordance with Article IV, shall cease as of the last day of the year which is the ninth year after the end of the Underwriting Year in which the Covered Business for that Underwriting Year was underwritten, whereupon this Agreement shall be terminated with respect to that Underwriting Year of Covered Business only. Any termination pursuant to this Section 9.09 shall be on a cut-off basis, in accordance with the requirements for calculations, payments and reports contemplated by this Article IX for termination on that basis.

## ARTICLE X

## INSOLVENCY

10.01. Payments by Reinsurer. In the event of the insolvency of the Company, the Reinsurer hereby agrees that, as to all reinsurance becoming effective hereunder, the Reinsurance Claim shall be payable directly and immediately upon demand to the Company, or to its conservator, receiver, liquidator or statutory successor on the basis of the liability of the Company under a Policy with regard to a Reinsured Loan, without diminution because of the insolvency of the Company or because the conservator, receiver, liquidator or statutory successor of the Company has failed to pay all or a portion of any claim. The Reinsurer's obligations shall not be increased as a result of the insolvency of the Company.

10.02. Claims. It is agreed that the conservator, receiver, liquidator or statutory successor of the Company shall give prompt written notice to the Reinsurer of the pendency or submission of a claim under any Policy with regard to a Reinsured Loan. During the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated any defense available to the Company or its conservator, receiver, liquidator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the court, against the Company as a part of the expense of insolvency, liquidation or rehabilitation to the extent of a proportionate share of the benefit which accrues to the Company solely as a result of the defense undertaken by the Reinsurer.

10.03. No Waiver of Defenses. Except as otherwise set forth in this Agreement, nothing in this Article X shall preclude the Reinsurer from asserting any excuse or defense to payment of a Reinsurance Claim other than the excuses or defenses of the insolvency of the Company and the failure of the Company's conservator, receiver, liquidator or statutory successor to pay all or a portion of any claim.

## ARTICLE XI

## ARBITRATION

11.01. Appointment of Arbitrators. In the event of any disputes or differences arising hereafter between the contracting parties with reference to any transaction under or relating in any way to this Agreement, the same shall be decided by arbitration conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association as then in effect, as same may be modified herein. Three arbitrators will decide any dispute or difference. The arbitration shall be held in San Francisco, California. The arbitrators must be disinterested officers or retired officers of insurance or reinsurance companies other than the two parties to this Agreement or their Affiliates. Each of the contracting parties agrees to appoint one of the arbitrators with the third, the "Umpire," to be chosen by the two appointed arbitrators. In the event that either party should fail to choose an arbitrator within thirty (30) days following a written request by the other party to do so, the requesting party may choose the second arbitrator before entering upon arbitration. The two arbitrators shall select a third arbitrator to act as Umpire. In the event that the two arbitrators shall not be able to agree on the choice of the Umpire within thirty (30) days following the appointment of the second arbitrator to be appointed, each arbitrator shall nominate five candidates within ten (10) days thereafter. Each arbitrator shall decline four of the candidates nominated by the other arbitrator. The Umpire shall be chosen from the two remaining candidates by drawing lots. Should the chosen Umpire decline to serve, the candidate whose lot was not drawn shall be appointed. This process shall continue until a candidate has agreed to serve.

11.02. Decision. Within sixty (60) days following the appointment of the Umpire, or within such other time-period as may be ordered by the arbitrators, each party must present its case to the arbitrators. The arbitrators shall consider customary and standard practices in the mortgage guaranty reinsurance business. Within sixty (60) days after the arbitration hearing, a decision shall be reached by a majority vote of the arbitrators. Such decision shall be binding on the parties. Judgment may be entered on the decision of the arbitrators by any court having jurisdiction. Either party shall have the right to appeal to the appropriate court any errors of law in the decision rendered by the arbitrators.

11.03. Expenses of Arbitration. Each party shall bear the expense of its own arbitrator (whether selected by that party, or by the other party pursuant to the procedures set out in Section 11.01) and related outside attorneys' fees, and shall jointly and equally bear with the other party the other expenses of the arbitration, including the expenses of the Umpire.

11.04. Applicable Law. The arbitrators shall apply the substantive law of Wisconsin (excluding choice-of-law principles) with respect to the interpretation and application of this Agreement, except that evidence may be introduced without following strict rules of evidence, and issues of arbitration law shall be governed by the Federal Arbitration Act.

11.05. Survival of Article. This Article shall survive termination of this Agreement.

11.06. Other Actions. Submission of a matter to arbitration shall be a condition precedent to any right to institute a proceeding at law or in equity concerning such matter, except that either party may seek from a court any interim or provisional relief that may be necessary to protect the rights or property of that party pending the decision in arbitration with respect to the merits of the dispute. By agreeing to arbitration, the parties do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment, or other order in aid of arbitration proceedings or the enforcement of any award.

## ARTICLE XII

## SECURITY

12.01. Establishment of Trust. In order to secure the obligation of the Reinsurer under this Agreement, the Reinsurer, the Company and a qualified United States financial institution acceptable to the Company (the "Trustee") shall, on or before the Effective Date of this Agreement, enter into a trust agreement (the "Trust Agreement") in the form of Exhibit "B" attached hereto pursuant to which the Reinsurer shall establish a trust account (the "Trust Account") for the benefit of the

Company with respect to the liabilities or obligations assumed by the Reinsurer hereunder. This Trust Agreement shall at all times and in all respects be in strict compliance with applicable law, including, without limitation, NY Ins. Law § 6507 and 11 NYCRR § 126.5, all as may be amended from time to time.

12.02. Purpose of Trust. Reinsurer agrees to deposit, on or before the Effective Date, and maintain in said Trust Account assets to be held in trust by the Trustee for the benefit of the Company as security for the payment of the Reinsurer's obligations to the Company under this Agreement. Such assets shall be maintained in the Trust Account by the Reinsurer as long as the Reinsurer continues to remain liable for any Reinsured Loan.

12.03. Capital Deposits.

(a) Not later than 30 days after the expiration of the first Accounting Period hereunder, Reinsurer shall make an initial contribution (the "Initial Capital Deposit") to the Trust Account in an amount equal to ten percent (10%) times the Reinsurer Layer of the Reinsured Loans having an effective date of coverage on or after the Effective Date and on or before the last day of the Accounting Period in which the Effective Date falls. Thereafter, the quarterly report provided by Company to Reinsurer under Section 8.01 hereof shall state the additional contribution (the "Capital Deposit") that is due, which shall be an amount equal to ten percent (10%) times the Reinsurer Layer of the Reinsured Loans having an origination date during the Accounting Period to which such quarterly report relates. Notwithstanding the foregoing, no Capital Deposit shall be required with respect to Reinsured Loans originated on or after the one year anniversary of the Effective Date. In addition to the Initial Capital Deposit and Capital Deposits, the Reinsurer may be required to deposit additional amounts to the Trust Account from time to time to maintain it at the Minimum Capital level as specified in section 12.06(a) below.

(b) In the event that (i) there exists a Deficiency (as that term is defined in section 12.06 below), and (ii) Minimum Capital is equal to amount of the Required Reserves, and (iii) Reinsurer reasonably disputes the Loss Reserve component of the Required Reserves, and (iv) the Loss Reserve exceeds $250,000, Reinsurer shall notify the Company within thirty (30) days of receipt of notice that a Capital Deposit is due that it disputes all or a portion of the Loss Reserve, in which case the Company shall recalculate the Minimum Capital Requirement using the undisputed portion of such Loss Reserve and Reinsurer shall promptly, but not later than five (5) days after notice by the Company, deposit the resulting Capital Deposit (if any) into the Trust Account. If, following good faith efforts, the parties cannot resolve their differences regarding the Loss Reserve, the parties shall submit the matter to one of the independent actuaries (or, if applicable, its successor organization) listed on Schedule A hereto (the "Actuary"), who shall within thirty (30) days, or as soon thereafter as reasonably practicable, issue a decision on whether the Loss Reserve proposed by the Company (the "Company's Estimate") is within a reasonable range of loss reserve estimates appropriately ceded to Reinsurer under the terms of this Agreement. If the Actuary determines that the Company's Estimate is not within a reasonable range of loss reserve estimates, it shall include in its decision what it views to be a reasonable range of loss reserve estimates, in which case, for purposes of this Agreement, the Loss Reserve shall be the mid-point of such range. Upon determination of the Loss

Reserve as provided above, the Company shall recalculate the Minimum Capital Requirement and, if the resulting Capital Deposit is greater than $0, shall notify the Reinsurer of the adjusted Capital Deposit due. If Reinsurer fails to make such Capital Deposit within fifteen (15) days of receipt of such notice, this Agreement shall be terminated in accordance with section 5.3(a).

The costs of the Actuary shall be borne by (i) Reinsurer, if the Actuary determines the Company's Estimate is within a reasonable range of loss reserve estimates, (ii) the Company, if the Actuary determines that the Company's Estimate is not within a reasonable range of loss reserve estimates, provided that the upper range of reasonable loss reserve estimates determined by the Actuary is less than the Company's Estimate, and (iii) equally, if the Actuary's determination is otherwise. The parties agree that the foregoing procedure shall be the sole and exclusive means of resolving disputes regarding the Loss Reserve underlying Capital Deposit calculations.

12.04. Trust Assets. Reinsurer agrees that the assets so deposited shall consist only of cash (United States legal tender), and/or certificates of deposit issued by a United States bank or savings institution and payable in currency of the United States, obligations that are issued or guaranteed by the United States or any agency thereof, or any State of the United States or any other governmental unit in the United States (so long as such obligations of any State or other governmental unit are payable, with respect to both principal and interest, from taxes levied or required to be levied by such governmental unit), any money market fund rated in the highest applicable category by Standard & Poor's or Moodys, and corporate obligations rated 'A' or higher or having a quality designation of '1' from the Securities Valuation Office of the National Association of Insurance Commissioners, provided that such investments are issued by an institution that is not the parent, subsidiary or affiliate of either the Company or Reinsurer.

12.05. Title of Assets. Reinsurer, prior to depositing assets with the Trustee, shall execute all assignments, endorsements in blank, and transfer legal title to the Trustee of all shares, obligations or any other assets requiring assignments, in order that the Company, or the Trustee upon direction of the Company, may whenever necessary in accordance with the terms of this Agreement and the Trust Agreement, negotiate any such assets without consent or signature from the Reinsurer or any other entity.

12.06. Amount to be Maintained.

(a) At all times, the value of the assets in the Trust Account shall not be less than the greater of: (i) ten percent (10%) of the Risk in Force assumed by the Reinsurer pursuant to this Agreement, or (ii) the Required Reserves (the "Minimum Capital"). If the Trust Account balance is less than the Minimum Capital, then upon receipt of the report provided by the Company pursuant to Section 8.01 hereof setting forth the deficiency, the Reinsurer shall promptly deposit into the Trust Account such amounts as are necessary to attain a balance in the Trust Account equal to or greater than the Minimum Capital.

(b) All Reinsurance Premiums payable by the Company under Section 4.01 shall be deposited by Company to the Trust Account.

(c) Commencing on or after the first day of the fourth Underwriting Year, and on and after the first day of any subsequent Underwriting Year, if the value of the assets in the Trust Account exceed the Required Amount (the "Excess"), the Reinsurer may request that the Company instruct the Trustee, in accordance with the terms of the Trust Agreement, to disburse to the Reinsurer said Excess or any lesser amount. The "Required Amount" as of any date shall be the amount equal to the greater of: (i) twenty percent (20%) of the Risk in Force assumed by the Reinsurer pursuant to this Agreement, or (ii) 102% of the Required Reserves. Nothing contained herein is intended or shall limit the liability of the Reinsurer under Article II hereof.

(d) Upon the written request of the Reinsurer, and subject to the Reinsurer providing to the Company appropriate supporting documentation, and notwithstanding that amounts in the Trust Account may be less than the Required Amount, the Company shall, not later than the tenth (10th) day following the Company's receipt of such request, direct the trustee holding the Trust Account to disburse to Reinsurer an amount equal to the amount of (1) federal income taxes then due and payable by the Reinsurer to the extent those taxes are directly and solely attributable to Reinsurer's taxable income arising from reinsuring the Covered Business, (2) any premium taxes assessed on the Reinsurance Premiums payable by Reinsurer under Section 4.02, and (3) up to one hundred thousand dollars ($100,000) per year for Reinsurer's actual and necessary out-of-pocket operational expenses; provided, however that the amount actually payable pursuant to clause (3) of this Section 12.06(d) shall not exceed the Company's pro-rata share of Reinsurer's operational expenses after taking into account the portion of all operating expenses fairly allocable to other mortgage insurance companies ceding business to the Reinsurer (based on respective ceded premium volume for each Accounting Period); and further provided that (i) no amount shall be disbursed to the Reinsurer that would cause the amount in the Trust Account to fall below the Minimum Capital; and (ii) all refunds, rebates or overpayment of taxes so attributable shall be refunded, upon receipt, to the Trust Account. In the event that any expense reimbursements are limited under clause (i) of the preceding sentence, the unpaid balance of the amount otherwise payable shall remain payable to Reinsurer.

(e) The parties agree that for purposes of this Agreement, the amounts maintained in the Trust Account may be used to satisfy the Reserve requirement set forth in Section 5.01 hereof. No payments shall be made from the Trust Account to or for the benefit of the Reinsurer except in accordance with the terms of this Agreement and the Trust Agreement.

12.07. Settlements. All settlements of account under the Trust Agreement between the Company and the Reinsurer shall be made in cash or its equivalent.

12.08. Withdrawals by Company. The Reinsurer and the Company agree that the assets in the Trust Account may be withdrawn by the Company at any time, notwithstanding any other provisions in this Agreement, provided such assets are applied and utilized by the Company or any successor of the Company by operation of law, including, without limitation, any liquidator, rehabilitator, receiver or conservator of the Company, without diminution because of the insolvency of the Company or the Reinsurer, only to reimburse the Company for the Reinsurer's share of any Claim Payments or Expenses paid by the Company with respect to Reinsured Loans, as calculated in Section 2.02.

12.09. Withdrawals by Reinsurer. The Reinsurer shall have the right to substitute or withdraw assets in the Trust Account only to the extent permitted in, and only in accordance with the terms of, this Agreement and the Trust Agreement.

12.10. Return of Assets. In the event that the Company withdraws assets from the Trust Account for the purposes set forth in section 12.08 in excess of actual amounts required to meet the Reinsurer's obligations to the Company, the Company shall promptly, upon learning of such excess withdrawal, deposit into the Trust Account funds not less than such excess amount, plus interest at the rate of interest as described in Section 8.05 of this Agreement. In the event of a dispute arising under this Article XII, the arbitration panel established pursuant to Article XI of this Agreement shall have the right to award interest at a rate that it determines to be equitable, and may award attorney's fees, arbitration costs and other expenses.

12.11. Segregation of Trust Assets. It is understood that Reinsurer may have established or may from time to time establish other trusts to secure other reinsurance agreements. The Trust assets referred to herein secure the Reinsurer's obligations under this Agreement and are not available to support or secure obligations arising out of any agreement other than this Agreement. Reinsurer's trust assets are segregated and allocated in support of and secure its various obligations under separate reinsurance agreements without commingling or cross-collateralization, and any assets not included in the Trust are not available to support or secure this Agreement.

12.12. Letters of Credit. As of the Effective Date, the Company does not have the administrative capability to accept letters of credit in support of reinsurance obligations. In the event that the Company develops such capability during the term of this Agreement, Reinsurer may, in whole or in part, substitute letters of credit meeting the requirements of New York Insurance Regulation 133 for the Trust Account. The letter of credit will be procured from a qualified United States financial institution, and may be drawn down at any time by the Company, only for the purposes set forth in, and in accordance with the provisions of, Section 12.07 of this Agreement, without diminution because of the insolvency of the Company or the Reinsurer.

## ARTICLE XIII

## REPRESENTATIONS OF THE COMPANY

13.01. Organization, Standing and Authority of the Company. The Company is a mortgage guaranty insurance company duly organized, validly existing and in good standing under the laws of Wisconsin. It is duly authorized and qualified to carry on the business of mortgage guaranty insurance in each state where a Policy was issued and meets the requirements for carrying on such business.

13.02. Authorization. The Company has all requisite power and authority to enter into this Agreement, and to perform its obligations hereunder. The execution and delivery by the Company of this Agreement, and the performance by the Company of its obligations under this Agreement, have been duly authorized. This Agreement, when duly executed and delivered by the Company, and, subject to the due execution and delivery by the Reinsurer, will be a valid and binding obligation of the Company, enforceable against the Company, its permitted successors and assigns, in accordance with its terms.

13.03. Reports and Reinsurance Claims Submissions. All reports and all Reinsurance Claims submitted hereunder by the Company shall be accurate and complete and Reinsurer shall be entitled to rely thereon for all purposes.

13.04. Submission of Covered Reinsurance Claims Only. No Reinsurance Claim shall be submitted to Reinsurer except in connection with a Claim Payment or Expense on a Reinsured Loan reinsured under the Agreement.

