

Examination Warrant Number 09-PC-197-A

Report of Examination of

Amerin Guaranty Corporation  
Philadelphia, PA

As of December 31, 2009

For Informational Purposes Only

# Amerin Guaranty Corporation

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Harrisburg, Pennsylvania  
August 12, 2010

Honorable Stephen J. Johnson, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 09-PC-197-A, dated, March 29, 2010, an examination was made of

**Amerin Guaranty Corporation, NAIC Code: 30872**

a Pennsylvania domiciled property and casualty company, hereinafter referred to as "Amerin" or "Company". The examination was conducted at the Company's home office, located at 1601 Market Street, Philadelphia, PA 19103.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Company was last examined as of December 31, 2006.

This examination covered the three-year period from January 1, 2007 through December 31, 2009, and consisted of a general survey of the Company's business practices, management, and operations, and an evaluation of the Company's financial condition as of the latter date. Material subsequent events were also reviewed.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Pennsylvania Insurance Department ("Department") and the National Association of Insurance Commissioners ("NAIC").

The format of this report is consistent with the current practices of the Department and the examination format prescribed by the NAIC. It is limited to a description of the Company, a discussion of financial items that are of specific regulatory concern, and a disclosure of other significant regulatory information.

For each year during the period under examination, the Certified Public Accounting ("CPA") firm of PricewaterhouseCoopers LLP provided a unqualified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant

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work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

### HISTORY

The Company was incorporated on June 8, 1974, licensed by the Department on August 6, 1974 and commenced business on August 6, 1974 under the name Pennsylvania Mortgage Company. In 1982 the name of the Company was changed to PAMICO Mortgage Insurance Company. In July of 1984, the Company's name was changed to US Mortgage Insurance Company.

During 1991, the Company was purchased by Verex Assurance, Inc., a Wisconsin corporation. At the time of the purchase, all business written by the Company and currently in-force was transferred to the new parent by means of a novation, enabled by an assumption reinsurance agreement and notice of certification of assumption.

The Company was inactive from the date of the transfer of its business until April of 1992 when it was purchased by USMIC Corporation and its name was changed to Merit Mortgage Assurance Corporation. The current name, Amerin Guaranty Corporation was adopted on November 16, 1992. Effective June 17, 1993, the Company re-domesticated from Pennsylvania to Illinois.

Pursuant to an Agreement and Plan of Merger, dated November 22, 1998, Amerin Corporation, the then parent, agreed to merge with CMAC Investment Corporation. On June 9, 1999, Amerin Corporation merged with CMAC Investment Corporation forming Radian Group Inc.

The Company redomesticated from Illinois, which is the reason for the three year examination being conducted. Effective April 13, 2010 Amerin Guaranty Corporation has been issued a Certificate of Authority to operate as a domestic property and casualty insurance company in Pennsylvania. The Company is a stock corporation, entirely owned by Radian Group Inc. ("RDN"), which is publicly held and listed on the NYSE.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, Section 202, Subsection (c), Paragraph (7) Credit (including mortgage guaranty & financial guaranty).

### MANAGEMENT AND CONTROL

### CAPITALIZATION

As of the examination date, December 31, 2009, the Company's total capital was \$22,135,430 consisting of 1,875,152 capital shares of issued and outstanding common stock with



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Key members of the Holding Company System include the following entities briefly described below:

### **RADIAN GROUP INC.**

Radian Group Inc. is publicly held and listed on the New York Stock Exchange. RDN began in 1992 when CMAC Investment Corporation ("CMAC") was spun off through an initial public offering by Reliance Group Holdings. A principal subsidiary was Commonwealth Mortgage Assurance Company. In 1999, CMAC merged with Amerin Corporation, both holding companies of mortgage insurance companies, with Amerin Guaranty Corporation the principal insurance subsidiary of Amerin Corporation. The surviving holding company was CMAC, which subsequently changed its name to Radian Group Inc. and is the ultimate parent of the holding company system. The Radian Group thrived and grew in the early part of this decade despite competition from larger rivals. Recent real estate market turmoil has caused significant problems for all companies in related industries, including RDN.

RDN's principal activity is providing credit enhancement, primarily through first-lien residential mortgage insurance. As of December 31, 2008, it also provided financial guaranty and financial services but subsequently discontinued those operations. Its financial guaranty subsidiary, Radian Asset Assurance ("RAA"), is not currently writing new business. RDN's remaining interest in Sherman Financial Group, LLC, a financial services company, was sold on May 3, 2010.

