Examination Warrant Number 18-00766-33790-R1

Report of Examination of

Radian Guaranty Inc.
Philadelphia, Pennsylvania

As of December 31, 2018

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Harrisburg, Pennsylvania
March 12, 2020

Honorable Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 18-00766-33790-R1, dated August 14, 2018, an examination was made of

Radian Guaranty Inc., NAIC Code: 33790

a Pennsylvania domiciled, multi-state, mortgage guaranty insurance company, hereinafter referred to as "RGI" or "the Company." The examination was conducted at RGI's statutory home office, located at 1500 Market Street, Philadelphia, Pennsylvania 19102.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018.

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

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. Statements were prepared by management and are therefore the responsibility of management. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective

conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For each year of the examination period, the certified public accounting firm of PricewaterhouseCoopers LLP ("CPA") of Philadelphia, Pennsylvania provided an unmodified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The following member companies of Radian Group Inc. (NAIC Group 766) were examined at the same time during the above examination:

Company	NAIC Code	State of Domicile
Radian Investor Surety, Inc. ("RISI")	15546	PA
Radian Reinsurance Inc. ("RRI")	15842	PA
Radian Mortgage Guaranty, Inc. ("RMGI")	15843	PA
Radian Guaranty Reinsurance Inc. ("RGRI")	15909	PA
Radian Insurance Inc. ("RII")	20720	PA
Radian Mortgage Assurance Inc. ("RMAI")	30872	PA
EnTitle Insurance Company, Inc.	51632	OH

HISTORY

The Company was incorporated on September 23, 1976, as Commonwealth Mortgage Assurance Company ("CMAC"), licensed by the Department on April 12, 1977, and commenced business on April 12, 1977, providing private mortgage insurance to U.S. mortgage lenders. CMAC was renamed Radian Guaranty Inc. in 1999.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382 (c)(7) Credit.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2018, the Company's total capital was $814,112,176, consisting of 1,000 capital shares of issued and outstanding common stock with a par value of $2,500.00 per share amounting to $2,500,000; a surplus note of $100,000,000 payable to the Company's parent; $1,413,479,016 in gross paid-in and contributed surplus; and $(701,866,840) in unassigned funds (surplus).

The Company's minimum capital and surplus requirements for the type of business for which it is licensed, pursuant to 40 P.S. § 386(c), is $750,000 in capital and $375,000 in surplus. The Company has met all governing requirements throughout the examination period.