13.05. No Conflict or Violation. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby in accordance with the respective terms and conditions hereof will not (a) violate any provision of the Articles of Incorporation or Bylaws of the Company, or (b) as of the Effective Date, violate any order, judgment, injunction, award or decree of any court, arbitrator or governmental or regulatory body against, or binding upon, or any agreement with, or condition imposed by, any governmental or regulatory body, foreign or domestic, binding upon the Company.

13.06. Intermediaries and Financial Advisors. No reinsurance intermediary or broker has acted directly or indirectly as such for, or is entitled to any compensation from, the Company in connection with this Agreement.

13.07. Materiality of and Reliance Upon Representations. Each such representation is material to this Agreement and relied upon by Reinsurer in entering into this Agreement. Each such representation shall continue to be true during the term of this Agreement and thereafter as long as obligations are owed hereunder.

13.08. Survival of Article. This Article XIII shall survive termination of this Agreement.

## ARTICLE XIV

## REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE REINSURER

14.01. Organization, Standing and Authority of the Reinsurer. The Reinsurer is an insurance company duly organized, validly existing and in good standing under the laws of the State of New York and is authorized under the laws and regulations of that state to reinsure policies within the purview of this Agreement.

14.02. Authorization. The Reinsurer has all requisite power and authority to enter into this Agreement, and to perform its obligations hereunder. The execution and delivery by the Reinsurer of this Agreement, and the performance by the Reinsurer of its obligations under this Agreement, have been duly authorized. This Agreement, when duly executed and delivered by the Reinsurer, and, subject to the due execution and delivery by the Company, will be a valid and binding obligation of the Reinsurer, enforceable against the Reinsurer, its permitted successors and assigns in accordance with its terms.

14.03 Reinsurer Information. All information submitted by Reinsurer to Company under Section 8 of this Agreement shall be accurate and complete.

14.04. No Conflict or Violation. The execution, delivery and performance of this Agreement, and the consummation of the transactions contemplated hereby in accordance with the respective terms and conditions hereof will not violate any provision of the Articles of Incorporation, Bylaws or other charter or organizational document of the Reinsurer or violate any order, judgment, injunction, award or decree of any court, arbitrator or governmental or regulatory body against, or binding upon, or any agreement with, or condition imposed by, any governmental or regulatory body, foreign or domestic, binding upon the Reinsurer.

14.05. Intermediaries and Financial Advisors. No reinsurance intermediary or broker has acted directly or indirectly as such for, or is entitled to any compensation from, the Reinsurer in connection with this Agreement.

14.06 Reinsurance. The Reinsurer shall not obtain any reinsurance on the risk ceded under this Agreement without first obtaining the Company's prior written consent.

14.07 Minimum requirements. The Company will comply with the guidelines of Fannie Mae or Freddie Mac applicable to the Company.

14.08 Materiality of and Reliance Upon Representations. Each such representation is material to this Agreement and relied upon by Company in entering into this Agreement. Each such representation and warranty shall continue to be true during the term of this Agreement.

14.09. Survival of Article. This Article XIV shall survive termination of this Agreement.

## ARTICLE XV

## MISCELLANEOUS PROVISIONS

15.01. Headings and Schedules. Headings used herein are not a part of this Agreement and shall not affect the terms hereof. The attached Schedules are incorporated in and made a part of this Agreement.

15.02. Notices. All notices and communications hereunder shall be in writing and shall be deemed to have been received three (3) days after mailing, or if by facsimile or by hand, when received, and if by overnight mail, on the next day. Any written notice shall be by either certified or registered mail, return receipt requested, or overnight delivery service (providing for delivery receipt) or delivered by hand or telecopied to the number set forth below. All notice or communications with the Reinsurer under this Agreement shall be addressed as follows:

Atrium Insurance Corporation
1230 Avenue of the Americas
Suite 766
New York, NY 10020
Attention: Mark Danahy
Fax No.: (856) 917-6910

With a copy to:

PHH Mortgage Corporation
3000 Leadenhall Road
Mt. Laurel, NJ 08054
Attention:
Fax No.:

All notices and communications with the Company under this Agreement shall be directed to:

CMG Mortgage Insurance Company
c/o PMI Mortgage Insurance Co.
3003 Oak Road
Walnut Creek, CA 94597-2098
Attention: Risk Share Operations
Fax No.: (925) 658-6191

With a copy to:

CMG Mortgage Insurance Company
22 Fourth Street, 13th Floor
San Francisco, CA 94103
Attn: Mark Berkowitz, Vice President, Underwriting and Operations
Fax No.: (415) 981-4601

Changes in notice addresses or recipients may be made by the Reinsurer or the Company by following the procedure specified in this section rather than the procedure for amendment of this Agreement.

15.03. Severability and Governing Law. If any term or provision of this Agreement shall be held void, illegal, or unenforceable, the validity of the remaining portions or provisions shall not be affected thereby. This Agreement shall be governed by the laws of Wisconsin without giving effect to principles of conflicts of law thereof.

15.04. Successors and Assigns. This Agreement may not be assigned by either party without the prior written consent of the other. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns as permitted herein.

15.05. No Third Party Beneficiaries. Nothing in this Agreement is intended or shall be construed to give any person, other than the parties hereto, their successors and permitted assigns, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

15.06. Execution in Counterpart. This Agreement may be executed by the parties hereto in any number of counterparts, and by each of the parties hereto in separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

15.07. Errors and Omissions. Any inadvertent delay, omission or error shall not be held to relieve either party hereto from any liability which would attach to it hereunder if such delay, omission or error had not been made, provided such delay, omission or error is rectified as soon as possible after discovery.

15.08. Specific Enforcement. The parties acknowledge and agree that termination of the Agreement pursuant to Article IX hereof may not be in the best interests of the non-defaulting party nor a sufficient remedy for breach of the provisions of this Agreement and that, in addition to all other remedies that may be available, the non-defaulting party shall be entitled to specific performance and injunctive or other equitable relief as a remedy for any such breach. The parties also acknowledge and agree that any delay by the non-defaulting party in exercising any right, power or privilege hereunder shall not operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege hereunder.

15.09. Currency. All payments and accounts shall be made in United States Dollars, and all fractional amounts shall be rounded to the nearest whole dollars.

15.10. Entire Agreement. This Agreement, with respect to matters covered by this Agreement, together with the Trust Agreement, form the entire agreement between the parties, and this Agreement may be amended only by written agreement of the parties.

15.11. Amendment or Waiver. No amendment or waiver of any provision of this Agreement shall be effective unless set forth in writing, signed by duly authorized officers of the parties hereto. A waiver shall constitute a waiver only with respect to the particular circumstance for which it is given and not a waiver of any future circumstance.

15.12. Reinsurer hereby confirms, and Company acknowledges, that Reinsurer is not authorized to transact mortgage guaranty insurance in the State of New York. The Parties agree that each of the terms and/or conditions required to be included in reinsurance agreements under New York Insurance Law § 6507(d)(5) (as such section provides as of the Effective Date) in order for the Company to receive financial credit for the reinsurance provided hereunder is hereby deemed to be incorporated in to this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives.

| ATTEST: | CMG MORTGAGE INSURANCE COMPANY |
|---|---|
| By: Kathleen Schwaler | By: Brian Stephan |
| Title: SVP / Genl Mgr. | Title: SVP & GM |

| ATTEST: | ATRIUM INSURANCE CORPORATION |
|---|---|
| By: Frederic J. Kinkel Jr. | By: Terrence Edwards |
| Title: Assistant Secretary | Title: President |

# SCHEDULE A

**SECTION I. Lender.** [PHH Mortgage Corporation and Affiliates; insert exact legal name] ("LENDER")

**SECTION II. Eligible Loans.**

**Part A.** "Eligible Loans" means loans originated by:

(i) Lender (subject to exclusions in Part B below); or

(ii) a non-affiliate of Lender if Lender has purchased such loans within 180 days of loan origination, or, for the first Underwriting Year only, 270 days of loan origination, and has notified Company of purchase within 90 days of purchase date, in which event the Reinsurance Premiums under Section 4.01 of this Agreement shall be calculated from the date of loan origination; and

and where all such loans are secured by first lien one-to-four family residential mortgages on real property located within the United States and where such loans are originated on or after the Effective Date. In the case where Lender purchases loans as per (ii) above and such loans are otherwise eligible for a non-affiliate's existing risk sharing arrangement with Company, Lender must notify Company of its intention to deem these loans eligible under this Agreement.

Notwithstanding the foregoing, the following loans are not Eligible Loans:

loans subject to a risk sharing arrangement including, but not limited to, layered co-insurance agreements, deductible agreements, or Secondary Marketing Coverage agreements, with Lender, an affiliate of Lender, or a third party; or

loans which are subject to discounted insurance policies, including, but not limited to, Relocation policies, or;

loans insured by lender-paid mortgage insurance, unless otherwise expressly agreed upon by Reinsurer and the Company, and then subject to the terms and conditions of such agreement.

**Part B. Excluded Loans**

Reinsurer acknowledges and agrees to be bound by the following policy of Ceding Company on excluding otherwise Eligible Loans from this Agreement:

Loans originated by Lender are subject to exclusion from this Agreement if such loans are sold to a non-affiliate of Lender within 180 days, said non-affiliate of Lender has a risk sharing arrangement with Company, and said non-affiliate notifies Company of its intention to deem these loans eligible for its risk sharing arrangement. In such case any and all premiums and risk shared with Reinsurer by Company on such loans will be reversed.

This condition does not apply to loans where only the servicing rights are sold and not the underlying loans. In such event, the purchase of the servicing rights only by a non-affiliated mortgage lender will not subject the underlying loan to removal from any prior structured agreement to which it was subject. In the event that both a loan and its attached servicing rights are sold simultaneously to two separate (i.e., non-affiliated) parties, the determination of what structured agreement, if any, such loan will be subject to will be based on the following priority: (i) the purchaser of such loans, (ii) the loan originator, and (iii) the purchaser of the servicing rights.

Notwithstanding anything to the contrary set forth herein, the Company will give Reinsurer not less than 45 days' notice prior to any Eligible Loan being excluded from this Agreement pursuant to this Part B.

## SECTION III. Independent Actuaries

Reinsurer: Milliman, Consultants and Actuaries

Company: Pinnacle Actuaries

# EXHIBIT A

| | | |
|---|---|---|
| Reinsurer Entry Percentage | = | 2.25% |
| Reinsurer Exit Percentage | = | 6.25% |
| Reinsurance Premium | = | 25% |

# EXHIBIT B

## TRUST AGREEMENT

# EXHIBIT 20

# REINSURANCE AGREEMENT

between

RADIAN GUARANTY INC.

and

ATRIUM INSURANCE CORPORATION

Dated: July 26, 2004

Protective Order



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Protective Order



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# EXHIBIT 21

Message

**From:** Lyles, Ronald (MBS) [Ronald.Lyles@mortgagefamily.com]
**Sent:** 6/23/2010 5:18:21 PM
**To:** Bradfield, Richard J. (MBS) [Rich.Bradfield@mortgagefamily.com]; Rosenthal, Sam (MBS) [Sam.Rosenthal@mortgagefamily.com]; Bogansky, Mike (MBS) [Mike.Bogansky@mortgagefamily.com]; Erdmann, John (MBS) [John.Erdmann@mortgagefamily.com]
**Subject:** Re: Genworth Commutation

Any chance of getting the Milliman analysis turned around to support this?
Ron Lyles
PHH Mortgage

---

**From**: Bradfield, Richard J. (MBS)
**To**: Rosenthal, Sam (MBS); Lyles, Ronald (MBS); Bogansky, Mike (MBS); Erdmann, John (MBS)
**Sent**: Wed Jun 23 12:59:44 2010
**Subject**: Re: Genworth Commutation

If they have a draft, they can send it over.

---

**From**: Rosenthal, Sam (MBS)
**To**: Lyles, Ronald (MBS); Bogansky, Mike (MBS); Bradfield, Richard J. (MBS); Erdmann, John (MBS)
**Sent**: Wed Jun 23 12:50:54 2010
**Subject**: RE: Genworth Commutation
I have just received a new offer from Genworth.

- $42mm (this is up from $39mm)
- Caveot – the deal must be CLOSED by 6/30/2010
- I have called and e-mailed Ken requesting that he accelerate his "dividending analysis" he is performing for us. I requested delivery of this information either today or tomorrow. He has not yet responded to this request (just occurred seconds ago).
- Thoughts? Should we begin the legal documentation just in case?

Sam

---

**From:** Rosenthal, Sam (MBS)
**Sent:** Tuesday, June 15, 2010 3:26 PM
**To:** Lyles, Ronald (MBS); Bogansky, Mike (MBS); Bradfield, Richard J. (MBS); Erdmann, John (MBS)
**Subject:** RE: Genworth Commutation

I spoke to Ken B. at Milliman. For $5,000 to $10,000 (depending on how much scenario analysis work we desire), Ken can issue an opinion of value and dividend cash flow statement for us. It would take about 2 weeks to accomplish this.

I have attached 2 Exhibits to this e-mail. The pdf file is from Milliman. It contains their opinion as to the value of Atrium as of 12/31/2009. The Excel file contains some summary information that I have extracted from this Exhibit, plus a Trust Balance from Mike.

The Milliman data on page 49 contains information on the insurance premiums / losses (base case scenario) imbedded in the Genworth Trust. Please note that these cash flows do NOT equal dividend opportunities – there are other capital constraints that would have to be modeled to finish a perfect cash flow model (this is part of the $5000 cost!).

However, the valuation of Genworth file does provide a broad sense of where the Genworth net present value lies (2% discount rate) –

- Low Value Estimate: $39.8mm
- Actuarial Estimate: $50.4mm
- High Value Estimate: $58.1mm

Thus, Genworth's $39mm bid is just below the "Low" value estimate. However, this bid might have two things going for it:

1) A bird in the hand,…
2) Might be an effective method of raising capital

Are we ready to talk & meet?

Sam

---

**From:** Rosenthal, Sam (MBS)
**Sent:** Tuesday, June 15, 2010 10:00 AM
**To:** Lyles, Ronald (MBS); Bogansky, Mike (MBS); Bradfield, Richard J. (MBS); Erdmann, John (MBS)
**Subject:** RE: Genworth Commutation

I will reach out to Ken & get back to the team

---

**From:** Lyles, Ronald (MBS)
**Sent:** Tuesday, June 15, 2010 9:59 AM
**To:** Bogansky, Mike (MBS); Bradfield, Richard J. (MBS); Rosenthal, Sam (MBS); Erdmann, John (MBS)
**Subject:** RE: Genworth Commutation

Let's see what Milliman would charge and what the turn around time would be.

---

**From:** Bogansky, Mike (MBS)
**Sent:** Tuesday, June 15, 2010 9:58 AM
**To:** Bradfield, Richard J. (MBS); Rosenthal, Sam (MBS); Lyles, Ronald (MBS); Erdmann, John (MBS)
**Subject:** RE: Genworth Commutation

We would probably want to engage Milliman to provide us with a capital analysis of expected dividends from this trust (similar to when we did the last exercise). Otherwise, we need to develop our own model.

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

---

**From:** Bradfield, Richard J. (MBS)
**Sent:** Tuesday, June 15, 2010 9:52 AM
**To:** Rosenthal, Sam (MBS); Bogansky, Mike (MBS); Lyles, Ronald (MBS); Erdmann, John (MBS)
**Subject:** RE: Genworth Commutation

Let's meet when Mike has the data together.

---

**From:** Rosenthal, Sam (MBS)
**Sent:** Tuesday, June 15, 2010 9:42 AM
**To:** Bradfield, Richard J. (MBS); Bogansky, Mike (MBS); Lyles, Ronald (MBS); Erdmann, John (MBS)
**Subject:** Genworth Commutation

I just spoke to Jean Bradley. Genworth has increased their offer for the commutation of the Genworth Atrium Trust. Originally, they indicated a $40mm value before the $5mm distribution we just took. Their current bid is $39mm for the Trust (post dividend); or up $4mm from their prior level.

While this might be slightly less than our opinion of value (I believe we were around $50mm pre dividend), it might be an effective method to raise immediate capital for PHH.

Mike, do you have an expected dividend schedule for the Genworth Trust we can see? This might give us some cash flow comparison perspective to this offer.

Would you like to meet to discuss this opportunity? Please let me know so I can set up a meeting if desired.

Sam

# EXHIBIT 22

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Protective Order



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# EXHIBIT 23

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

AIG United Guaranty

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

# 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

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.

# 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

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.

- **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.

## 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.

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.

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.

| 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.

## 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.

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 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.

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

**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.

# 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.

**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.

# 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.

# 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 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.

# 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.

# 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.

# 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.

# 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

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.

Moody's Investors Service

**Global Credit Research**
**Credit Opinion**
13 JAN 2006

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**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.

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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.

# 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 <u>not</u> 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.**

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[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.