### **RADIAN GUARANTY INC.**

Radian Guaranty Inc. ("RGI") has provided mortgage insurance on both a flow and a structured basis and has offered pool insurance on a limited basis. RGI wrote the pool insurance in the form of credit enhancement on residential mortgage loans underlying residential mortgage-backed securities, whole loan sales, and other structured transactions. RGI also wrote modified pool insurance, which differs from standard pool insurance in that it included an exposure limit on each individual loan, as well as a stop loss feature for the entire pool of loans. RGI's current business focus is on traditional first-lien primary mortgage insurance written on a flow basis.

Mortgage originators such as mortgage bankers, mortgage brokers, commercial banks and savings institutions are RGI's principal customers. A mortgage insurance policy is issued to a lender to protect against losses arising from a borrower's monetary default.

### **ENHANCE FINANCIAL SERVICES GROUP INC.**

Enhance Financial Services Group Inc. ("EFSG") was founded in 1985. On February 28, 2001, RDN purchased 100% of EFSG for \$540 million of its stock. On April 4, 2003, RGI

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purchased a 10.5% interest for \$100 million cash. EFSG has provided insurance services through its subsidiaries. Its insurance business previously included issuance of direct financial guaranties of smaller municipal debt obligations, trade credit reinsurance, and other structured transactions.

## RADIAN INSURANCE INC.

Radian Insurance Inc. ("RIINC"), is domiciled in Pennsylvania and 100% owned by RGI. RIINC wrote mortgage and financial guaranty insurance on both a direct and an assumed basis offering non-traditional mortgage insurance and credit enhancements on mortgage assets. Currently, RIINC is not writing new business and is effectively in runoff.

RIINC also insured a portion of RGI's business under a reinsurance agreement dated December 30, 1993, and RGI assumed certain Australian reinsurance treaties from RIINC in 2008.

## RADIAN SERVICES LLC

Radian Services LLC ("Radian Services") is 100% owned by RGI. Pursuant to a March 3, 1983 Property Disposal Agreement with RGI, Radian Services purchases, maintains, and disposes of real estate and certain other assets acquired in the settlement of claims. Radian Services also purchases, services, and settles loans acquired in the loss mitigation process. Financing of each acquisition is provided by RGI and is repaid at the time of disposal or settlement.

## RADIAN ASSET ASSURANCE INC

Radian Asset Assurance, Inc. ("RAA") was in the financial guaranty business, insuring and reinsuring state and municipal bonds and providing direct financial guarantees of smaller debt obligations. RAA operated in the US and Puerto Rico; its UK-based subsidiaries, Radian Asset Assurance Limited and Radian Financial Products Limited, provided financial guaranty products in Europe. Since RAA was heavily involved in insuring collateralized debt obligations and asset-backed securities, its ratings were downgraded in 2008 and it ceased writing new financial guaranty business. RAA has no current plans to recommence writing new business and is engaged solely in reducing its existing exposures through commutations, in order to maximize capital for the mortgage insurance business.

## RADIAN MORTGAGE INSURANCE INC.

Radian Mortgage Insurance Inc. ("Radian Mortgage") is an Arizona-domiciled insurance company and only writes business in Arizona.

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Radian Mortgage was originally organized and incorporated as State Mortgage Insurance Company under the laws of the State of Arizona on June 4, 1987. It received its initial Certificate of Authority to transact business as a property and casualty insurance company on December 1, 1987.

On May 22, 1990, Radian Mortgage's name was changed to Commonwealth Mortgage Assurance Company of Arizona.

On June 18, 1991, Radian Mortgage's Certificate of Authority was amended to authorize transacting only mortgage guaranty insurance, which Radian Mortgage has exclusively assumed since inception.

## COMMONWEALTH MORTGAGE ASSURANCE COMPANY OF TEXAS

Commonwealth Mortgage Assurance Company of Texas ("CMACTX") is a Texas-domiciled property and casualty insurer licensed in Texas to write mortgage guaranty insurance only in Texas. CMACTX is wholly-owned subsidiary of EFSG, a financial services company domiciled in the state of New York, and RDN is the ultimate parent.