STOCKHOLDER

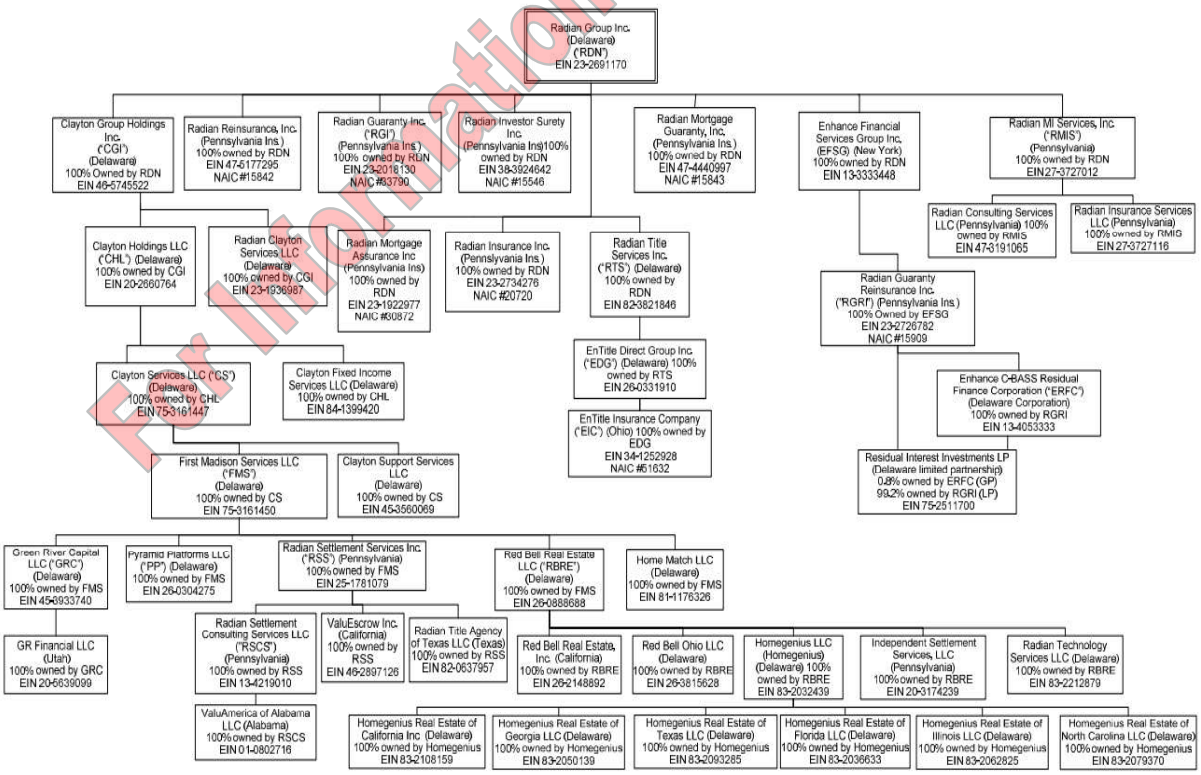
RGI is a wholly owned subsidiary of Radian Group Inc. ("RDN"). During the examination period, RGI engaged in two capital transactions with RDN:

- On March 31, 2017, RGI reallocated $175 million of capital, in the form of cash and marketable securities, to its affiliate, RRI. The reallocation was accomplished by way of an extraordinary distribution, approved by the Department, from RGI to RDN, and a simultaneous capital contribution from RDN to RRI in the same amount. These transactions resulted in a $175 million decrease in RGI's statutory policyholders' surplus (i.e., statutory capital and surplus).
- On December 21, 2018, RGI distributed $450 million in capital, in the form of cash and marketable securities, to RDN. This transfer was approved by the Department as an extraordinary distribution and resulted in a $450 million decrease in RGI's statutory policyholders' surplus.

INSURANCE HOLDING COMPANY SYSTEM

During the period under examination, RGI met the requirements for filing an Insurance Holding Company System Registration Statement, in accordance with 40 P.S. §§ 991.1404(a)(1) and 991.1404(a)(2), to register with the Department by March 31, of each year during the examination period. Forms B and C were filed annually during the examination period.

The following represents the organizational chart of RDN as of December 31, 2018:



RDN is named as the ultimate controlling entity of the holding company system. Members of the holding company system include the following entities briefly described below:

RADIAN GROUP INC.

RDN is publicly held and listed on the New York Stock Exchange. RDN began in 1992 when CMAC Investment Corporation was spun off through an initial public offering by Reliance Group Holdings. RDN is the ultimate parent of the holding company system. RDN does not have any operations of its own, but conducts its principal activity of providing credit enhancement, primarily through first-lien residential mortgage insurance, through its subsidiaries. RDN is also pursuing opportunities that align with its strategic objective to diversify beyond credit enhancement, such as mortgage services, particularly title services, and real estate services.

RADIAN INSURANCE INC.

RII is domiciled in Pennsylvania, 100% owned by RDN, and historically wrote mortgage and financial guaranty insurance on both a direct and an assumed basis. RII formerly insured the group's Hong Kong portfolio, which is no longer in force as of the examination date. Similarly, RII is in a runoff mode with respect to its domestic business.

RADIAN GUARANTY REINSURANCE INC.

RGRI was incorporated in 1993 in the State of Texas as a capital stock mortgage guaranty insurance company and became a Pennsylvania domiciled insurance company in 2013. RGRI's business was concentrated on the assumption of mortgage guaranty policies from its affiliate, RGI, and does not produce any direct written business. RGRI is 100% owned by Enhance Financial Services Group Inc., which is 100% owned by RDN.