# 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:**

| | | | | | | |
|---|---|---|---|---|---|---|
| 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% |

# 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% |

# 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).

**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.

# 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 |

*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*

| | Calendar Year 2004 | | Calendar Year 2005 | |
|---|---|---|---|---|
| Policy Year | 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% |

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

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.

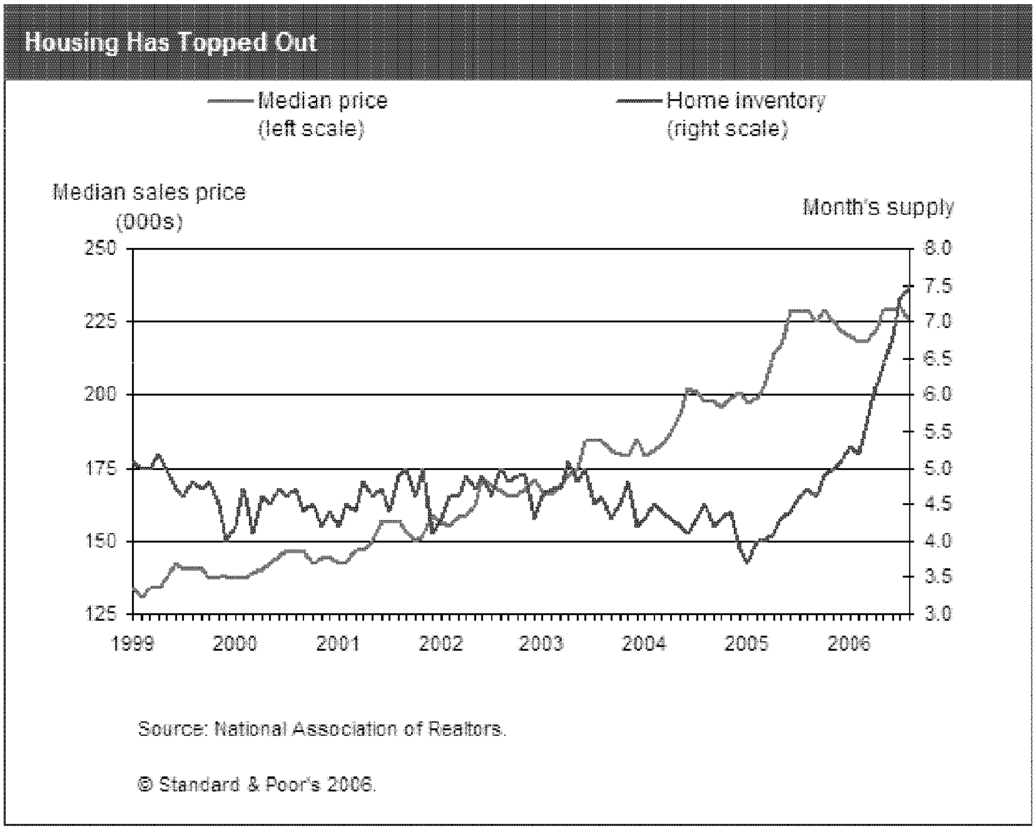
To this point, the current housing slowdown has followed the usual historical pattern. When the market cools off and sellers can't get the price they expect, their first reaction is to hold on to the house in expectation that prices will rebound. Typically, the inventory of unsold homes rises in the 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**

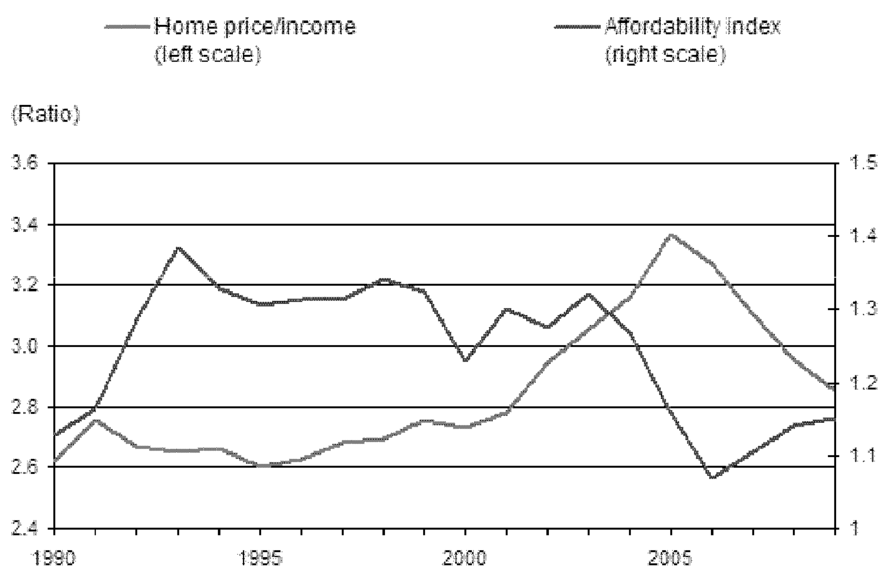



The picture for new homes is similar, but weather has been more of a factor here. Housing starts surged in January to an annual rate of 2.3 million, but that reflected Mother Nature, not economics. Starts have since retreated to 1.67 million in August, down 20% from a year earlier. New home sales dropped 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**

**Home Prices Come Back Toward Normal**




Source: National Association of Realtors, Bureau of Economic Analysis, and Census Bureau. Projections: Standard & Poor's



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

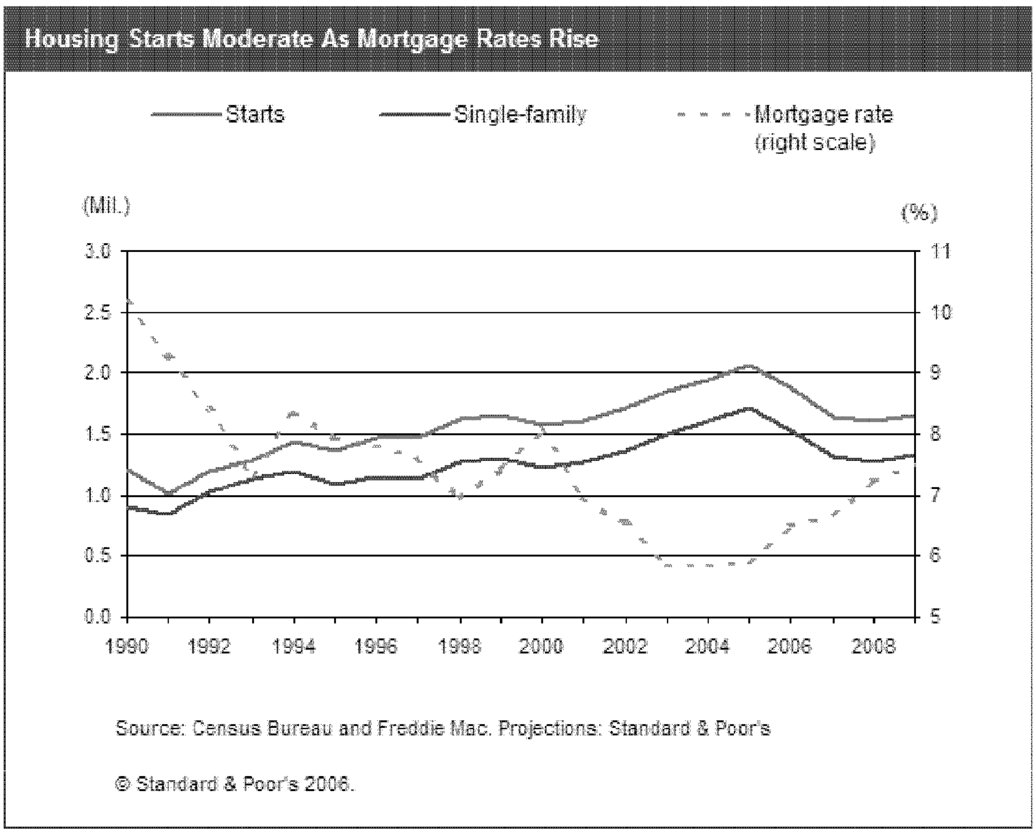
## The Outlook For Housing Activity

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.

# EXHIBIT 24

# The PMI Group, Inc.

## Analysis of Deep Cede Excess-of-Loss Captive Reinsurance Programs

PMI

# Cautionary Statement

Cautionary Statement: Statements in this presentation that are not historical facts or that relate to future plans, events or performance are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include our discussion of The PMI Group, Inc.'s (PMI or the Company) deep-cede captive reinsurance structures and the assumptions, rationales and conclusions of Milliman, Inc. described in this presentation with respect to PMI's deep-cede captives and their financial impact on PMI. When a forward-looking statement includes an underlying assumption, we caution that assumptions are inherently uncertain. Assumed facts almost always vary from actual results and the difference between assumed facts and actual results can be material. Forward-looking statements are subject to a number of economic risks and uncertainties including, but not limited to, changes in economic conditions, economic slowdowns, adverse changes in consumer confidence, declining housing values, higher unemployment, deteriorating borrower credit and changes in interest rates. Forward-looking statements are also subject to legislative and regulatory developments, and regulatory investigations relating to the insurance industry, including captive reinsurance arrangements. We cannot predict the scope, timing or outcome of legislative or regulatory developments or investigations. Other risk and uncertainties are discussed in the Company's filings with the Securities and Exchange Commission, including our report on Form 10-K for the year ended December 31, 2004 and Form 10-Q for the quarter ended March 31, 2005.

# Milliman Analysis Qualifications and Limitations

In performing this analysis, Milliman relied on loss data, PMI's standard reinsurance agreements, insured loan volume, and other information provided and represented to us by PMI. Milliman has not audited, verified, or reviewed this data and other information for reasonableness and consistency. Such a review is beyond the scope of Milliman's assignment. If the underlying data or information is inaccurate or incomplete, the analysis may likewise be inaccurate or incomplete.

Any study of future operating results involves estimates of future contingencies. While Milliman's 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, Milliman assumed the average nationwide claim experience provided by PMI is appropriate. This experience has substantial geographical and lender diversification. To the extent that a lender's insured loan volume, risk profile or claims experience differs significantly from our assumptions, the results of our analysis may not be appropriate (In general, we believe that risk and variability increases as a lender's operations get more regionally concentrated than inherently diverse national experience, and high variability makes it easier to satisfy the tests described herein.) Also, Milliman assumed that PMI's current primary mortgage insurance rates are reasonable relative to their risk, although we have not conducted an independent review of primary rates.

Milliman analyzes structures using standard actuarial methods. A Monte Carlo simulation generating forecast values consistent with the selected probability distributions and random variable correlation was used to project the distributions of outcomes at various confidence levels. Milliman selected this kind of simulation since it illustrates the variability inherent in our forecasts. A simulation model illustrates the projected impact of actual results varying from projected results due to estimated variability inherent in the insurance process. This variability is referred to as process risk. The simulation does not reflect the variation of actual results from projections due to parameter risk or specification risk. Parameter risk refers to the risk or uncertainty associated with the selection of the parameters underlying the applicable projection model. Specification risk refers to the risk or uncertainty surrounding the selection of the type of model used for the forecast. Milliman did not attempt to quantify the impact of parameter or specification risk.

Milliman expresses no opinion as to the accounting treatment of programs by PMI or others, as this is outside the scope of our expertise. Also, Milliman is not opining on the capital adequacy or financial condition of PMI or any of its reinsurers. Furthermore, Milliman's analysis should not be construed as a legal review of any prospectus, contract, materials or agreements, as this is beyond Milliman's area of expertise.

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 mortgage insurers. As a neutral party providing our opinion, Milliman does not determine whether a particular reinsurance structure 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 PMI's ultimate decision as to whether or not they enter into any particular reinsurance agreement.

# Agenda

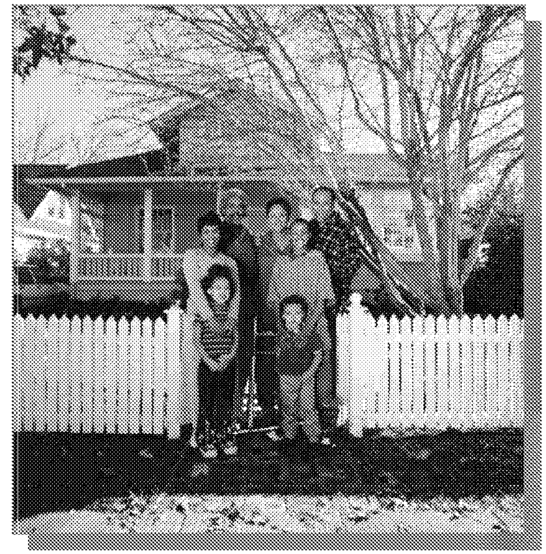
## Analysis of Deep Cede Excess-of-Loss Captive Reinsurance Programs





PMI

# The PMI Group, Inc.



- International provider of credit enhancement products that promote homeownership and facilitate mortgage transactions in the capital markets.

  Financial strength at March 31, 2005:

  - Combined[1] Insurance in Force $267 billion
  - Combined[1] Risk in Force $140 billion

- Consolidated financial results for the First Quarter of 2005:

  - Total Revenues $274.8 million
  - Net Income $101.2 million
  - Diluted EPS $1.00
  - Cash and Investments $3.6 billion
  - Total Assets $5.2 billion
  - Shareholders' Equity $3.2 billion

- Headquartered in the San Francisco Bay Area with offices in Australia, New Zealand, Hong Kong, Ireland, England and Italy.

[1] "Combined" includes results from U.S. Mortgage Insurance Operations, CMG and subsidiaries, PMI Australia and PMI Europe



PMI

# Executive Summary

- **PMI's beliefs about captive reinsurance agreements:**
  - Captives align the interests of PMI and the lenders on origination quality, servicing and loss mitigation.
  - Captives create operational efficiencies, enabling PMI to lower its expense ratio.
  - Captives serve as an important source of reinsurance to protect against market downturns.
  - Captives are a source of capital due to the trust account structure within the agreements.
- **PMI contracted with consulting actuaries, Milliman, Inc. (Milliman) under the supervision of the Chief Financial Officer, to conduct an independent actuarial study of deep-cede captives to examine the following two issues:**
  - Whether deep-cede captives meet the requirements for risk transfer as defined below;
  - Whether the premium ceded is reasonable in relation to the ceded risk;
  - Whether the returns are reasonable on a risk adjusted basis.
- ***Statement of Financial Accounting Standards No. 113 Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (SFAS 113), outlines the following condition that must be met for risk transfer:**
  - It must be reasonably possible that the reinsurer realize a significant loss (Para. 9B)
- **PMI believes that the widely recognized industry guidance of a 110% present value loss ratio (at a 10% probability level) is the generally accepted test to meet the transfer of risk criteria.**



PMI

# 2. Summary of the Study

## Executive Summary

- **Milliman reached several conclusions in the study:**
  - PMI's deep cede reinsurance programs satisfy the transfer of risk requirement of SFAS 113 since the probability of significant loss to the reinsurer is more than remote.
  - PMI's deep cede reinsurance structures offer ceded premium levels that are reasonable in relation to ceded risk.
  - PMI's deep cede reinsurance structures offer reasonable risk adjusted returns and reduce PMI's volatility of returns.



PMI

# Executive Summary

- **Milliman is one of the largest consulting and actuarial firms in the United States:**
  - Milliman is a firm of consultants and actuaries serving the full spectrum of business, governmental, and financial organizations.
  - Founded in 1947, the firm has 32 offices in the United States as well as offices in Bermuda, Hong Kong, London, Madrid, México City, Milan, São Paulo, Seoul, and Tokyo.
  - Milliman is a founding member of Milliman Global, a global organization of consulting and actuarial firms.
  - Within Milliman's property and casualty division it maintains actuarial, mortgage, financial guaranty, risk management, claims, rating agency, and economics consulting practices.
  - Milliman's dedicated Mortgage Practice is a member of the Mortgage Banker's Association, as well as the American Bankers Insurance Association, and has participated in and presented at many of their events.
  - Milliman's mortgage insurance clients include many of the nation's largest private mortgage insurers and mortgage originators.

# Milliman's Report

- Milliman's Report is a detailed, technical analysis of certain PMI reinsurance programs.
- Milliman's Report was prepared for the use of PMI, and not intended to benefit or create a legal duty to any third party.
- Participants on this call should be advised by actuaries or other professionals to properly interpret the results herein.
- Milliman is a firm of actuaries and consultants, and not accountants or auditors. Milliman's work, therefore, does not assure compliance with accounting standards, as only accountants or auditors may do that.