On July 1, 2002, CMACTX's former parent, RGI paid a dividend to RDN, in the form of 100% of the common stock of CMACTX, valued at \$23.1 million. On the same date, RDN contributed all the common stock of CMACTX to EFSG as a capital contribution.

## BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2009:

<b>Name and Address</b>	<b>Principal Occupation</b>
Richard Ian Altman Philadelphia, PA	Chief Administrative Officer Radian Guaranty Inc.
Paul Francis Bognanno Philadelphia, PA	Chairman of the Board Radian Guaranty Inc.
Teresa Audrey Bryce Philadelphia, PA	President Radian Guaranty Inc.
Sanford Alexander Ibrahim Philadelphia, PA	Chief Executive Officer Radian Group Inc.
Carl Robert Quint Philadelphia, PA	Chief Financial Officer Radian Group Inc.

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Christopher Gerald Curran Harleysville, PA	Senior Vice President Operations Radian Guaranty Inc.
Richard Lee Reindl Batavia, IL	Vice President/Account Executive Amerin Guaranty Corp.
Matthew John Rohl Chicago, IL	Vice President/Division Account Manager Amerin Guaranty Corp.
Norene Mary Scanlan Skokie, IL	Account Underwriter Amerin Guaranty Corp.
Timothy White Hunter Philadelphia, PA	Secretary and General Counsel Radian Guaranty Inc.

All directors are elected by the shareholders at each annual meeting thereof. Each director holds office for one year or until his successor is elected and qualified.

Amerin has a conflict of interest policy in place. The policy covers directors, officers, and employees. A copy of the policy is provided to each director, officer, and management employee. Disclosure questionnaires are signed annually by Officers, Directors, and Key Employees.

### COMMITTEES

40 P.S. § 991.1405(c)(3) Standards of management of an insurer within a holding company system, states: "not less than one-third of the directors of a domestic insurer and not less than one-third of the members of each committee of the board of directors of any domestic insurer shall be persons who are not officers or employees of such insurer or of any entity controlling, controlled by or under common control with such insurer and who are not beneficial owners of a controlling interest in the voting stock of such insurer of any such entity. At least one such person must be included in any quorum for the transaction of business of business at any meeting of the board of directors or any committee thereof."

Likewise, 40 P.S. § 991.1405(c)(4) and (4.1), Standards of management of an insurer within a holding company system states: "The board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have the responsibility for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating committees for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers."

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40 P.S. § 991.1405(c)(5), Standards of management of an insurer within holding company system states: "The provisions of paragraphs (3), (4) and (4.1) shall not apply to a domestic insurer if the person controlling such insurer is an insurer or another business entity having a board of directors and committees thereof which already meet the requirements of paragraphs (3), (4) and (4.1)."

Amerin's Board of Directors did not appoint any committees. Nonetheless, it is in compliance with the above-cited statutes' requirements through Radian Group's Audit and Risk Management Committee, Finance and Investment Committee, Credit Committee, Governance Committee, and Compensation and Human Resources Committee.

### OFFICERS

As of the examination date, December 31, 2009, the following officers were appointed and serving in accordance with the Company's By-laws:

Name	Title
Teresa Audrey Bryce	President
Timothy White Hunter	Secretary
Carl Robert Quint	EVP/ Chief Financial Officer

### CORPORATE RECORDS

#### MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of Amerin's stockholders were held in compliance with its By-laws.
- The stockholders elect directors at such meetings in compliance with the By-laws.
- The stockholders ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The Officers of the Company were appointed at the Annual Organizational Meeting of the Board of Directors.
- The Company's investment transactions were approved quarterly by the Board.

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- The Company's reinsurance contracts were approved by the Board.
- All directors attend Board meetings regularly.

## ARTICLES OF AGREEMENT

There were no amendments made to Amerin's Articles of Agreement during examination period.

## BY-LAWS

There were no amendments made to Amerin's By-laws during the examination period.

## SERVICE AND OPERATING AGREEMENTS

As of December 31, 2008, the Company had no managing general agents. The following agreements meet the fair and reasonable standards in 40 P.S. §991.1405 except for the service agreement between Amerin Guaranty Corporation and Radian Guaranty Incorporated, which fails to comply with the fair and reasonable provisions of 40 P.S. § 991.1405(a)(1) as it does not contain specific due dates for payments for services and penalties for late payments.