RADIAN MORTGAGE ASSURANCE INC.

RMAI is domiciled and licensed in Pennsylvania as a stock casualty insurance company authorized to carry on the business of credit insurance, which includes the authority to write mortgage guaranty insurance. RMAI is 100% owned by RDN.

RADIAN INVESTOR SURETY INC.

RISI was domiciled and licensed in Pennsylvania as a stock casualty insurance company in 2014. RISI is authorized to carry on the business of mortgage credit-related products which are currently in a developmental stage and is not licensed in any jurisdiction other than Pennsylvania. RISI is 100% owned by RDN.

RADIAN REINSURANCE INC.

RRI was domiciled and licensed in Pennsylvania in 2015 and is 100% owned by RDN. RRI was initially funded in part by dividends from Enhance Financial Services Group, Inc., a now-inactive subsidiary of RDN. RRI is a licensed affiliated reinsurer that primarily provided

reinsurance to RGI during the examination period. In addition, RRI participates in the Front-end and Back-end credit risk transfer programs developed by Fannie Mae and Freddie Mac.

RADIAN MORTGAGE GUARANTY INC.

RMGI was domiciled and licensed in Pennsylvania in 2015 as a stock casualty insurance company and is a direct subsidiary of RDN. RMGI is authorized to carry on the business of credit insurance, including the authority to write mortgage guaranty insurance. RMGI is a monoline insurer, restricted to writing only residential mortgage guaranty insurance. RMGI did not write any business in 2017 or 2018.

The status of key subsidiaries included in the previous examination report is as follows:

- Enhance Financial Services Group Inc. – functions as a holding company to own RGRI.
- Radian Services LLC – transferred to RDN's wholly-owned subsidiary Clayton Group Holdings LLC and renamed Radian Clayton Services LLC.
- Radian Mortgage Insurance Inc. ("RMII") – pursuant to a reorganization that was effective December 31, 2015, RMII was sold by RGI to RDN for $2.8 million (the amount of RMII's statutory capital as of that date) in 2016. RMII was liquidated in 2017, paying a liquidating dividend of $24.9 million to RDN consisting of a cash dividend of $2.7 million and the distribution of tax recoverables of $22.2 million. The proceeds from this dividend were subsequently split between RGI and RRI; none were retained by RDN. RMII surrendered its Pennsylvania Certificate of Authority in 2017.
- Radian Asset Assurance Inc. – sold to Assured Guaranty Corp., a subsidiary of Assured Guaranty Ltd., in 2015.

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, 2018:

Name and Address	Principal Occupation
Richard G. Thornberry Philadelphia, PA	Chief Executive Officer Radian Group Inc.
J. Franklin Hall Cincinnati, OH	Chief Financial Officer Radian Group Inc.
Timothy W. Hunter Philadelphia, PA	General Counsel and Secretary Radian Guaranty Inc.
Zoe L. Devaney Titusville, NJ	Senior Vice President Radian Guaranty Inc.
Edward J. Hoffman Wynnewood, PA	General Counsel and Secretary Radian Group Inc.

Brien J. McMahon Randolph, NJ	Chief Franchise Officer Radian Group Inc.
Derek V. Brummer Blue Bell, PA	Chief Risk Officer Radian Group Inc.

All directors are elected at the annual meeting of the shareholder. Each director holds office for one year or until his successor is elected and qualified.

COMMITTEES

As of the examination date, December 31, 2018, the following committees were appointed by the Board and serving in accordance with the Company's by-laws:

Audit Committee
David C. Carney (Chairperson)
Gregory V. Serio
Noel J. Spiegel

Finance & Investment Committee
Lisa W. Hess (Chairperson)
Stephan T. Hopkins
Gaetano J. Muzio
Noel J. Spiegel

Compensation & HR Committee
Howard B. Culang
Lisa W. Hess
Stephan T. Hopkins (Chairperson)
Gaetano J. Muzio