# Analysis Outline

- **Milliman was retained by PMI to independently evaluate the financial impact of two deep-cede captive mortgage reinsurance structures:**
  - PMI Deep Cede Excess of Loss (XOL) Contract - A reinsurance contract defined by a net ceded premium equal to **38.2%,** a reinsured layer beginning at **3.7%** of original risk insured and a maximum risk layer of **9.1**% of the original risk insured.
  - 4-10-40 XOL Contract - A typical deep cede reinsurance contract with a net ceded premium equal to **40%** of the primary mortgage insurance premium, a reinsured layer beginning at **4%** of original risk insured and a maximum risk layer of **10%** of the original risk insured.
  - ***The PMI Deep Cede XOL Structure will be the focus of this presentation; similar results were obtained for the 4-10-40 structure.***

- **Milliman analyzed the captives under the following tests:**
  - **Transfer of Risk** - Whether the defined captive mortgage reinsurance structures would meet the transfer of risk requirements of SFAS 113.
  - **Price Relative to Risk** - Whether the specific captive mortgage reinsurance structures would likely meet the test specified by HUD that the compensation paid to the captive reinsurer must not exceed the value of such services.
  - **Risk Adjusted Return** -Whether the specific captive mortgage reinsurance structures would offer reasonable rates of return after reinsurance relative to rates of return before reinsurance.



PMI

# Example of a Captive Reinsurance Structure

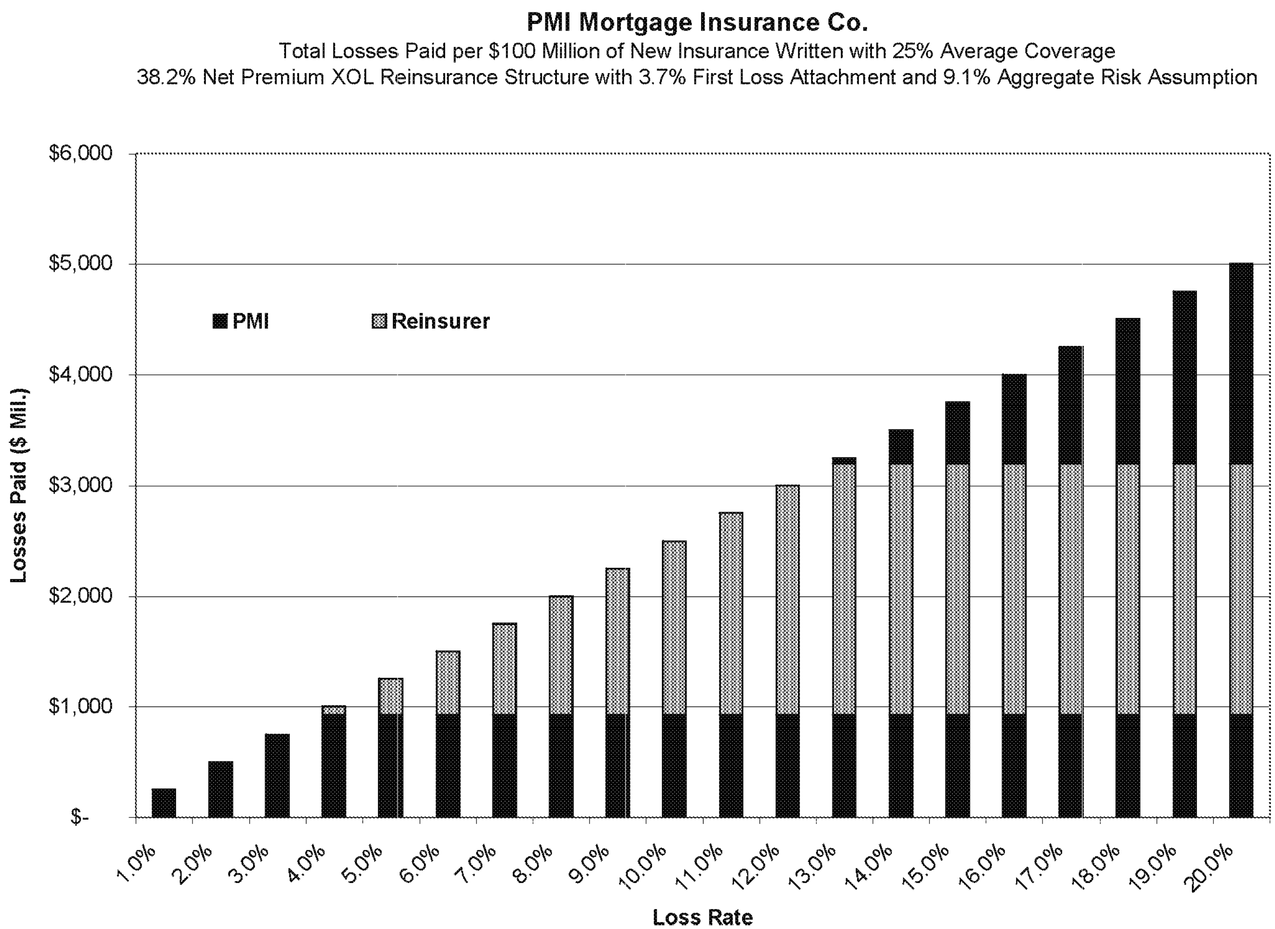
- **PMI's Captive Reinsurance Structures**
  - PMI cedes to the captive reinsurer a percentage of the gross written premium to reinsure a percentage of the original risk insured for a given book year of business.
  - In return for the premium, the captive reinsurer assumes a second-loss position (after PMI pays losses up to a first-loss position) consisting of a specified percentage of the original risk insured for each book year of business.

- **Example of a PMI Deep Cede XOL Contract reinsurance structure**
  - A sample portfolio of insured mortgage loans total $100 million with an average mortgage insurance coverage rate of 25%. PMI, the primary mortgage insurer, would insure $25 million in gross risk.
  - PMI will cede 38.2% of the gross written premium to the reinsurer to reinsure a percentage of the original risk insured.
  - PMI would pay losses up to the first loss attachment layer of 3.7% of gross risk, or $925,000 (i.e. 3.7% x $25MM).
  - The reinsurer will pay losses in excess of $925,000 up to $3.2 million for a maximum exposure of $2.275 million (i.e. 9.1% x $25MM).
  - All losses in excess of $3.2 million are the responsibility of PMI.



PMI

# Example of a Captive Reinsurance Structure



# Description of Reinsurance Structure

- **Important considerations of PMI's captive reinsurance agreements:**
  - All captive trust accounts are regulated by Arizona and New York State insurance regulations, as well as GSE guidelines.
  - OCC/OTS/Federal Reserve oversee the activities of captive reinsurance subsidiaries of banks they regulate. PMI continues to comply with procedures specified in the now-expired Baynham settlement.
  - The reinsurer supports the reinsurance with contributed capital and the ceded net premium is deposited into a trust. The initial capital contribution required is 10% of the first year's reinsured risk (i.e., a risk to capital ratio of 10:1).
  - Trust accounts are established for multiple book years. Therefore, the reinsurer has the ability to utilize capital and retained earnings from profitable book years to satisfy losses of unprofitable book years (i.e., cross collateralization).
  - A trust account is established at an independent trustee bank with PMI as the named beneficiary.
  - Trust account disbursements are subject to PMI's formal written consent and are monitored and administered by PMI.
  - Dividends to the reinsurer may be released only if capital exceeds the greater of 20% of reinsured risk and 102% of required reserves.
  - Trust assets must be invested in eligible securities.



PMI

# Historical Performance Data

- **Milliman collected 24 years of default and prepayment data from PMI and used the data to develop a Monte-Carlo simulation resulting in 10,000 scenarios of a mortgage insurer's book of business.**
  - Milliman used the simulation model to quantify the impact of deep-cede captives on loss ratios, internal rates of return, and returns on equity for both the captive and PMI.
  - Milliman looked at both the expected results and volatility of the results before and after the use of deep-cede captives.

- **Using the supplied data and its analysis of the ultimate book year performance, Milliman estimated probability distribution functions for each book year's ultimate loss and prepayment rates.**
  - The probability distribution function for loss rates (losses paid divided by original risk) that Milliman selected is a lognormal distribution with a mean of approximately 5.6% and a median of 4.1%.
    - **The resulting mean of 5.6% implies that, over time, deep-cede captives are reinsuring a portion of expected losses as well as catastrophic losses.**
    - **The resulting median of 4.1% suggests that over half of the scenarios in the distribution may lead to a loss to the captive.**

- **Milliman estimated that loss rates and prepayment rates are negatively correlated.**
  - The longer on average the mortgage insurance policies remain on the books, the more likely that the book will have higher cumulative ultimate loss rates.



PMI

# Description of Analysis

- **SFAS 113 states that a contract must meet the following two conditions to receive short-duration reinsurance accounting treatment:**
  1. The reinsurer must assume significant insurance risk under the reinsured portions of the underlying contract; and
  2. It must be reasonably possible ("more than remote") that the reinsurer realize a significant loss.

- **PMI believes that the widely recognized industry guidance of a 110% present value loss ratio (at a 10% probability level) is the generally accepted test to meet the transfer of risk criteria.**

- **Milliman simulated pro-forma financial statements for the reinsurer for a single book year under various performance scenarios. Next, they calculated the net present value of the reinsurer's cash flows under each of the defined contracts and calculated a discounted loss ratio.**
  - The present value loss ratio is defined as the ratio of the present value of paid losses to the present value of premiums received recognizing that both cash flows may be discontinued if the reinsurer's assets are depleted.
  - The single book year analysis assumes no cross-collateralization between book years.

- **Milliman simulated pro-forma financial statements for over 10,000 scenarios and derived the scenario for which 10% of the outcomes resulted in a higher loss ratio**
  - Milliman used this 10% probability scenario as the basis for the net present value analysis shown on the following page.
  - In the 10% probability scenarios, the losses satisfied by the reinsurer were less than the losses submitted to the reinsurer since the contract is discontinued once the reinsurer's assets are depleted.



PMI

# Model Results

- **Under the PMI Deep Cede XOL Contract, for the 10% probability scenario, the captive's net present value loss ratio is 124%:**

Using the most conservative assumption, by year 7 the reinsurer's assets have been depleted. Therefore, the primary insurer discontinues ceding premiums to the reinsurer.

PMI Mortgage Insurance Co.
PMI Deep Cede XOL Contract – Single Book
FASB Premium and Loss Analysis ($000)

| Calendar | Losses | Losses Satisfied | Losses Not Satisfied by | Premiums Due | Premiums Withheld Due to | Net Premiums to Reinsurer |
|---|---|---|---|---|---|---|
| 1 | $0 | $0 | $0 | $1,196 | $0 | $1,196 |
| 2 | 0 | 0 | 0 | 2,192 | 0 | 2192 |
| 3 | 0 | 0 | 0 | 1,831 | 0 | 1831 |
| 4 | 2,568 | 2,568 | 0 | 1,434 | 0 | 1434 |
| 5 | 5,683 | 5,683 | 0 | 1,099 | 0 | 1099 |
| 6 | 4,766 | 3,236 | 1,530 | 835 | 0 | 835 |
| 7 | 2,927 | 0 | 2,927 | 635 | 635 | 0 |
| 8 | 2,018 | 0 | 2,018 | 488 | 488 | 0 |
| 9 | 1,120 | 0 | 1,120 | 378 | 378 | 0 |
| 10 | 785 | 0 | 785 | 295 | 295 | 0 |
| 11 | 547 | 0 | 547 | 231 | 231 | 0 |
| 12 | 416 | 0 | 416 | 0 | 0 | 0 |
| **Total** | **$20,831** | **$11,488** | **$9,343** | **$10,614** | **$2,027** | **$8,588** |
| **Present Value** | | **$9,611** | | | | **$7,744** |
| **Present Value Loss Ratio** | | | | | | **124%** |



PMI

# Conclusions

- **Milliman concluded that the reinsurance program satisfies the transfer of risk requirements of SFAS 113 since the probability of a significant loss to the reinsurer is more than remote under the PMI Deep Cede XOL Contract structure.**
  - Approximately 10% of the scenarios generated a loss outcome which resulted in a 124% present value loss ratio. This loss ratio assumes the contract is discontinued if the reinsurer's assets are depleted.
  - Milliman believes that the 24% loss in excess of premiums under the reinsurance structure demonstrates a substantial loss under a reasonably possible scenario.
    - PMI believes a 110% present value loss ratio (at a 10% probability level) is the generally accepted test to meet the transfer of risk criteria.

- **Importantly, Milliman's analysis also noted that the SFAS 113 analysis <u>conservatively</u> focused on the performance of a single book year.**
  - In a multiple book year scenario (with additional capital from contingency reserves, unassigned surplus and potential capital contributions from previous and subsequent book years) it is more likely that all (or a greater portion) of the reinsured losses would be satisfied under the stress scenario due to *cross-collateralization.*
  - If all the captive's losses are satisfied through cross-collateralization, Milliman concluded that at the 10% probability level, the present value loss ratio is 180%.



PMI

# Description of Analysis

- **Milliman also analyzed whether the captive mortgage reinsurance structure would likely meet the test specified by Department of Housing and Urban Development (HUD) that the compensation paid for the reinsurance does not exceed the value of the reinsurance.**
  - The specific test is identified in the August 6, 1997 letter of the Department of Housing and Urban Development ("HUD") with respect to compliance of captive mortgage reinsurance arrangements with the Real Estate Settlement Procedures Act (HUD Test).
- **Milliman formulated their opinion by analyzing whether:**
  - The average reinsurance underwriting results, as measured by loss ratios, are reasonable in relation to those of primary mortgage insurers.
  - The cumulative return on capital for the reinsurer is reasonable relative to returns on capital for primary mortgage insurers.
  - Any decrease in PMI's return as a result of the captive reinsurance is offset by a corresponding decrease in volatility as measured by the Sharpe Ratio.



PMI

# Loss Ratio Analysis

- **Milliman concluded that the reinsurance coverage provides the primary company with significant reinsurance protection attaching at projected profitable levels for the primary company and reducing volatility in the years with above-average losses.**
  - The following table demonstrates the reinsurer's more volatile performance by showing the loss ratios at various probability levels for the PMI Deep Cede XOL Contract. (Captive reinsurance projected loss ratios are in the column marked "ceded").

| | PMI Mortgage Insurance Co. Loss Ratio Comparison at Probability Levels PMI Deep Cede XOL | |
|---|---|---|
| **Probability Level** | **Net Primary Insurer** | **Ceded** |
| 50% | 50% | 7% |
| 60% | 51 | 26 |
| 70% | 53 | 53 |
| 80% | 54 | 95 |
| 90% | 57 | 180 |
| 95% | 99 | 218 |

This means there is a 80% chance that the Reinsurer's loss ratio is 95% or less. Therefore, there is a 20% chance that the Reinsurer's loss ratio will be higher than 95%.

- **The probability levels above represent the probability that a single book year has a projected loss ratio at or below the indicated level.**
  - The table shows that the reinsurance provides significant protection to PMI and also significantly reduces the volatility of the loss ratio.



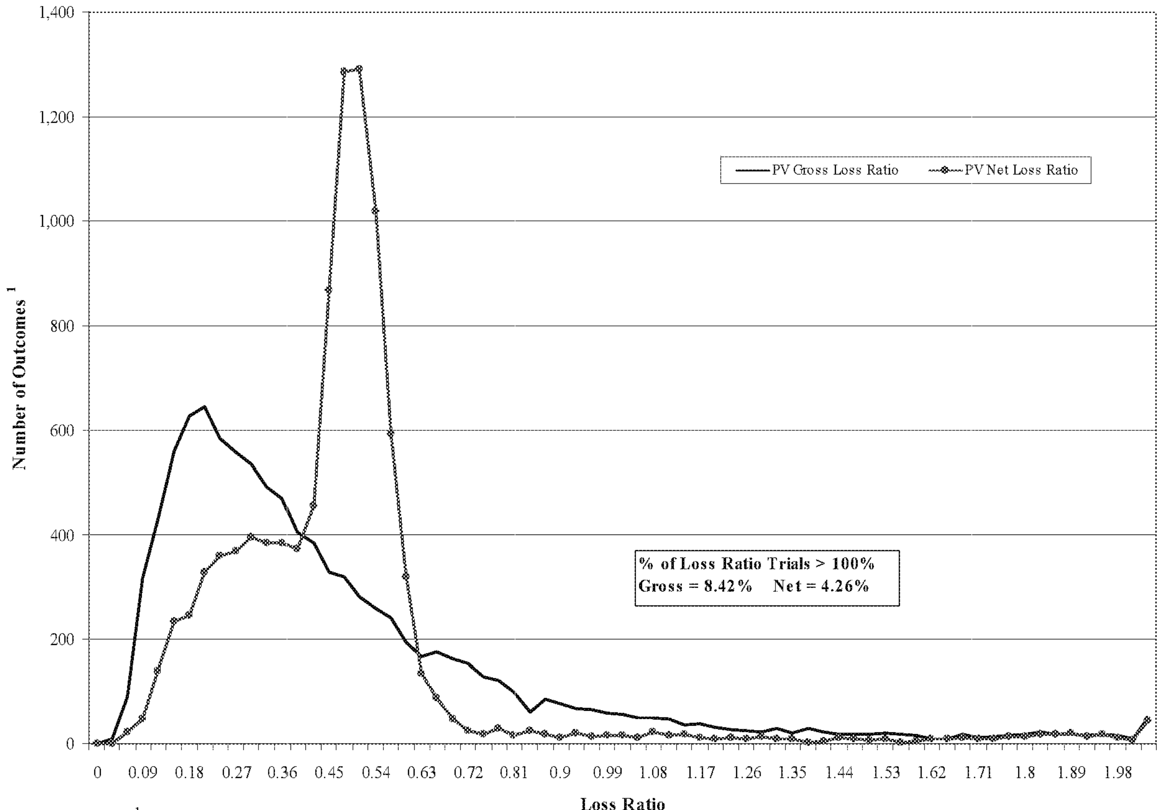
PMI

# Loss Ratio Analysis

- **Milliman further examined the volatility of loss ratios by segmenting the simulation results by the number of outcomes by present value loss ratios as shown in the graph below:**

PMI Mortgage Insurance Co.
PMI Deep Cede XOL Contract - Single Book




[1] Out of 10,000 Simulated Scenarios

- Prior to reinsurance, PMI's present value loss ratio distribution was consistent with the general lognormal distribution of ultimate loss rate performance. Subsequent to reinsurance, a greater percentage of outcomes are grouped around the expected mean loss ratio.