*It is recommended that the service agreement between Amerin Guaranty Corporation and Radian Guaranty Incorporated be amended to include provisions for payment due dates and penalties for late payments.*

## EXPENSE ALLOCATION AND SERVICES AGREEMENTS

Amerin entered into an Expense Allocation and Services Agreement with RDN, in the second quarter of 2003. This agreement provided for the use of RDN facilities and services by Amerin and the Parent's costs are allocated on the basis of Amerin's percentage of total consolidated GAAP capital. This method did not meet the fair and reasonable standards as contained in 40 P.S. § 991.1405. However, on March 13, 2009, the Company revised this agreement so that expenses, which benefit multiple parties, are allocated on the basis of time studies or "another fair and equitable basis". Direct expenses are charged to the benefitting parties and interest expense is allocated on the basis of the various companies' relative capital. This new method of allocation meets the standards as contained in 40 P.S. § 991.1405.

## **GUARANTY AGREEMENT**

On August 11, 1999, Amerin entered into a Guaranty Agreement with RGI. Under the terms of this agreement each party unconditionally and irrevocably guarantees to the other party that it will, on demand by the other party, make funds available in cash for the full and complete payment when due of all claims, obligations, and liabilities of the other party including all claims made under all insurance or reinsurance contracts issued or assumed by the other party. This Guaranty inures to the benefit of the Insured's and they are made third-party beneficiaries. This Guaranty provides for the full and complete payment of the amount of any claim on any Guaranteed Obligation paid by the other party, which is subsequently voided in whole or in part as a preferential payment under applicable law, including proceedings in bankruptcy, insolvency, reorganization or other similar laws affecting creditor's rights generally.

## **SURPLUS GUARANTY AGREEMENT**

On July 13, 2009 Amerin entered into a Surplus Guaranty Agreement with RDN. Under the terms of this agreement RDN unconditionally and irrevocably guarantees to Amerin that it will, during the term of this Guaranty, make sufficient funds available in cash to Amerin to assure that Amerin maintains a minimum of \$5,000,000 of statutory surplus every calendar quarter. RDN agrees to provide the funds within three business days of demand by Amerin.

The obligations under this Guaranty are irrevocable and unconditional to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge of a surety or guarantor, including fraud in the inducement or fact; the intent of this Guaranty being that the obligations shall be absolute and unconditional under all circumstances and shall not be discharged except by payment.

## **PROPERTY DISPOSAL AGREEMENT**

Amerin entered into a Property Disposal Agreement on March 31, 2000 with Radian Services LLC, whereby Radian Services purchases, maintains, and disposes of real estate and certain other assets acquired in the settlement of claims and purchases, and services, and settles loans acquired in the loss mitigation process. Financing of each acquisition is provided by Amerin and is repaid at the time of disposal or settlement.

## **TAX ALLOCATION AGREEMENT**

Amerin has a written Tax Allocation Agreement with RDN, approved by Amerin's Board of Directors. The agreement sets forth the manner in which the total combined federal income tax is allocated to each entity that is a party to the consolidation. The method of allocation is based upon separate return calculation with current credit for losses that were utilized by the consolidated group.

**SERVICE AGREEMENT**

Amerin entered into a Service Agreement on March 28, 2000 with RGI. Under the terms of this agreement RGI provides to Amerin office space and services as are reasonably required by Amerin for the operation of its business, including but not limited to: legal; accounting; record keeping; tax; information services and data processing; internal auditing; underwriting risk management; personnel management payroll; employee benefit administration; administrative services including lease negotiation, equipment and supplies purchases; default servicing; claims paying; premium collection; renewal billing; investment activity; and cash management.

**NOVATION AGREEMENT**

Amerin entered into a Novation Agreement on December 31, 2009 with RIINC. Under the terms of this agreement Amerin novated to RIINC, and RIINC accepted all of Amerin's rights, duties, liabilities and obligations with respect to certain Second Mortgage Pool Policies. The parties agreed that RIINC would undertake to perform Amerin's obligations with regard to the Subject Policies as if RIINC were the original insurer of such Policies.

All coverage provided under the Subject Policies continues in full force and effect subject to the same terms and conditions, Amerin accepts and treats RIINC as a party to those Subject Policies in substitution for Amerin, as though RIINC was an original party thereto.