Governance Committee
David C. Carney
Howard B. Culang
Stephan T. Hopkins
Gregory V. Serio (Chairperson)

Credit Committee
David C. Carney
Howard B. Culang (Chairperson)
Noel J. Spiegel

OFFICERS

As of the examination date, December 31, 2018, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	Title
Richard G. Thornberry	President
J. Franklin Hall	Senior Executive Vice President and Chief Financial Officer
Timothy W. Hunter	Senior Vice President and General Counsel and Secretary
William T. Tomljanovic	Senior Vice President and Treasurer
Brien J. McMahon	Executive Vice President - Sales
James Tighe	Executive Vice President
Derek V. Brummer	Executive Vice President
Zoe L. Devaney	Senior Vice President

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's stockholder were held in compliance with its by-laws.
- The stockholder elects directors at such meetings in compliance with the by-laws.
- The stockholder ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The Company's investment transactions are approved quarterly by the Board.
- All directors attend Board meetings regularly.
- The Company's Board minutes approve the reinsurance contracts.

ARTICLES OF INCORPORATION

There were no amendments made to the Company's Articles of Incorporation during the examination period.

BY-LAWS

There were no amendments made to the Company's by-laws during the examination period.

SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements, which includes intercompany and related-party agreements. The following significant agreements were in place during the examination period:

EXPENSE ALLOCATION AND SERVICES AGREEMENTS

RGI entered into an Expense Allocation and Services Agreement with RDN on January 1, 2016, replacing its prior agreement that was in effect since 2003. This agreement provides for the use of RDN facilities and services by RGI and the other subsidiaries. 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 benefiting parties and interest expense is allocated on the basis of the various companies' relative capital.

The agreement was amended on April 1, 2017 to reflect changes in the allocations among the various subsidiaries, and was further amended on February 19, 2018 as follows:

- Provide for interest to be paid if the settlement provisions are not met on a timely basis
- Apply the indemnification provision to all forms of negligence rather than only gross negligence
- All funds and invested assets are the exclusive property of the insurer and held for the benefit of the insurer
- Terms of the agreement must be renegotiable every third year if the agreement survives more than five years from its date of inception
- The agreement cannot be assigned.

NET WORTH AND LIQUIDITY SUPPORT AGREEMENT

In October of 2000, RGI and RII entered into a Net Worth and Liquidity Maintenance Agreement. The agreement provides that RGI will cause RII at all times to have Tangible Net Worth of at least $30 million. Additionally, RGI will cause RII at all times to have sufficient liquidity to meet its current obligations and to maintain a maximum Operating Leverage Ratio of 20. The agreement was terminated in 2015.

TAX ALLOCATION AGREEMENT

RGI has a written Tax Allocation Agreement with RDN which has been approved by the Board. 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 Net Operating Losses being utilized on the consolidated return of RDN.

INTERCOMPANY TRANSFER AGREEMENT

RGI entered into an Intercompany Transfer Agreement with RDN, RMII, RII, RMAI and RGRI on September 20, 2010. The purpose of the agreement was to help facilitate sales of investment grade securities among the group of companies noted above.

All inter-company agreements above satisfy the fair and reasonable standards set forth in 40 P.S. § 991.1405(a)(1)(i).

REINSURANCE

RGI's reinsurance program primarily consists of quota-share treaties, including two treaties for its significant portion of lower priced single premium business. Additionally, the Company recently coordinated a combined insurance-linked note ("ILN") and excess of placement, whereby an excess-of-loss treaty was entered in conjunction with the issuance of mortgage ILNs alongside a separate excess-of-loss treaty.

All reinsurance treaties were determined to have the proper insolvency, entire contract, arbitration, and intermediary clauses as required by Statements of Statutory Accounting Principles ("SSAP") No. 62R. In addition, these agreements were found to properly transfer risk as per the requirements of SSAP No. 62R.