PMI

# Conclusions

- **Milliman cited these results as evidence that the PMI Deep Cede XOL Contract ceded premium levels are reasonable in relation to the ceded risk:**

  - The average reinsurance underwriting results, as measured by loss ratios, are reasonable in relation to those of the primary mortgage insurance company.

  - There is significant reinsurance protection attaching at profitable levels for PMI.



PMI

# Rate of Return Analysis

- **Continuing the price relative to risk analysis, the reinsurer's return for the defined reinsurance structure was compared to the primary company's returns on two basis**:
  1. The internal rate of return of dividends to the owner of the captive reinsurer, and
  2. The cumulative average return on statutory capital of the captive reinsurer.

- **Milliman studied the return on capital for the active mortgage insurance industry for the past twenty-seven years and concluded the average industry return is 15.8%.**

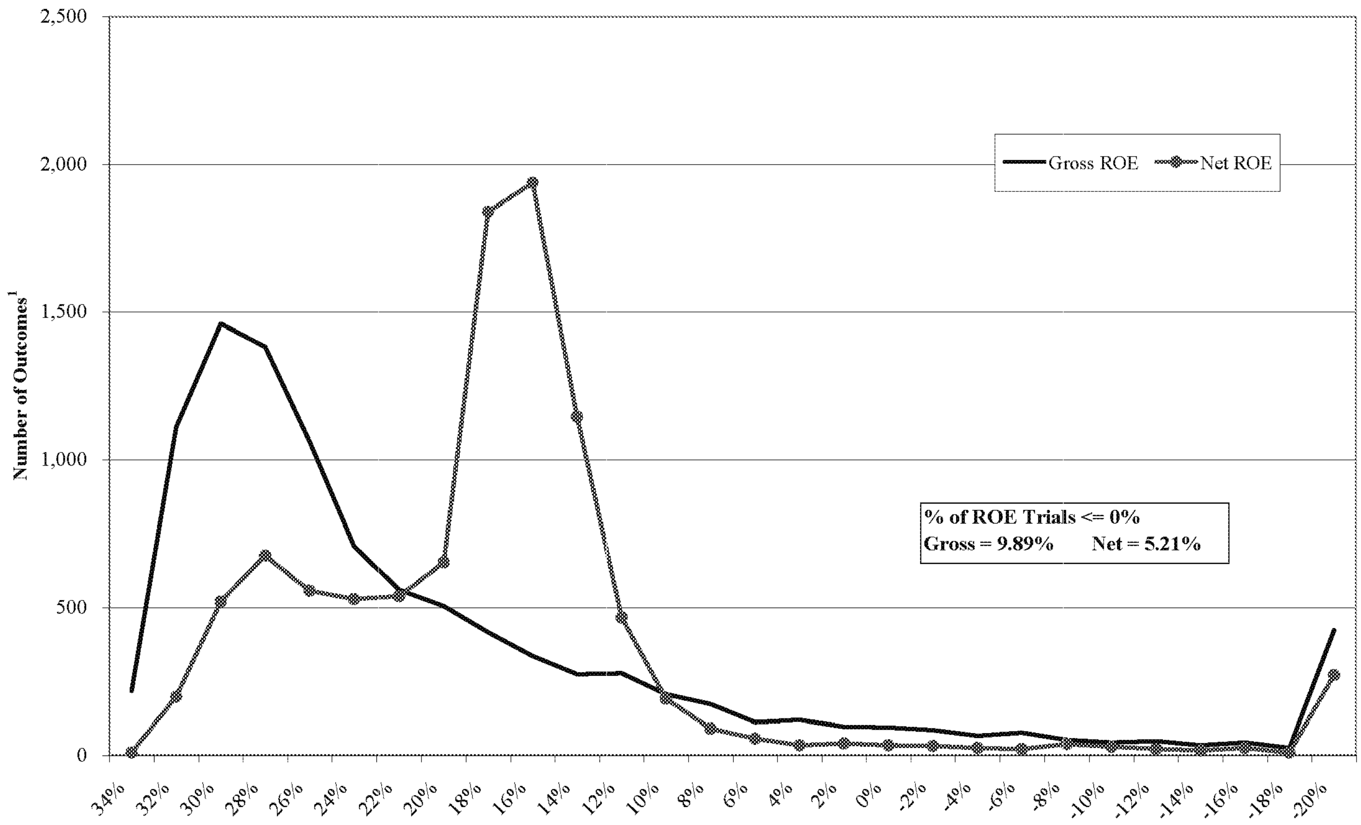


PMI

# Reduction of Volatility of Returns

- **As in the loss ratio volatility analysis, Milliman segmented the simulation results by the number of outcomes by return-on-equity classes.**
  - The results of the Monte Carlo simulations are shown on the graph below.
  - The distribution of returns after captive reinsurance are more tightly grouped, with both upside and downside outcomes reduced, meaning that PMI's volatility of return has been reduced.

PMI Mortgage Insurance Co.
PMI Deep Cede XOL Contract - Single Book




[1] Out of 10,000 Simulated Scenarios



PMI

# Reduction of Volatility of Returns

◆ **Milliman quantified the volatility of returns in the following table:**

| PMI Mortgage Insurance Co.<br>Reinsurance Structures Analysis<br>Comparative Financial Results -- Return-on-Equity<br>PMI Deep Cede XOL Program | | |
|---|---|---|
| | **Gross PMI** | **Net PMI** |
| **Mean** | **18.8%** | **16.1%** |
| Standard Deviation | 15.6% | 11.1% |
| Coefficient of Variation | 0.83 | 0.69 |
| Median | 24.6% | 16.4% |
| % Outcomes <= 0% ROE | 9.9% | 5.2% |

Mean ROE is slightly reduced

Volatility is reduced

Outcomes with ROE equal to or less than 0% are reduced

◆ **PMI's return-on-equity (prior to any reinsurance impact) is 18.8%. Subsequent to reinsurance, PMI's return-on-equity is reduced slightly to 16.1%.**

- Although PMI's resulting return-on-equity under the captive reinsurance contract is lower, the benefits of the reinsurance are demonstrated in the transfer of risk under adverse scenarios and by the overall reduction in volatility of PMI's return-on-equity expectations.
- The number of outcomes with return-on-equity less than 0% (a point at which cumulative net income is less than or equal to 0% cumulative average capital) is reduced from 9.9% to 5.2%.



PMI

# Sharpe Ratio Analysis

- **Milliman was able to compare the trade-off between the reduction in return on equity and the reduction in volatility by calculating the Sharpe Ratio.**
  - The Sharpe Ratio is often used by portfolio managers to examine the trade-off between risk and return. The higher the Sharpe Ratio, the more attractive the investment on a risk-adjusted basis, all else held equal.
  - The Sharpe Ratio is calculated by subtracting the risk-free rate of return from the expected return and dividing the result by the standard deviation of the return.
  - The risk-free rate of return was assumed to be 4% based on long-term Treasury securities.

**PMI Mortgage Insurance Co.**
**Reinsurance Structures Analysis**
**Comparative Financial Results -- Return-on-Equity**
**PMI Deep Cede XOL Program**

| | **Gross PMI** | **Net PMI** |
|---|---|---|
| Mean | 18.8% | 16.1% |
| Standard Deviation | 15.6% | 11.1% |
| **Sharpe Ratio** | **0.95** | **1.09** |

- **PMI's Sharpe Ratio, and thus PMI's risk-adjusted return, is improved with the use of the captive structure.**
  - While the risk-adjusted return is better after captive reinsurance, absolute returns are reduced as less capital is utilized.
  - The increase in the Sharpe Ratio supports the assertion that the premium relative to the ceded risk is appropriate.



PMI

# Conclusions

- **Milliman concluded that net risk adjusted return on equity to PMI after deep-cede reinsurance is reasonable compared to the risk adjusted return prior to reinsurance.**
  - PMI's mean return on equity with the Deep Cede XOL Contract is 16.1% and when viewed in conjunction with the transfer of risk and the reduced volatility of returns, offers a reasonable return when compared to the average return for the industry.
  - PMI's Sharpe Ratio is improved with the use of the captive reinsurance structure, which supports the conclusion that reinsurance premiums are reasonable relative to the ceded risk.
  - PMI's returns are enhanced in above average loss years.



PMI

# Summary of Conclusions

- **PMI's deep-cede captives satisfy the transfer of risk requirements of SFAS 113.**
  - Milliman concluded that the probability of a significant loss to the reinsurer is more than remote under the PMI Deep Cede Structure.
- **PMI's deep-cede captives offer reasonable price relative to risk.**
  - Milliman concluded that ceded premium levels are reasonable in relation to the ceded risk.
- **PMI's risk-adjusted return is improved with deep-cede captive reinsurance.**
  - Milliman's study shows how risk-adjusted return, as measured by the Sharpe Ratio, improves with the use of captives.
- **Milliman's study shows that the net risk adjusted return on equity to PMI after deep-cede reinsurance remains reasonable to the risk adjusted return prior to reinsurance.**



PMI

# Appendix

# Captive Reinsurance Regulatory Requirements

- **Captive reinsurance in the mortgage insurance industry is highly regulated:**
  - **State Departments of Insurance:**
    - Arizona – Captive reinsurance agreements must meet certain statutory and regulatory requirements for PMI to receive credit for reinsurance. This includes the requirement for the captive insurer to hold contingency, loss and unearned premium reserves in investment restricted trust accounts of which a mortgage insurer is the sole beneficiary.
    - NY, CA – Impose their regulations on credit for reinsurance to both domestic and foreign insurers.
    - Reinsurer's state of domicile – Financial statements, actuarial opinions on loss reserves must be filed annually.
  - **HUD:** HUD has, by letter, set certain standards that are used to evaluate whether captive reinsurance programs may violate the Real Estate Settlement Procedures Act (RESPA).
  - **OCC/OTS/Federal Reserve:** Oversee the activities of captive reinsurance subsidiaries of banks they regulate.
  - **Captive Review:** Each captive program structure is reviewed by an independent auditor or consultant and the transfer of risk requirements in accordance with SFAS 113 are verified before PMI enters into the program structure.
  - **Freddie Mac and Fannie Mae (GSEs):** In an effort to control counterparty risk, GSEs have issued MI Eligibility/Qualified Requirements. These requirements set strict standards around captive reinsurance arrangements with lenders, including:
    - Reinsurance agreements must be eligible for reinsurance accounting and must constitute a risk transfer as defined by SFAS 113.
    - The imposition of minimum and dividend capital levels (10:1 and 5:1, etc.).
    - Requiring a minimum restricted asset balance not less than $35 million in aggregate for all in force agreements in order for a captive reinsurer to assume a premium cede greater than 25%.



PMI

# Contractual and Capital Requirements

- **A Reinsurance Agreement and related Trust Agreement must be negotiated and executed by all parties.**

- **Captive trust accounts are regulated by Arizona and New York State insurance regulations, as well as GSE guidelines.**

- **Trust assets must be invested in eligible securities to ensure the security of the trust assets, including:**
  - Conservative investment standards as defined by New York statute.
  - Assets must be readily marketable and investment-grade securities.

- **A trust account is established at an independent trustee bank with PMI as the named beneficiary.**
  - Beneficiary (PMI) shall have right to withdraw trust assets at any time without notice to Grantor (lender).

- **The lender must fund the trust account with a minimum 10% of first year's risk ceded irrespective of any premiums ceded into the trust**
  - Failure to contribute initial capital or any portion thereof results in reinsurance agreement termination.
  - Reinsurer loses these deposits and any other trust balances if it fails to make any subsequent required deposits.

- **100% of ceded premiums are deposited into the trust account**
  - At all times, the minimum trust balance must be the greater of 10% of reinsured risk and 102% of required reserves.
  - Failure to maintain minimum capital levels results in reinsurance agreement termination.
  - Terminations result in all trust assets being transferred to PMI, reassumption of all ceded business and cancellation of rights and obligations under reinsurance agreement.



PMI

# Key Assumptions

- **Milliman's analysis is based on these modeling assumptions as represented to Milliman by PMI:**
  - Single book of business with $1 billion in new insurance written.
  - A corporate effective tax rate of 35%.
  - An average rating agency required risk-to-capital ratio of 19.5 (dollars of risk in force) to 1 (dollars of required rating agency capital) prior to reinsurance.
  - An average pre-tax investment yield of 5.0% to the primary insurer and 4.0% to the reinsurer.
  - An expense ratio of 20% for PMI related to servicing lenders with excess-of-loss (XOL) reinsurance contracts.
  - The mix of business by product type and loan-to-value ratio (shown in the following table) was selected to represent PMI's average distribution of borrower-paid MI at the time of the analysis.

| PMI Mortgage Insurance Co.<br>Key Modeling Assumptions<br>Mix of Business Distribution | | | | |
|---|---|---|---|---|
| **Product** | **LTV** | **Percent** | **Coverage** | **Premium** |
| Fixed Rate: | 97% | 10.2% | 35.0% | 0.96% |
| | 95% | 26.2% | 30.0% | 0.78% |
| | 90% | 34.1% | 25.0% | 0.52% |
| | 85% | 14.4% | 12.0% | 0.32% |
| Adjustable Rate: | 97% | 1.8% | 35.0% | 1.21% |
| | 95% | 4.6% | 30.0% | 0.92% |
| | 90% | 6.0% | 25.0% | 0.65% |
| | 85% | 2.5% | 12.0% | 0.37% |
| Total / Average | | 100.0% | 25.5% | 0.64% |



PMI

# Key Assumptions

**Milliman made the following additional assumptions in the analysis of return on equity:**

- **An average risk-to-capital ratio of 19.5:1 for the primary mortgage insurer prior to reinsurance.**
  - Viewed in the context of an MI capital model, Milliman concluded that the 19.5:1 ratio appeared to be conservative and reasonable when applied each year in a 10-year model.
  - The assumption is consistent with PMI's long-term pricing assumptions and below the statutory limit of 25:1.
- **PMI receives capital credit for the trust account assets maintained on its behalf by its captive reinsurance partners.**
  - PMI represented that two rating agencies recognize the trust assets in their capital models.
- **The amount of funds held in trust by the captives (and thus credited to PMI in its net capital calculations) could be estimated using a 7.5:1 risk-to-capital ratio.**
  - It is the mid-point between the reinsurers' minimum (10:1) and dividend-eligible (5:1) risk-to-capital requirements.
  - *PMI's current deep-cede captive reinsurers have an average ratio of 5.4:1.*
- **All reinsured losses are satisfied through sufficient capital and cross-collateralization.**



PMI

# The PMI Group, Inc.

PMI

# EXHIBIT 25

# Atrium Reinsurance Corporation

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

# ATRIUM REINSURANCE CORPORATION

**Table of Contents**

**[OPEN TO INSERT]**

**ATRIUM REINSURANCE CORPORATION**
**STATUTORY BALANCE SHEET**

| | As of December 31, 2010 |
|---|---|
| **ADMITTED ASSETS** | |
| Cash and cash equivalents | $ 984,986 |
| Restricted short-term investments | 11,680,748 |
| Invested assets, held in trust | 252,800,347 |
| Premiums in course of collection | 5,898,600 |
| Interest due and accrued | 1,075,177 |
| Federal income taxes receivable from parent | 5,608,308 |
| Deferred tax asset | 10,352,928 |
| **Total admitted assets** | $ 288,401,094 |
| **LIABILITIES, CAPITAL AND SURPLUS** | |
| Loss and loss adjustment expense reserves | $ 113,411,535 |
| Statutory contingency reserves | 111,215,554 |
| Ceding commissions payable | 586,599 |
| Unearned premiums | 348,703 |
| Due to affiliates | 24,440 |
| Other liabilities | 468,016 |
| **Total liabilities** | 226,054,847 |
| **CAPITAL AND SURPLUS** | |
| Common stock, no par value; 1,000 shares authorized, issued and outstanding | 1,500,000 |
| Additional paid-in capital | 57,089,446 |
| Unassigned surplus | 3,756,801 |
| **Total capital and surplus** | 62,346,247 |
| **Total liabilities, capital and surplus** | $ 288,401,094 |

See accompanying Notes to Statutory Financial Statements.