**REINSURANCE**

**CEDED**

**National City Mortgage Insurance Solutions, Inc.**

The Company entered into a Quota Share Purchase Year Reinsurance Agreement with an effective date of January 1, 2006. Under the terms of the agreement National City Mortgage Solutions, Inc. provides to Amerin fifty percent quota share reinsurance with respect to Reinsured Loans per Purchase Year. National City Mortgage Solutions, Inc. indemnifies Amerin and is liable for its ceded share of Losses that may accrue to Amerin for a covered Purchase Year with respect to Reinsured Loans as a result of any Loss incurred from the first day of such Purchase Year through the date which is the earlier of the date when all coverage certificates issued under the Policy relating to such Purchase Year's Reinsured Loans has been canceled or terminated or the date which is one hundred twenty months from the commencement of such Purchase Year.

This Agreement was terminated on January 29, 2009.

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The above contract contains appropriate insolvency and arbitration clauses and appropriately transfers risk in accordance with SSAP No. 62.

Amerin did not engage any reinsurance intermediary.

### ASSUMED

In February 2008 Amerin Re Corporation was dissolved and the reinsurance previously ceded to Amerin Re was commuted to Amerin. This reinsurance was then novated to RIINC under the Novation Agreement described under Service and Operating Agreements.

### TERRITORY AND PLAN OF OPERATION

Amerin maintains licenses in 49 states and the District of Columbia. Its highest concentration of risk is in North Carolina and Virginia. The Company writes only second lien mortgage guaranty insurance. Its customers consist of mortgage originators, including mortgage bankers and brokers, commercial banks, and savings institutions.

### SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are on an earned/incurred basis, and encompass the three-year period covered by this examination.

	Amount	Percentage
Premiums earned	\$ 61,818,446	100.0 %
Losses incurred	\$ 347,008,141	561.3 %
Loss expenses incurred	4,054,520	6.6 %
Other underwriting expenses incurred	23,593,485	38.2 %
Aggregate write-ins for underwriting deductions	2,000,000	3.2 %
Net underwriting gain or (loss)	(314,837,700)	(509.3)%
Totals	\$ 61,818,446	100.0 %

The Company reported the following net underwriting, investment and other gains or losses during the period under examination:

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	2009	2008	2007
Admitted assets	\$ 22,135,430	\$ 119,355,239	\$ 286,731,155
Liabilities	\$ 12,489,096	\$ 99,772,385	\$ 253,724,033
Surplus as regards policyholders	\$ 9,646,334	\$ 19,582,854	\$ 33,007,122
Gross premium written	\$ (13,170,819)	\$ 15,593,250	\$ 32,161,217
Net premium written	\$ (13,170,819)	\$ 11,367,278	\$ 19,253,043
Underwriting gain/(loss)	\$ (16,672,236)	\$ (24,056,745)	\$ (259,091,803)
Investment gain/(loss)	\$ (859,573)	\$ 11,994,051	\$ 13,441,643
Other gain/(loss)	\$ 6	\$ (372,911)	\$ (2,013,879)
Net income	\$ (17,914,725)	\$ (39,694,086)	\$ (215,524,827)

### ACCOUNTS AND RECORDS

All of Amerin's accounting, investment, policy, and claim records are automated and maintained at Amerin's Home Office and at its data center in Dayton, Ohio. The Company uses the same systems as that of its affiliate; RGI. The Department engaged Huff Thomas and Company ("Vendor") as an outside consultant to perform a review of RGI's information systems ("I/S") controls during its examination as of December 31, 2008. This review was based on the NAIC's Exhibit C, Information Systems Questionnaire. After reviewing the Vendor's report and documentation concerning I/S controls and determining that said controls and documentation did not change during 2009, it was concluded that the Department could reasonably rely on data obtained from the Company's automated systems.

### PENDING LITIGATION

Affiliates with which Amerin is consolidated for United States federal income tax purposes have engaged legal counsel to assist them with their response to an Internal Revenue Service ("IRS") federal income tax audit that relates to, among other things, whether certain income and losses with respect to partnership interests in partnerships that own residual interests in certain real estate mortgage investment conduits were correctly reported on federal income tax returns for 1999 and subsequent years. In connection with the audit the IRS examination team has proposed adjustments to tax returns for 2000 through 2007 that would increase taxable income for those years by an aggregate of approximately \$364,000,000. The IRS examination team also has proposed substantial penalties. Although the affiliates disagree with the proposed tax adjustments and penalties and have appealed those tax adjustments and penalties to the IRS appeals office, the affiliates have made a deposit of \$90,000,000 as a reserve against \$128,000,000 in tax adjustments and penalties which they believe may possibly be owed. The Company believes that this deposit and other resources of the affiliates will be sufficient to pay any taxes and penalties that ultimately are determined to be due and payable. The Company and all other members of its consolidated group will be jointly and severally liable for any such taxes

and penalties that remain unpaid. In addition, the Company has financial support agreements with one or more of those members that are also liable.