**ATRIUM REINSURANCE CORPORATION**
**STATUTORY STATEMENT OF OPERATIONS**

| | Year Ended December 31, 2010 |
|---|---|
| **UNDERWRITING INCOME** | |
| Premiums earned | $ 27,070,655 |
| Total underwriting income | 27,070,655 |
| **UNDERWRITING EXPENSES** | |
| Loss and loss adjustment expenses | 43,105,008 |
| Ceding commissions | 2,737,169 |
| Premium tax expenses | 49,950 |
| Total underwriting expenses | 45,892,127 |
| **Net underwriting loss** | (18,821,472) |
| General and administrative expenses | (467,758) |
| Net investment income | 1,843,186 |
| **Loss before federal income taxes** | (17,446,044) |
| Federal income tax benefit | 5,604,841 |
| **Net loss** | $ (11,841,203) |

See accompanying Notes to Statutory Financial Statements.

**ATRIUM REINSURANCE CORPORATION**
**STATUTORY STATEMENT OF CHANGES IN CAPITAL AND SURPLUS**

| | Year Ended December 31, 2010 |
|---|---|
| **CAPITAL AND SURPLUS, January 1, 2010**[1] | $ 57,089,446 |
| Net loss | (11,841,203) |
| Issuance of common stock | 1,500,000 |
| Decrease in statutory contingency reserves | 20,094,950 |
| Change in deferred tax asset | 501,274 |
| Other | 1,780 |
| Dividend to parent | (5,000,000) |
| Increase in capital and surplus | 62,346,247 |
| **CAPITAL AND SURPLUS, December 31, 2010** | $ 62,346,247 |

(1) Represents capital transferred from PHH Corporation on January 1, 2010. See Note 1 – Summary of Significant Accounting Policies for more information.

See accompanying Notes to Statutory Financial Statements.

**ATRIUM REINSURANCE CORPORATION**
**STATUTORY STATEMENT OF CASH FLOWS**

| | Year Ended December 31, 2010 |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Premiums collected | $ 28,156,348 |
| Losses paid | (38,164,105) |
| Other underwriting expenses paid | (2,862,743) |
| Cash used in underwriting activities | (12,870,500) |
| Net investment income received | 1,969,914 |
| Other expenses paid | (91,899) |
| **Net cash used in operating activities** | (10,992,485) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Cost of investments acquired | (399,401,476) |
| Proceeds from sales, maturities and calls of investments | 145,552,535 |
| **Net cash used in investing activities** | (253,848,941) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Issuances of common stock | 1,500,000 |
| Dividend to parent | (5,000,000) |
| **Net cash used in financing activities** | (3,500,000) |
| Net decrease in cash and cash equivalents and restricted short-term investments | (268,341,426) |
| **Cash and cash equivalents and restricted short-term investments, beginning of year[(1)]** | 281,007,160 |
| **Cash and cash equivalents and restricted short-term investments, end of year** | $ 12,665,734 |

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(1) Represents cash transferred from PHH Corporation on January 1, 2010. See Note 1 – Summary of Significant Accounting Policies for more information.

See accompanying Notes to Statutory Financial Statements.

## NOTES TO STATUTORY FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

**OWNERSHIP AND BASIS OF PRESENTATION**

Atrium Reinsurance Corporation ("the Company") is a wholly-owned subsidiary of PHH Corporation ("Parent" or "PHH"). The Company was incorporated under the laws of the State of Vermont and commenced operations on November 24, 2009 as a single parent captive insurance company. The Company was established to assume the ongoing run-off premium and liabilities of Atrium Insurance Corporation ("Atrium Ins"), a reinsurer organized under the laws of New York and a wholly-owned subsidiary of PHH Corporation, through assumption and novation agreements. The Company was capitalized and the risk was transferred from Atrium Ins Corporation on January 1, 2010.

Through reinsurance assumption and novation agreements with United Guaranty Residential Insurance Company ("UGRIC") and Genworth Mortgage Insurance Corporation ("Genworth"), the Company provides reinsurance coverage for excess of loss layers of mortgage insurance on mortgage loans originated by affiliates of PHH. At the time risk was transferred from Atrium Ins both reinsurance agreements were inactive and in run-off.

The Company's statutory financial statements are presented in accordance with accounting practices prescribed or permitted by the Vermont Department of Banking, Insurance, Securities and Health Care Administration (the "Department"). The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of 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.

Accounting practices prescribed or permitted by the Department, while common in the insurance industry, varies in some respects from accounting principles generally accepted in the United States of America. 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;
- 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 flows does not provide for a reconciliation of indirect cash flows.

**ADOPTION OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**[OPEN TO INSERT]**

**PERMITTED STATUTORY ACCOUNTING PRACTICES**

The Company, domiciled in the State of Vermont, prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Department. Prescribed statutory accounting practices include state laws, regulations and general administrative rules applicable to insurance enterprises domiciled in the State; the National Association of Insurance Commissioners ("NAIC") Annual Statement Instructions; the NAIC Accounting Practices and Procedures Manual; the Securities Valuation Manual; NAIC official proceedings; and the NAIC Examiners' Handbook. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The Company does not apply any permitted practices.

### CASH AND CASH EQUIVALENTS

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

### 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.

### INVESTED ASSETS

Invested assets consist of U.S. treasury and agency obligations and corporate obligations which have been recorded at amortized cost under the valuation standards of the NAIC. Realized gains and losses are determined based on the specific identification method and are credited or charged to income. Premiums or discounts are amortized over the life of the investment using the scientific method. Investment income is recognized as earned.

Debt securities which experience declines in value that are considered to be other-than-temporary are written down to fair value with a corresponding charge to realized loss which is recorded on the Statutory Statement of Operations. Once the security is written down, a new cost basis is established used to measure future impairments.

### 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. Commissions, premium taxes and other policy acquisition costs are expensed as incurred.

### FAIR VALUE

SSAP 100 requires consideration of three broad valuation techniques (i) the market approach, (ii) the income approach, and (iii) the cost approach. SSAP 100 requires that entities determine the most appropriate valuation technique to use, given what is being measured and the availability of sufficient inputs. SSAP 100 prioritizes the inputs to fair valuation and allows for the use of unobservable inputs to the extent that observable are not available. The Company has categorized assets and liabilities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Company categorizes financial assets and liabilities recorded as follows:

- Level 1 – Unadjusted quoted prices accessible in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities utilizing Level 1 inputs include common stocks listed in active markets and listed as derivatives. Invested assets classified within this level include money markets funds and common stock.
- Level 2 – Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly, through corroboration with observable market data (market-corroborated inputs). Invested assets classified within this level include debt securities.
- Level 3 – Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate about the assumptions market participants would use at the measurement date in pricing the asset or liability. Consideration is given to

the risk inherent in both the method of valuation and valuation inputs. The Company does not hold any Level 3 investments.

The cost of short-term investments and money market funds both approximate fair value. The fair value of U.S. Treasury Notes, agency obligations and corporate obligations comprising invested assets is determined using third party pricing services. These services utilize a variety of inputs to determine fair value including actual trade data, benchmark yield data, issuer spread data and other reference information.

Observable inputs reflect market data obtained from independent resources such as active markets or nationally recognized pricing services. In the absence of sufficient observable inputs, unobservable inputs reflect comparable securities or valuations received from various broker or dealer quotes.

**PREMIUM DEFICIENCY RESERVE**

A premium deficiency reserve is recognized when the anticipated losses, loss adjustment expenses, commissions and other acquisitions costs, and other maintenance costs exceed the recorded unearned premium 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 Statement of Operations. When evaluating whether to recognize a premium deficiency, the Company considers each ceding mortgage insurer independently and aggregates book years of business for each ceding mortgage insurer. 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.

**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 companies for loans subject to reinsurance are evaluated to assess the estimate of the actuarial-based reserve. The Company does not discount loss and loss adjustment expense 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. Insurers must set aside fifty cents of each premium dollar earned and maintain 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 in the states the Company does business. Upon approval by the Vermont 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. The Company has no material income tax uncertainties with respect to positions taken or expected to be taken in income tax returns.

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.

**DIVIDENDS TO SHAREHOLDER**

The Company is subject to the insurance statutes of the Department, which provide that the Company must obtain 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. Dividends declared in excess of unassigned surplus are treated as a reduction of paid-in capital.

**SUBSEQUENT EVENTS**

The Company evaluates subsequent events with respect to the Statutory Financial Statements through the respective date of issuance which was June XX, 2011.

## 2. Restricted Short-Term Investments

At December 31, 2010, restricted short-term investments consisted of the following:

| | Original Cost | Fair Value |
|---|---|---|
| *Investment* | | |
| 6 Month U.S. Treasury Bills | $ 11,497,601 | $ 11,497,601 |
| Money Market Fund | 183,147 | 183,147 |
| Total restricted short-term investments | $ 11,680,748 | $ 11,680,748 |

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.

## 3. Invested Assets

The carrying value, fair value and gross unrealized gains and losses on invested assets as of December 31, 2010 are as follows:

| | Amortized Cost/Statement Value | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury Notes | $ 75,951,253 | $ 362,216 | $ (412,191) | $ 75,901,278 |
| Corporate Bonds | 71,198,595 | 562,374 | (160,580) | 71,600,389 |
| Agency Obligations[1] | 105,650,499 | 1,001,702 | (85,562) | 106,566,639 |
| Total Invested Assets | $ 252,800,347 | $ 1,926,292 | $ (658,333) | $ 254,068,306 |

(1) Represents bonds and notes issued by various agencies including, but not limited to, Fannie Mae, Freddie Mac and Federal Home Loan Banks.

The carrying value and fair value of investments in corporate bonds at December 31, 2010 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

## NOTES TO STATUTORY FINANCIAL STATEMENTS

| | Amortized Cost/Statement Value | Fair Value |
|---|---|---|
| Due within one year | $ 25,572,530 | $ 25,578,296 |
| Due after one year through five years | 113,747,234 | 114,384,517 |
| Due after five years through ten years | 7,840,094 | 7,548,864 |
| Due after ten years | — | — |
| Agency obligations | 105,640,489 | 106,556,629 |
| Total | $ 252,800,347 | $ 254,068,306 |

Proceeds from sales, maturities and calls of investments were $145.6 million. Gross realized gains and losses on sales during 2010 were $173,279 and $60,862, respectively. There were no impairments on corporate bonds during 2010.

The following schedule summarizes the available-for-sale investments with unrealized losses at December 31, 2010 by length of time in a continuous unrealized loss position.

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury Notes | $ 21,539,838 | $ 412,191 | $ — | $ — | $ 21,539,838 | $ 412,191 |
| Corporate Bonds | 11,384,035 | 160,580 | — | — | 11,384,035 | 160,580 |
| Agency Obligations | 15,636,627 | 85,562 | — | — | 15,636,627 | 85,562 |
| Total Available-for-sale | $ 48,560,500 | $ 658,333 | $ — | $ — | $ 48,560,500 | $ 658,333 |

The Company does not believe any of the above unrealized losses represent other-than-temporary impairments. Factors considered in evaluating the securities include intent to sell, whether the securities were backed by the U.S. Government or its agencies, and credit quality concerns surrounding the recovery of the full principal balance through scheduled repayments.

The principal components of net investment income for were as follows:

| | December 31, 2010 |
|---|---|
| Bonds | $ 1,994,630 |
| Cash and short-term restricted investments | 271,489 |
| Less: investment expenses | |
| Net investment income | $ 1,843,186 |

**4. Fair Value**

The following table summarizes fair value measurements by level at December 31, 2010 available-for-sale securities measured at fair value on a recurring basis. All available-for-sale securities are carried at amortized cost in accordance with statutory accounting principles. The fair value of available-for-sale securities and amounts recorded on the Statutory Balance Sheet are shown below:

| | Level One | Level Two | Level Three | Total Fair Value | Amortized Cost/ Statement Value |
|---|---|---|---|---|---|
| *Invested Assets:* | | | | | |
| U.S. Treasury Notes | $ — | $ 75,901,278 | $ — | $ 75,901,278 | $ 75,951,253 |
| Agency Obligations | — | 106,566,639 | — | 106,566,639 | 105,650,499 |
| Corporate Bonds: | | | | | |
| AAA rated | — | 50,817,398 | — | 50,817,398 | 50,661,460 |
| AA rated | — | 20,782,991 | — | 20,782,991 | 20,537,135 |
| A rated | — | — | — | — | — |
| Total Corporate Bonds | — | 71,600,389 | — | 71,600,389 | 71,198,595 |
| Total Invested Assets | $ — | $ 254,068,306 | $ — | $ 254,068,306 | $ 252,800,347 |

**5. 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. The Company assumes premiums from two primary mortgage insurance companies under reinsurance agreements which are inactive and in runoff. At December 31, 2010 premiums in course of collection were $5.9 million.

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, losses and loss adjustment expenses, as well as capital deposits, pursuant to the reinsurance agreements, are paid to and from the applicable trust accounts. At December 31, 2010 a total of $264.5 million was held in the trust accounts.

### 6. Loss and Loss Adjustment Expenses

The Company has exposure to losses through the reinsurance contracts based on mortgage loans pooled by year of origination. As of December 31, 2010, the contractual reinsurance period for each pool is 10 years and the weighted-average reinsurance period was 5 years. A summary of the activity in loss and loss adjustment expenses is as follows:

| | |
|---|---|
| Loss and loss adjustments expenses, January 1, 2010[1] | $ 108,407,632 |
| *Incurred loss and loss adjustment expenses:* | |
| Provision for insured events of the current and prior years | 43,105,008 |
| Total incurred loss and loss adjustment expenses | 43,105,008 |
| *Payments* | |
| Loss and loss adjustment expenses for insured events of the current and prior years | _ |
| Total payments | _ |
| Loss and loss adjustment expenses, December 31, 2010 | $ 113,411,535 |

(2) Represents risk transferred from PHH Corporation on January 1, 2010. See Note 1 – Summary of Significant Accounting Policies for more information.

The unpaid reinsurance losses outstanding as of December 31, 2010 were $7.5 million.

### 7. Income Taxes

The following is a reconciliation of the federal statutory income tax rate to the effective tax rate for the year ended December 31, 2010:

| | Amount | Effective Tax Rate |
|---|---|---|
| Income tax – statutory rate | $ (6,106,116) | (25.00)% |
| Loss reserves | 509,067 | 2.92 |
| Unearned premiums | (7,792) | _ |
| Total statutory income tax expense | $ (5,604,841) | |

The current tax recoverable due from PHH related to the 2010 tax year is $5.6 million.

The components of net deferred tax asset were as follows:

| | Capital | Ordinary | As of December 31, 2010 |
|---|---|---|---|
| *Deferred tax asset* | | | |
| Discounting of loss reserves | $ — | $ 10,328,519 | $ |
| Unearned premiums | — | 24,409 | |
| Total deferred tax asset | — | 10,352,928 | 10,352,928 |
| Total deferred tax liabilities | — | — | |
| Net deferred tax asset | — | 10,352,928 | - |
| Nonadmitted deferred tax asset | — | — | |
| Net deferred tax asset | $ — | $ 10,352,928 | $ 10,352,928 |

## NOTES TO STATUTORY FINANCIAL STATEMENTS

The Company has not recorded a valuation allowance against its gross deferred tax assets at December 31, 2010 as it is more likely than not it would be able to fully utilize all of its deferred tax asset.

All of the Company's deferred taxes were ordinary. The Company's net admitted adjusted deferred tax asset is as follows:

| | December 31, 2010 |
|---|---|
| Gross deferred tax asset | $ 10,352,928 |
| Valuation allowance | — |
| Adjusted gross deferred tax asset | $ 10,352,928 |
| Admitted adjusted deferred tax asset: | |
| Federal income taxes recoverable in year [a] | $ 4,118,303 |
| 10% of adjusted surplus [b] | 6,234,625 |
| Gross tax liabilities [c] | — |
| Total admitted adjusted deferred asset | $ 10,352,928 |
| Gross deferred tax liabilities | $ — |
| Net admitted adjusted deferred tax asset | 10,352,928 |
| Nonadmitted deferred tax asset | $ — |

[a] Admitted adjusted deferred tax asset amount to federal income taxes paid prior to 2010 that can be recovered through loss carrybacks for existing temporary differences that reverse by December 31, 2011.

[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 2011; or (ii) ten percent of the Company's statutory capital and surplus at December 31, 2010 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.

**8. 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.

**9. Dividend Restrictions and Capital and Surplus**

The Company is required by the Department to maintain $250,000 in cash or cash equivalents. At December 31, 2010, the Company was in compliance with the regulatory capital requirements. The Company is also subject to the insurance statutes of the Department, which includes that any payment of a dividend requires approval from the Department. During 2010, the Company was granted approval by the Department to pay a $5.0 million dividend to PHH.

**10. Reconciliation of Annual Report to the Vermont Department of Banking, Insurance, Securities and Health Care Administration to the Statutory Financial Statements for 2010**

There were no differences between the 2010 audited statutory financial statements and the Vermont Captive Insurance Company Annual Report.

## INVESTMENT RISK INTERROGATORIES

| Investment Categories | Gross Investment Holdings | | Admitted Assets as Reported in the Annual Statement | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| Bonds | | | | |
| U.S. treasury securities | $ 75,951,253 | 29% | $ 75,951,253 | 29% |
| U.S. government agency and corporate obligations (excluding mortgage-backed securities) | 71,198,595 | 27% | 71,198,595 | 27% |
| Issued by U.S. government agencies | 105,650,499 | 40% | 105,650,499 | 40% |
| 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 | — | — | — | — |
| CMOs and REMICs | — | — | — | — |
| Issued by FNMA and FHLMC | — | — | — | — |
| Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, FHLMC | — | — | — | — |
| All other privately issued | — | — | — | — |
| Other debt and other fixed income securities (excluding short-term) | — | — | — | — |
| Unaffiliated domestic securities (includes credit tenant loans rated by the SVO) | — | — | — | — |
| Unaffiliated foreign securities | — | — | — | — |
| Affiliated securities | — | — | — | — |
| Equity interests | — | — | — | — |
| Investment in mutual funds | — | — | — | — |
| Preferred stocks | — | — | — | — |
| Affiliated | — | — | — | — |
| Unaffiliated | — | — | — | — |
| Publicly traded equity securities (excluding preferred stocks) | — | — | — | — |
| Affiliated | — | — | — | — |
| Unaffiliated | — | — | — | — |
| Other equity securities | — | — | — | — |
| Affiliated | — | — | — | — |
| Unaffiliated | — | — | — | — |

## INVESTMENT RISK INTERROGATORIES

| Investment Categories | Gross Investment Holdings Amount | Gross Investment Holdings Percentage | Admitted Assets as Reported in the Annual Statement Amount | Admitted Assets as Reported in the Annual Statement 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 | 12,665,734 | 4% | 12,665,734 | 4% |
| Write-in for Invested Assets | — | — | — | — |
| **Total Invested Assets** | $ 265,466,081 | 100% | $ 265,466,081 | 100% |

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

## INVESTMENT RISK INTERROGATORIES

1. The Company's total admitted assets reported in the statutory balance sheet are $288.4 million 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:

| | | Amount | Percentage Of Total Admitted Assets |
|---|---|---|---|
| Bond | General Electric Capital Corp. | $ 11,709,652 | 4.1% |
| Bond | Citibank | 10,145,126 | 3.5% |
| Bond | Bank of New York Mellon | 5,497,193 | 1.9% |
| Bond | Proctor & Gamble Co. | 4,397,890 | 1.5% |
| Bond | JPMorgan Chase Bank | 4,262,160 | 1.5% |
| Bond | Wal-Mart Stores | 4,231,627 | 1.5% |
| Bond | Goldman Sachs Group | 4,118,000 | 1.4% |
| Bond | Morgan Stanley | 4,042,800 | 1.4% |
| Bond | MassMutual Global Funding | 3,613,225 | 1.3% |
| Bond | New York Life Global Funding | 3,544,805 | 1.2% |

3. The amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating are as follows: NAIC 1 - $252.8 million which represented 88% of total admitted assets.

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.

**INVESTMENT RISK INTERROGATORIES**

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 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.

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

EXHIBIT 26

[redacted]

Protective Order



[redacted]

[redacted]

[redacted]

Protective Order



[redacted]

Protective Order



[redacted]

Protective Order



[redacted]

Protective Order



[redacted]

[redacted]

Protective Order



[redacted]

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[redacted]

[redacted]

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Protective Order



[redacted]

[redacted]

[redacted]

[redacted]

# EXHIBIT 27

UNITED GUARANTY REINSURANCE AGREEMENT NO. 3-38

## REINSURANCE AGREEMENT

This Reinsurance Agreement (the "Agreement") is made and entered into as of November 9, 1995 by and between UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY ("Ceding Company") , a North Carolina corporation, and ATRIUM INSURANCE CORPORATION ("Reinsurer"), a New York corporation. Ceding Company and Reinsurer may also hereinafter be referred to collectively as the "Parties" or individually as a "Party."

WITNESSETH:

In consideration of the mutual agreements herein contained, the Parties agree as follows:

1. Definitions:

The following terms in quotation marks, when capitalized, shall have the meanings in this Agreement as set forth below:

1.1 "Approved Originator" shall mean the entity or entities named on Schedule A attached to this Agreement, as Schedule A may be amended from time to time in accordance with Section 2.2.

1.2 "Business Day" shall mean any regularly scheduled work day for employees of the U.S. Government.

1.3 "Ceding Company" shall have the meaning set forth in the Preamble.

1.4 "Claim Payment" shall mean, with respect to a Reinsured Loan, the amount actually paid by Ceding Company to an Insured as required by the applicable Policy.

1.5 "Claims-Related Extra Contractual Obligation" shall mean, with respect to a Reinsured Loan, any amount for which Ceding Company is liable as a result of a judgement, settlement or arbitration, or otherwise, to an Insured or a third-party claimant, where such liability has arisen because of:

(a) the failure of Ceding Company to pay a claim within Policy limits, or

bad faith or negligence (but not wilful and wanton misconduct) in investigating or handling a claim or in rejecting an offer of settlement.

Any Claims-Related Extra Contractual Obligation shall be deemed to have been incurred on the same date as the event giving rise to the claim to which such Claims-Related Extra Contractual Obligation is related.

1.6 "Commissioner" shall mean the Commissioner of Insurance of North Carolina and the commissioner of insurance of any other jurisdiction where Ceding Company is licensed to the extent that any such other jurisdiction has, or asserts, jurisdiction over the transactions covered by this Agreement.

1.7 "Cumulative Paid Loss Ratio" shall mean that ratio, expressed as a percentage, obtained by dividing

(a) Ultimate Net Losses by

(b) Gross Written Premiums.

1.8 "Default" shall have the same meaning in this Agreement as that term or an equivalent term has in a Policy.

1.9 "Gross Written Premiums" mean, with respect to Reinsured Loans, gross written premiums received by Ceding Company, after the effective date of this Agreement, less cancellation and return premiums (returned for whatever reason).

1.10 "Insured" shall have the same meaning in this Agreement as that term or an equivalent term has in a Policy.

1.11 "Loss" shall have the same meaning in this Agreement as that term or an equivalent term has in a Policy. In particular, a Loss shall be deemed to have occurred, or to have been incurred, when a Default occurs, notwithstanding that the amount of the Loss is not then either presently ascertainable or due and payable.

1.12 "Mortgage Guaranty Insurance" shall mean insurance against financial loss by reason of nonpayment of principal, interest and other sums agreed to be paid under the terms of any note, bond or other evidence of indebtedness secured by a mortgage, deed of trust, or other instrument constituting or equivalent to a first lien or charge on

(a) real estate, provided the improvement on such real estate is a residential building or a condominium or manufactured or mobile housing deemed to be real estate or buildings designed for occupancy by not more than four (4) families, or

(b) an ownership interest in, and a proprietary lease from, a corporation or partnership formed for the purpose of the cooperative ownership or real estate.

1.13 "Party" and "Parties" shall have the meaning set forth in the Preamble.

1.14 "Policy" shall mean any Mortgage Guaranty Insurance policy or master policy, and any certificates issued thereunder and endorsements attached thereto, that provides coverage for an individual loan.

1.15 "Property" shall have the same meaning in this Agreement as that term or an equivalent term has in a Policy.

1.16 "Quarterly Cycle" shall mean a three (3) month period ending on a March 31, June 30, September 30 or December 31.

1.17 "Reinsurance Claim" shall mean the amount payable by Reinsurer to Ceding Company.

1.18 "Reinsurance Premiums" shall mean ten percent (10%) of the Gross Written Premiums.

1.19 "Reinsured Loan" shall mean a loan originally insured under a Policy issued by Ceding Company to an Approved Originator, provided that the effective date of coverage for such loan is (a)(i) on or after the effective date of this Agreement or (ii) on or after October 1, 1993, if there is an additional premium paid by the Insured to Ceding Company for coverage for such loan after the effective date of this Agreement and, in either event, (b) before the termination of this Agreement.

1.20 "Reinsurer" shall have the meaning set forth in the Preamble.

1.21 "Ultimate Net Losses" shall mean, with respect to the Reinsured Loans, the ultimate net losses sustained by Ceding Company after the effective date of this Agreement, including, but not limited to,

(a) Claim Payments, and

(b) allocated loss adjustment expenses actually paid by Ceding Company to unaffiliated third parties with respect to Claim Payments, and all reasonable out-of-pocket expenses incurred by Ceding Company in connection with the settlement of Losses or negotiations concerning a Loss, including those which are the result of actions and/or disputes between the Insured and Ceding Company and sums paid in settlement of or resistance to claims and suits and in satisfaction of judgments, including prejudgment interest when added to a judgment, and

(c) any Claims-Related Extra Contractual Obligations

less

(d) any salvage or recovery, whether recovered or received prior or subsequent to settlement under this Agreement, shall be applied as if recovered or received prior to the settlement and shall be first deducted from the actual loss sustained to arrive at the Ultimate Net Loss.

Salvage or recovery shall not include amounts recoverable by Ceding Company under any other reinsurance agreement and nothing in this Agreement shall be construed to mean losses are not recoverable hereunder until the Ultimate Net Loss to Ceding Company has been ascertained.

2. Applicability of Agreement:

2.1 Reinsurer shall indemnify Ceding Company for net excess cumulative liability, as provided in Section 3 of this Agreement, with respect to Reinsured Loans, that may accrue to Ceding Company as a result of any Loss incurred during the term of this Agreement.

2.2 The Parties agrees that Schedule A may be amended

(a) to add an affiliate of Reinsurer that is not then listed on Schedule A, by Reinsurer notifying Ceding Company that such affiliate is to be added to Schedule A and Ceding Company shall, within a reasonable time thereafter, execute an amended Schedule A to reflect the addition of any such affiliate and such amendment shall be effective as of the date that Ceding Company receives such notice from Reinsurer, unless Reinsurer specifies a later date when the amended Schedule A shall be effective. For purposes of this Agreement, an affiliate of Reinsurer is any company or other entity that is shown or is required to be shown on a holding company disclosure statement filed by, or with respect to, Reinsurer, or

(b) to add any other entity not then listed on Schedule A, by the mutual written agreement of the Parties, and such amended Schedule A shall be effective as of the date the Parties may mutually agree and set forth in the amended Schedule A.

3. Amount of Cover:

Reinsurer shall be liable for and shall reimburse Ceding Company for fifty percent (50%) of all Losses paid by Ceding Company with respect to Reinsured Loans in excess of cumulative Ultimate Net Losses that produce, at the end of a Quarterly Cycle, a Cumulative Paid Loss Ratio of seventy-five percent (75%); however, in no event shall Reinsurer be liable for that portion of any Losses that produce a Cumulative Paid Loss Ratio of one hundred twenty percent (120%) or more. The Cumulative Paid Loss Ratio shall always be computed on an inception-to-date basis, at the end of each Quarterly Cycle. If, with respect to the Cumulative Paid Loss Ratio computed at the end of a Quarterly Cycle, Reinsurer has a credit balance with respect to reimbursements previously paid hereunder (i.e., based on the latest computed Cumulative Paid Loss Ratio, the inception to date reimbursement paid exceeds the amount then due on an inception to date basis), Ceding Company shall return so much thereof as may then be necessary based on the latest Cumulative Paid Loss Ratio.

4. Follow the Fortunes:

4.1 Reinsurer's liability shall attach simultaneously with that of Ceding Company and shall be subject in all respects to the same risks, terms, conditions, interpretations, waivers, and to the same modifications, alterations and cancellations as the respective insurance of Ceding Company, the true intent of this Agreement being that Reinsurer shall, in every case to which this Agreement applies, follow the fortunes of Ceding Company.

4.2 Nothing in this Agreement shall in any manner create any obligations or establish any rights against Reinsurer in favor of any third parties or any persons not parties to this Agreement.

5. Effective Date, Term and Termination:

5.1 This Agreement shall be effective as of 12:01 a.m., Eastern Time, on the date first set forth herein and shall remain in force continuously, subject to cancellation as set forth in this Section 5.

5.2 Either Party may terminate its participation in this Agreement as of 11:59 p.m., Eastern Time, at the end of a Quarterly Cycle, by providing at least ninety (90) days' prior written notice thereof to the other Party by certified U.S. Mail with return receipt requested, or by other delivery service wherein the sender receives a receipt noting the date of delivery.

5.3 Either Party may immediately terminate this Agreement in the event that the other should at any time become insolvent, or suffer any impairment of capital, or go into or be placed in liquidation or rehabilitation, or have a receiver or conservator appointed, or if any law or regulation of any federal agency or any state in which Ceding Company is doing business should render this Agreement illegal. Ceding Company may cease ceding additional risk under this Agreement or terminate this Agreement if so ordered by the Commissioner. Ceding Company shall have the right to terminate this Agreement if, at any time, financial statement credit is disallowed, by any state in which Ceding Company is licensed, for the cession of risk under this Agreement.

5.4 Either Party may terminate this Agreement at any time if:

(a) any payment to be made hereunder by the other Party is more than ten (10) days overdue, and said payment has not been made within five (5) days after written notice to pay has been served upon the Party not paying, or

(b) there is a material breach by the other Party with respect to any of its representations, warranties or obligations set forth herein, and said breach has not been cured within ten (10) days after written notice to cure said breach has been served upon the Party committing said breach.

5.5 Notwithstanding any termination as provided for in this Agreement, Reinsurer shall continue to be liable, subject to all other terms and conditions of this Agreement, with respect to all Reinsured Loans until the natural expiration, cancellation or termination of coverage of each Reinsured Loan, in which event Reinsurer shall continue to receive the applicable Reinsurance Premiums with respect thereto, unless Ceding Company specifies that such termination shall be on a clean-cut basis with portfolio transfer, in which event Reinsurer shall not continue to receive Reinsurance Premiums with respect thereto. After termination, Reinsurer will, at the request of Ceding Company, furnish to Ceding Company statements, if there are any, reflecting application of the NAIC Insurance Regulatory Information System ("IRIS") test to Reinsurer's quarterly and annual statements (which Reinsurer hereby agrees to provide to Ceding Company upon request) and if four (4) or more values are outside of the usual range established in the IRIS system, Ceding Company shall have the option of an immediate settlement of all present and future obligations under this Agreement.

6. Reinsurance Premiums and Taxes:

6.1 Ceding Company shall pay Reinsurance Premiums to Reinsurer quarterly as set forth in Section 10.

6.2 Ceding Company shall be liable for any and all premium taxes imposed on premiums written with respect to Policies covering Reinsured Loans, and on any Reinsurance Premiums paid to Reinsurer hereunder and Ceding Company shall reimburse Reinsurer for any such taxes paid by Reinsurer.

7. Capital and Reserves:

The respective Parties shall establish and maintain all such capital and all such reserves as may be required with respect to unearned premiums, contingency reserves, claims, Loss or loss adjustment expenses relating to each risk.

8. Claim Settlement and Inspections:

8.1 All Losses, compromises of Losses and expenses and allowances in consequence of a claim for benefits under a Policy shall be settled by Ceding Company. Ceding Company agrees to settle each claim under a Policy in a manner which, in its good faith opinion, is in accordance with the terms and conditions of the Policy as interpreted in good faith by Ceding Company. Nevertheless, Ceding Company shall have the authority to grant reasonable extensions of time for the filing of claims and to waive notice requirements by Insureds and such other technical Policy violations as it deems reasonable and prudent to effectuate a good faith application of the terms imposed by the Policy.

8.2 Reinsurer or its duly accredited representative shall have the right from time to time at any time during the term and within a reasonable time after the termination of this Agreement to request and obtain information and copies of papers (including any printed, written, recorded, taped, electronic, graphic, computerized printout or other tangible matter) and files in connection with any Policy or Reinsured Loan and shall have the privilege to inspect all books, records, agreements and papers in connection with any Policy or with respect to any Reinsurance Claim, Gross Written Premium, Reinsurance Premium, Ultimate Net Losses, if any, and salvage or recovery. Reinsurer or its duly accredited representative shall also be entitled, from time to time, at any time during the term and within a reasonable time after the termination of this Agreement to audit Ceding Company's said documents, books and papers to determine the accuracy of any report required or Reinsurance Claim, Gross Written Premium, Reinsurance Premium, Ultimate Net Losses, salvage, or recovery. Such inspections and audits shall be conducted during usual business hours at Ceding Company's office where such records are regularly maintained. If such audit shows that there is a deficiency in any payments due hereunder, then the deficiency shall become immediately due and payable.