In accordance with the Statement of Policy, the firm of Hunton and Williams is unable to express an opinion as to whether the likelihood of a material adverse outcome is either probable or remote and are unable to estimate the amount or range of any potential loss in the event of an unfavorable outcome.

### **FINANCIAL STATEMENTS**

The financial condition of the Company, as of December 31, 2009, and the results of its operations for the three-year period under examination, are reflected in the following statements:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;  
Comparative Statement of Income;  
Comparative Statement of Capital and Surplus; and  
Comparative Statement of Cash Flow

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**Comparative Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31,**

	2009	2008	2007
Bonds	\$ 7,413,067	\$ 67,715,879	\$ 119,067,763
Common stocks	507,653	507,653	507,653
Cash, cash equivalents, and short term investments	13,808,270	47,660,968	132,920,703
Other invested assets	0	93,265	93,094
Subtotals, cash and invested assets	21,728,990	115,977,765	252,589,213
Investment income due and accrued	117,112	1,423,516	2,512,507
Premiums and agents' balances due	0	1,191,825	2,274,662
Amounts recoverable from reinsurers	0	0	11,743,147
Current federal and foreign income tax recoverable and interest thereon	217,278	217,278	14,378,605
Net deferred tax asset	0	0	10,435
Receivable from parent, subsidiaries and affiliates	0	544,855	3,005,110
Aggregate write-ins for other than invested assets	72,050	0	217,476
<b>Total</b>	<b>\$ 22,135,430</b>	<b>\$ 119,355,239</b>	<b>\$ 286,731,155</b>
Losses	\$ (1)	\$ 45,679,505	\$ 71,581,336
Reinsurance payable on paid loss and loss adjustment expenses	0	0	49,198
Loss adjustment expenses	0	622,460	228,685
Other expenses	6,288	6,000	96,000
Taxes, licenses and fees	129,596	109,717	324,697
Unearned premiums	0	0	105,579
Ceded reinsurance premiums payable (net of ceding commissions)	0	0	1,692,354
Payable to parent, subsidiaries and affiliates	12,353,213	0	0
Payable for securities	0	0	5,624,908
Aggregate write-ins for liabilities	0	53,354,703	174,021,276
<b>Total liabilities</b>	<b>12,489,096</b>	<b>99,772,385</b>	<b>253,724,033</b>
Common capital stock	5,625,456	5,625,456	5,625,456
Gross paid in and contributed surplus	183,687,246	178,092,909	158,364,331
Unassigned funds (surplus)	(169,366,042)	(153,835,186)	(120,682,339)
Less treasury stock at cost - common	10,300,326	10,300,326	10,300,326
Surplus as regards policyholders	9,646,334	19,582,854	33,007,122
<b>Totals</b>	<b>\$ 22,135,430</b>	<b>\$ 119,355,239</b>	<b>\$ 286,731,155</b>

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**Comparative Statement of Income  
For the Year Ended December 31,**

	2009	2008	2007
<b>Underwriting Income</b>			
Premiums earned	\$ (13,170,819)	\$ 11,472,857	\$ 19,524,586
Deductions:			
Losses incurred	52,870,473	134,761,672	115,228,214
Loss expenses incurred	906,061	1,817,212	1,331,247
Other underwriting expenses incurred	1,079,571	2,488,824	5,164,134
Aggregate write-ins for underwriting deductions	(51,354,688)	(103,538,106)	156,892,794
Total underwriting deductions	3,501,417	35,529,602	278,616,389
Net underwriting gain or (loss)	(16,672,236)	(24,056,745)	(259,091,803)
<b>Investment Income</b>			
Net investment income earned	352,539	6,738,149	12,471,715
Net realized capital gains or (losses)	(1,212,112)	5,255,902	969,928
Net investment gain or (loss)	(859,573)	11,994,051	13,441,643
<b>Other Income</b>			
Aggregate write-ins for miscellaneous income	6	(372,911)	(2,013,879)
Total other income	6	(372,911)	(2,013,879)
Net income before dividends to policyholders and before federal and foreign income taxes	(17,531,803)	(12,435,605)	(247,664,039)
Federal and foreign income taxes incurred	382,922	27,258,481	(32,139,212)
Net income	\$ (17,914,725)	\$ (39,694,086)	\$ (215,524,827)