9. Reinsurance Claim Procedures:

9.1 Ceding Company shall file Reinsurance Claims with Reinsurer as provided for herein in a form approved by the Parties. Payments due from Reinsurer for Reinsurance Claims shall be made to Ceding Company. Ceding Company shall pay all expenses pertaining to reporting to Reinsurer.

9.2 Except as provided by Section 8.1, no Reinsurance Claim shall be made by Ceding Company or payable by Reinsurer unless and until all terms and conditions of the Policy with respect to the Claim Payment which is the basis for such Reinsurance Claim have been complied with and satisfied, and Ceding Company has paid the Insured all amounts due with respect to such Loss.

9.3 All Reinsurance Claims shall be filed within the time period set forth in Section 10 hereof. Such Reinsurance Claims shall be made by personal delivery to Reinsurer, or by deposit in the U.S. Mail, postage prepaid, addressed to Reinsurer at its address set forth herein. Ceding Company shall also furnish upon the request of Reinsurer, made within a reasonable period, not to exceed one hundred eighty (180) days after the end of the Quarterly Cycle for which such Reinsurance Claims were submitted, true and complete copies of all of its records and information concerning such Reinsurance Claims, and Ultimate Net Losses, for verification by Reinsurer. Ceding Company shall not unreasonably deny requests for copies of such documentation for purposes of verification after the one hundred eighty (180) day period has elapsed if Reinsurer demonstrates good cause for such request. Reinsurer shall pay all Reinsurance Claims within the time period set forth in Section 10 hereof.

10. Reports and Remittances:

10.1 Quarterly Reports. Within forty-five (45) days after the end of each Quarterly Cycle, Ceding Company shall submit to Reinsurer reports by type of insurance for such Quarterly Cycle containing the following information:

(a) Insurance in Force. As of the end of such Quarterly Cycle, gross insurance in force for all risk, including gross risk outstanding and gross unearned premiums thereon, before any deduction for reinsurance hereunder, all in summary fashion.

(b) Premiums. The aggregate loan balances for which either an initial premium or renewal premium therefor was paid to Ceding Company during such Quarterly Cycle, the Policy number, the premiums written and unearned premiums both in gross and in the net amount due Reinsurer, and showing cancellation and return premiums, all in summary fashion.

(c) Property Acquired. As of the end of such Quarterly Cycle, the number of Properties that it has acquired (but not sold) pursuant to a Policy, its cost in acquiring such Properties, the amount of reserve therefor that Ceding Company has established, without any deduction for reinsurance.

(d) Reinsurance Claims. Ultimate Net Losses and the Reinsurance Claim, if any, due from Reinsurer.

(e) Loss Reserves. Loss reserves established by the Ceding Company with respect to the Reinsured Loans.

(f) Reinsurance Premiums. Reinsurance Premiums due from Ceding Company.

10.2 Annual Reports. Within forty-five (45) days after the end of each calendar year, Ceding Company shall submit to Reinsurer a report for that calendar year listing Policies in force under this Agreement in the aggregate, gross loan amount in force, gross risk outstanding, insurance in force hereunder by state and risk outstanding hereunder by state.

10.3 Additional Information. Such quarterly and annual reports shall also contain such additional information as may be required under this Agreement or as may be reasonably requested from time to time by Reinsurer from Ceding Company or Ceding Company from Reinsurer, and such reports shall in all events provide sufficient information to allow

Reinsurer to meet the filing requirements of the NAIC Annual Convention Statement, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or any other regulatory agency or rating entity or Ceding Company to meet all requirements of the NAIC, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or any other regulatory agency or rating entity.

10.4 Remittances. The balance after offset due to a Party by the other Party hereunder shall be paid

(a) if to Ceding Company, within fifteen (15) days following the receipt by Reinsurer of a quarterly report delivered pursuant to Section 10.1 for such Quarterly Cycle; or

(b) if to Reinsurer, within forty-five (45) days after the end of a Quarterly Cycle and as an accompaniment to the quarterly report delivered pursuant to Section 10.1 for such Quarterly Cycle.

All Reinsurance Premiums and Reinsurance Claims due hereunder and all accountings rendered and settlements made hereunder shall be in United States Dollars.

11. Representations:

11.1 Representations by Ceding Company. Ceding Company makes the following representations and warranties:

(a) It is duly authorized and qualified to carry on the business of Mortgage Guaranty Insurance in each state where a Policy was issued and meets the requirements for carrying on such business.

(b) It has taken all corporate action necessary to enable it to enter into and carry out this Agreement.

(c) It is qualified as a writer of Mortgage Guaranty Insurance on loans to be purchased by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association.

(d) All reports required and all Reinsurance Claims submitted hereunder shall be accurate and complete.

(e) No Reinsurance Claim shall be submitted to Reinsurer except in connection with a Loss on a Reinsured Loan reinsured under the Agreement.

(f) Each such warranty and representation is material to this Agreement and relied upon by Reinsurer in entering into this Agreement. Each such representation and warranty shall continue to be true during the term of this Agreement.

11.2 Representations by Reinsurer. Reinsurer makes the following representations and warranties:

(a) It is duly authorized, and has the legal capacity, to accept and to write the reinsurance contemplated by this Agreement.

(b) It has taken all corporate action necessary to enable it to enter into and carry out this Agreement.

(c) Each such warranty and representation is material to this Agreement and relied upon by Ceding Company in entering into this Agreement. Each such representation and warranty shall continue to be true during the term of this Agreement.

12. Insolvency of Ceding Company:

12.1 Any risk or obligation assumed by Reinsurer pursuant to this Agreement shall be payable by Reinsurer on the basis of its liability under this Agreement without diminution because of any insolvency of Ceding Company. In the event of insolvency and the appointment of a conservator, liquidator or statutory successor of Ceding Company, all Reinsurance Claims shall be payable to such conservator, liquidator or statutory successor in accordance with this Agreement, with reasonable provision for verification, on the basis of Claims allowed against Ceding Company by any court of competent jurisdiction or by any conservator, liquidator or statutory successor of Ceding Company having authority to allow such claims, without diminution because of such insolvency or because such conservator, liquidator or statutory successor has failed to pay all or a portion of any such claim. Payments by Reinsurer as set forth above shall be made directly to Ceding Company or to its conservator, liquidator or statutory successor.

12.2 The conservator, liquidator or statutory successor of Ceding Company shall give written notice of the filing of a claim against Ceding Company within a reasonable time after such claim is filed, and Reinsurer may interpose, at its own expense, in the proceedings where such claim is, or may be adjudicated, any defense or defenses which it may deem available to Ceding Company or its conservator, liquidator or statutory successor. The expense thus incurred by Reinsurer shall be payable subject to court approval out of the estate of Ceding Company as part of the expenses of conservation or liquidation to the extent of a proportionate share of the benefit which may accrue to Ceding Company in conservation or liquidation, solely as a result of the defense undertaken by Reinsurer.

12.3 Trust Agreement or Accreditation:

12.4 To support Reinsurer's obligations under this Agreement, and in conformity with law, Reinsurer shall enter into a trust agreement (the "Trust Agreement") for the benefit of Ceding Company, which Trust Agreements shall be in a form approved by the Commissioner. The Trust Agreement shall be funded in an amount at least equal to all reserves (other than the contingency reserve) associated with the risk ceded under this Agreement and all other sums due, or which may be due, from Reinsurer under this Agreement. Ceding Company shall be the sole judge of the amounts required, from time to time and at any time, to be deposited by Reinsurer into the Trust Agreement, provided that Ceding Company shall not act unreasonably or arbitrarily in calculating or estimating such amounts.

12.5 In order to assure that Ceding Company receives financial statement credit for the reinsurance provided by this Agreement, the Trust Agreement must be adequately funded by the "as of" date of each annual or quarterly financial statement to be filed by Ceding Company with the appropriate regulatory authorities. Accordingly, Ceding Company shall estimate the amounts required by the Trust Agreement on or before each "as of" date and shall notify Reinsurer, not later than thirty (30) days before such "as of" date, of such amount and Reinsurer shall make a deposit of such funds, not later than five (5) days before the "as of" date, into the Trust Agreement. Ceding Company shall use its best efforts to make such estimates as accurate as possible; however, to avoid the disallowance of any credit for the reinsurance provided by this Agreement, Reinsurer acknowledges and agrees that such estimates shall be based on the maximum amount Ceding Company, in its sole judgment, anticipates may be required. When the actual calculations are made for the amounts needed pursuant to the Trust Agreement to allow Ceding Company financial statement credit for the reinsurance provided by this Agreement, any excess amounts (determined in accordance with the Trust Agreement) held pursuant to the Trust Agreement shall be returned to Reinsurer in accordance with the Trust Agreement.

12.6 All assets deposited pursuant to the Trust Agreement shall be valued in accordance with the terms and conditions of the Trust Agreement.

12.7 Reinsurer, prior to depositing assets with the trustee under the Trust Agreement, shall execute assignments, endorsements in blank, or transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that Ceding Company, or such trustee upon the direction of Ceding Company, may whenever necessary negotiate any such assets without consent or signature from Reinsurer or any other entity.

12.8 Ceding Company and Reinsurer stipulate and agree that the assets in the Trust Agreement may be withdrawn by Ceding Company at any time, notwithstanding any other provision in this Agreement, and shall be utilized and applied by Ceding Company, including, without limitation, any liquidator, rehabilitator, receiver or conservator of Ceding Company, without diminution because of insolvency on the part of Ceding Company or Reinsurer, to pay amounts Ceding Company claims are due under this Agreement.

12.9 Subject to Section 5.3, the foregoing Trust Agreement shall not be required in the event that Reinsurer becomes accredited as a reinsurer, in accordance with North Carolina General Statutes §58-7-21(b)(2), authorized to reinsure mortgage guaranty insurance in North Carolina or becomes licensed to write mortgage guaranty insurance in the State of North Carolina.

13. Jurisdiction and Agent for Service of Process:

13.1 In accordance with North Carolina General Statutes §58-7-21(b)(6), as it may be amended from time to time:

(a) If Reinsurer fails to perform its obligations under the terms of this Agreement, Reinsurer, at Ceding Company's request, shall submit to the jurisdiction of any court of competent jurisdiction in any state of the United States, shall comply with all requirements necessary to give the court jurisdiction, and shall abide by the final decision of the court or of any appellate court if there is an appeal.

(b) Reinsurer designates the Commissioner as its true and lawful attorney upon whom may be served any lawful process in any action, suit, or proceeding begun by or on behalf of Ceding Company.

14. Arbitration:

14.1 All disputes or differences arising out of the interpretation of this Agreement shall be submitted to the decision of two arbitrators, one to be chosen by each Party, and in the event of the arbitrators failing to agree, to the decision of an umpire to be chosen by the arbitrators. The arbitrators and umpire shall be disinterested active or retired officials of fire or casualty insurance or reinsurance companies, but may not be active or retired executive officials of mortgage guaranty insurance companies. If either Party fails to appoint an arbitrator or umpire within one month of a request in writing by either of them to do so, such arbitrator or umpire, as the case may be, shall at the request of either party be appointed by a Judge of the Superior Court of the North Carolina General Court of Justice or a Judge of the U. S. District Court for the Middle District of North Carolina.

14.2 The arbitration proceeding shall take place in New York, New York. Each Party shall submit its case to the arbitrators within one (1) month after receipt of notice of the selection of the umpire unless the period is extended by the arbitrators or by agreement of the Parties. The arbitrators and umpire are relieved from all judicial formality and may abstain from following the strict rules of law. They shall settle any dispute under the Agreement according to an equitable rather than a strictly legal interpretation of its terms.

14.3 Each party shall bear the expenses of his arbitrator and shall jointly and equally share with the other the expenses of the umpire and of the arbitration.

14.4 This Article shall survive the termination of this Agreement.

15. <u>General</u>:

15.1 <u>Errors and Omissions</u>. Reinsurer shall not be relieved of liability by reason of an error or accidental omission by Ceding Company in reporting any Claim, provided that such error or omission is rectified promptly after discovery, and Reinsurer is not materially prejudiced thereby. Reinsurer will not be liable for Reinsurance Claims resulting from dishonesty or fraud on the part of Ceding Company's employees, agents or representatives.

15.2 <u>Amendments</u>. This Agreement may be amended only with the written consent of both Parties; provided, however, that no amendment to this Agreement shall be effective until approved by the Commissioner and further provided that the Parties hereby consent to any amendment required or ordered by the Commissioner. If Reinsurer objects to any amendment required or ordered by the Commissioner, then Reinsurer shall have the right to terminate this Agreement, after the date the Commissioner requests or orders such amendment, upon thirty (30) days' notice.

15.3 Applicable Law. This Agreement, and future amendments hereto, shall be subje construed in accordance with the substantive laws of the state of North Carolin arbitration under this Agreement or any dispute concerning the right to arbitration s governed by the Federal Arbitration Act (9 U.S.C. Section 1 et seq.) and not by the law state of North Carolina.

15.4 Entire Agreement. This Agreement embodies the entire agreement and understa between the Parties and supersedes all prior agreements and understandings, oral or wr relating to the subject matter hereof.

15.5 Notices and Reports. Except as otherwise specifically set forth herein, all notices reports to be given by a party shall be in writing and shall be sufficiently given if sent prepaid U.S. Mail, and every such notice and report shall be conclusively deemed to have b given on the third (3rd) Business Day following the date of mailing thereof. The address the Parties for notices and reports are as follows:

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY
230 North Elm Street, 7th Floor
Greensboro, North Carolina 27401-2402
or
PO Box 21567
Greensboro, NC 27420-1567
and, in either case,
Attn: Actuarial & Economic Research Department (for notices)
Accounting Department (for financial reporting)

ATRIUM INSURANCE CORPORATION
590 Fifth Avenue
New York, New York 10036

Either party may from time to time by notice as provided in this section designate a different address to which such notices shall be sent.

15.6 Exercise of Rights. The failure or refusal by either Party to exercise any rights granted hereunder shall not constitute a waiver of such rights or preclude the subsequent exercise thereof, and no verbal communication shall be asserted as a waiver of any such rights hereunder unless such communication shall be confirmed in writing, and signed by the Party against whom such waiver is asserted, plainly expressing an intent to waive such rights.

...ublicity. No Party shall use the other Party's name or describe its role or Ceding Company, as the case may be, in any publicity releases by one Party other Party's written consent.

15.8 Successors and Assigns. This Agreement shall inure to the benefit of, and sha successors and assigns of the Parties.

15.9 Counterparts. This Agreement may be executed in any number of counterpart which shall be deemed as original but all of which together shall constitute one and instrument.

15.10 Titles. Titles used for Sections are for convenience of reference only and are of the terms and conditions of this Agreement.

15.11 Offset. Each Party hereto shall have, and may exercise at any time and from ti time, the right to offset any undisputed balance or balances, whether on account of prem or on account of losses or otherwise, due from such Party to the other (or, if more than any other) Party hereto under this Agreement or under any other reinsurance agreer heretofore or hereafter entered into by and between them, and may offset the same against undisputed balance or balances due to the former from the latter under the same or any ot reinsurance agreement between them, and the Party asserting the right of offset shall have a may exercise such right whether the undisputed balance or balances due to such Party fro the other are on account of premiums or on account of Losses or otherwise and regardless ( the capacity, whether as assuming insurer or a ceding insurer, in which each Party acted unde the agreement or, if more than one, the different agreements involved, provided, however, that, in the event of the insolvency of a Party hereto, offset shall only be allowed in accordance with the provisions of Section 7427 of the Insurance Law of the State of New York, as it may be amended from time to time.

15.12 Confidentiality. The Parties hereby acknowledge that certain information exchanged by them pursuant to this Agreement is confidential, sensitive, or proprietary in nature. A Party may designate such information as "Confidential" by written notice to the other Party at the time of initial disclosure of such information. Each Party agrees that such "Confidential" information shall be used solely for the purpose of ceding or assuming reinsurance under the terms and conditions of this Agreement and shall be disclosed only to employees, agents, and representatives of the Party as is necessary for the performance of that Party's obligations under this Agreement. Such employees, agents, and representatives shall use reasonable safeguards to maintain the confidentiality of such information and to prevent its disclosure to any person not authorized to receive such information.

IN WITNESS WHEREOF, this Agreement has been duly executed in duplicate counterparts by the Parties.

UNITED GUARANTY RESIDENTIAL INSURANCE COMPANY

By: Daniel T. Walker

Name: Daniel T. Walker, Vice President-Actuarial & Economic Research

Attest: HE Nicholes

Name: H. E. Nicholes., Vice President-National Accounts

...RIUM INSURANCE CORPORATION

By: [signature]

Name: Anthony F. Muoio

Title: President and CEO

Attest: Gordon W Priest Jr

Name: Gordon W. Priest Jr.

Title: Assistant General Counsel and Assistant Secretary

Schedule A

PHH US Mortgage Corporation
PHH Mortgage Services Corporation
First Interstate Residential Mortgage, L.L.C.
Seminon Mortgage Services, Inc.
Oakmont Mortgage - Woodland Hills
Prairie Security Bank