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**Comparative Statement of Capital and Surplus  
For the Year Ended December 31,**

	2009	2008	2007
Surplus as regards policyholders, December 31, previous year	\$ 19,582,854	\$ 33,007,122	\$ 244,239,866
Net income	(17,914,725)	(39,694,086)	(215,524,827)
Net unrealized capital gains or (losses)	780	(779)	5
Change in net unrealized foreign exchange capital gain or	257,647	(4,002,883)	2,323,880
Change in net deferred income tax	(89,840,089)	28,147,807	55,671,851
Change in nonadmitted assets	89,965,530	(30,294,383)	(53,741,162)
Surplus adjustments:			
Paid in	5,600,000	19,737,000	0
Dividends to stockholders	0	(4,437,000)	0
Aggregate write-ins for gains and losses in surplus	1,994,337	17,120,056	37,509
Change in surplus as regards policyholder for the year	(9,936,520)	(13,424,268)	(211,232,744)
Surplus as regards policyholders, December 31, current year	<u>\$ 9,646,334</u>	<u>\$ 19,582,854</u>	<u>\$ 33,007,122</u>

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**Comparative Statement of Cash Flow  
For the Year Ended December 31,**

	2009	2008	2007
<b>Cash from Operations</b>			
Premiums collected net of reinsurance	\$ (11,978,994)	\$ 10,757,761	\$ 19,766,473
Net investment income	1,687,317	10,839,842	14,622,714
Miscellaneous income	6	(372,909)	(2,013,879)
Total income	<u>(10,291,671)</u>	<u>21,224,694</u>	<u>32,375,308</u>
Benefit and loss related payments	99,172,437	148,575,778	82,046,509
Commissions, expenses paid and aggregate write-ins for	2,037,516	4,611,016	6,646,539
Federal and foreign income taxes paid (recovered)	0	15,935,677	(18,712,747)
Total deductions	<u>101,209,953</u>	<u>169,122,471</u>	<u>69,980,301</u>
Net cash from operations	<u>(111,501,624)</u>	<u>(147,897,777)</u>	<u>(37,604,993)</u>
<b>Cash from Investments</b>			
Proceeds from investments sold, matured or repaid:			
Bonds	59,512,693	96,268,098	206,602,382
Other invested assets	70,206	0	687,196
Net gain or (loss) on cash and short-term investments	0	146,893	627,889
Miscellaneous proceeds	0	0	5,932,443
Total investment proceeds	<u>59,582,899</u>	<u>96,414,991</u>	<u>213,849,910</u>
Cost of investments acquired (long-term only):			
Bonds	405,834	45,493,507	59,528,697
Other invested assets	0	171	0
Miscellaneous applications	24,395	6,276,390	0
Total investments acquired	<u>430,229</u>	<u>51,770,068</u>	<u>59,528,697</u>
Net cash from investments	<u>59,152,670</u>	<u>44,644,923</u>	<u>154,321,213</u>
<b>Cash from Financing and Miscellaneous Services</b>			
Other cash provided (applied):			
Capital and paid in surplus, less treasury stock	5,600,000	19,737,000	0
Dividends to stockholders (paid)	0	(4,437,000)	0
Other cash provided or (applied)	12,896,256	2,693,119	511,537
Net cash from financing and miscellaneous sources	<u>18,496,256</u>	<u>17,993,119</u>	<u>511,537</u>
<b>Reconciliation of cash and short-term investments:</b>			
Net change in cash and short-term investments	(33,852,698)	(85,259,735)	117,227,757
Cash and short-term investments:			
Beginning of the year	47,660,968	132,920,703	15,692,946
End of the year	<u>\$ 13,808,270</u>	<u>\$ 47,660,968</u>	<u>\$ 132,920,703</u>

**SUMMARY OF EXAMINATION CHANGES**

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

**NOTES TO FINANCIAL STATEMENTS**

**ASSETS**

**INVESTMENTS**

As of December 31, 2009, the Company's invested assets were distributed as follows:

	<b>Amount</b>	<b>Percentage</b>
Bonds	\$ 7,413,067	34.2 %
Common stocks	507,653	2.3 %
Cash	69,713	0.3 %
Short-term investments	13,738,557	63.2 %
<b>Totals</b>	<b>\$ 21,728,990</b>	<b>100.0 %</b>

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

<b>NAIC Designation</b>	<b>Amount</b>	<b>Percentage</b>
1 - highest quality	\$ 21,151,624	100.0 %
<b>Totals</b>	<b>\$ 21,151,624</b>	<b>100.0 %</b>

<b>Years to Maturity</b>	<b>Amount</b>	<b>Percentage</b>
1 year or less	\$ 13,738,558	65.0 %
2 to 5 years	1,799,609	8.5 %
6 to 10 years	678,273	3.2 %
11 to 20 years	4,935,184	23.3 %
<b>Totals</b>	<b>\$ 21,151,624</b>	<b>100.0 %</b>

Invested assets are held in a compliant custodial account and under management with professional investment advisors.

Bonds and Short-term investments represent 97.3 % of invested assets and 95.6% of admitted assets with 100% having SVO designations of 1. 76.7 % of these investments are scheduled to mature within ten years.

The company's stock holdings consist of a managed portfolio of common stocks. Currently, stocks represent only 3.7% of the company's invested assets reflecting concern over the volatility of the stock market in recent years and concerns over the economy in the near future.

The Company does not have nor had any bond investments in parents, subsidiaries or affiliates during the period under examination. Also, the Company does not hold any preferred stock investments.

The Company has a written investment policy as required by 40 P.S. § 653 b(b). The investment policy is reviewed and approved on an annual basis by the Board of Directors. The Company, at December 31, 2009, was following its investment policy.

During the period under examination, the Company held assets under a Custodial Agreement with Northern Trust Company, which was not in compliance with 31 Pa. Code § 148(a). Prior to the end of fieldwork, the company entered into a new Custodial Agreement that was in compliance with 31 Pa. Code § 148(a). Therefore no recommendation is being made in this report of examination.

## **LIABILITIES**

### **LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES**

The Company, at December 31, 2009, listed no loss reserves in its financial statements. This is primarily due to the novation agreement executed with affiliated company Radian Insurance Inc. The Company has also been returning premiums for contracts that did not meet their underwriting guidelines. The significant accounting transaction resulting from the novation agreement resulted in the Company transferring \$161.1 million in associated risk in exchange for payment of \$14.1 million.

### **SUBSEQUENT EVENTS**

Effective April 13, 2010 Amerin Guaranty Corporation has been issued a Certificate of Authority to operate as a domestic property and casualty insurance company in Pennsylvania. The Company is a stock corporation, entirely owned by Radian Group Inc. ("RDN"), which is publicly held and listed on the NYSE.

## RECOMMENDATIONS

### PRIOR EXAMINATION

The prior examination report contained the following recommendation:

1. During the period covered by the examination, a review of the corporate minutes indicated that the Company has not established a reinsurance committee, which is not in compliance with 215 ILCS 5/179b.

This recommendation has been satisfactorily resolved.

### CURRENT EXAMINATION

The following recommendation is being made as a result of the current examination:

1. The service agreement between Amerin Guaranty Corporation and Radian Guaranty Incorporated fails to comply with the fair and reasonable provisions of 40 P.S. § 991.1405(a)(1) as it does not contain specific due dates for payments for services and penalties for late payments. (See "Service and Operating Agreements", page 9).

### CONCLUSION

As a result of this examination, the financial condition of Amerin Guaranty Corporation, as of December 31, 2009, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 22,135,430	100.0 %
Liabilities	\$ 12,489,096	56.4 %
Surplus as regards policyholders	9,646,334	43.6 %
Total liabilities and surplus	\$ 22,135,430	100.0 %

Since the previous examination, made as of December 31, 2006, the Company's assets decreased by \$211,778,002, its liabilities decreased by \$19,290,125, and its surplus decreased by \$192,487,877.

This examination was conducted by Dennis D. Williams.

Respectfully



David G. DelBiondo, CPA  
Director, Bureau of Financial Examinations



Joseph G. Jacobs, CFE  
Examination Manager



Dennis D. Williams  
Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.

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