RGI obtained these coverages directly and through reinsurance intermediaries, AON Benfield Inc. ("AON") and Guy Carpenter & Company LLC ("Guy Carpenter"); a reinsurance affiliate, RRI; an unaffiliated special purpose reinsurer, Eagle Re 2018-1 Ltd. ("Eagle Re"); and a third-party reinsurer. As of December 31, 2018, it was determined that AON and Guy Carpenter are licensed by the Department as required by 40 P.S. § 321.2(a) and separate properly executed written authorizations between RGI and each reinsurance intermediary are in effect as required by 40 P.S. § 321.3.

A general overview of the RGI's reinsurance program is provided below.

CEDED

RGI ceded reinsurance under various contracts. A description of material contracts in effect as of December 31, 2018 through which the RGI ceded significant risk are as follows:

QSR Program

Arch I Quota-Share Agreement:

Effective April 1, 2012, RGI entered into a quota-share reinsurance agreement with Arch Reinsurance Limited ("Arch") to proactively manage its mortgage insurance risk-to-capital position. Under this agreement, RGI ceded 20.0% of new insurance written ("NIW") beginning with the business written in the fourth quarter of 2011, excluding loans which were part of the RII excess-of-loss agreement. This agreement provided a twenty-five percent ceding commission.

Arch II Quota-Share Agreement:

On December 10, 2012, RGI entered into a second quota-share reinsurance agreement with Arch, which went into effect immediately following the original agreement (i.e., Arch I Quota-Share Agreement) reaching its capacity. The original agreement provides for additional reinsurance for RGI's NIW and is divided into two coverage sections: Section A and Section B. Section A provides coverage on non-conventional policies, which are ceded at one-hundred percent with a ceding commission of twenty-five percent. Section B provides coverage on conventional policies, which are ceded at twenty percent with a ceding commission of thirty-five percent. Only Section B conventional policies have been ceded to Arch since the effective date of this agreement.

Effective April 1, 2013, the cession rate for Section B was amended to five percent for conventional policies originating from April 1, 2013.

Effective December 2015, the ceding commission rate for Section B changed to thirty-five percent and thirty percent for each half of the business.

Single Premium QSR Program

2016 Single Premium Quota-Share Agreement:

Effective January 1, 2016, RGI entered into a quota-share reinsurance agreement brokered by AON with a group of third-party reinsurers. The agreement provides reinsurance for RGI's single premium policies. Under the original agreement, RGI cedes twenty percent on policies issued between January 1, 2012 and March 31, 2013, thirty-five percent on policies issued between April 1, 2013 and December 31, 2015 and thirty-five percent on policies issued between January 1, 2016 and December 31, 2017, subject to a ceded premium cap of $195 million.

Effective December 31, 2017, the agreement was amended to increase the cession percentage for sixty-five percent on policies issued between January 1, 2015 and December 31, 2017, and the $195 million cap was eliminated.

The agreement provided a flat ceding commission of twenty-five percent on all covered policies and an annual profit commission if the loss ratio of the loans is below fifty-five percent for the calendar year.

Effective January 1, 2018, RGI is no longer ceding net insurance written under this agreement.

2018 Single Premium Quota-Share Agreement:

Effective January 1, 2016, RGI entered into a second quota-share reinsurance agreement brokered by AON with a group of third-party reinsurers. Under the agreement, RGI cedes sixty-five percent on policies issued between January 1, 2018 and December 31, 2019, subject to a ceded premium cap of $335 million. The agreement provides a twenty-five percent ceding commission and an annual profit commission if the loss ratio of the loans is below fifty-six percent for that calendar year.

Excess-of-Loss Program

Combined Insurance-Linked Notes & Excess-of-Loss Placement:

On November 14, 2018, RGI entered into an excess of loss ("XOL") reinsurance agreement with Eagle Re that was adjoined with the issuance of approximately $434 million mortgage ILN's by Eagle Re for approximately $434 million of aggregate reinsurance protection. In conjunction with the ILN transaction, an XOL reinsurance agreement with Renaissance Reinsurance Limited ("Renaissance"), brokered by Guy Carpenter, was entered into simultaneously for approximately $21 million of reinsurance protection. Both agreements provide coverage on existing monthly premium policies issued between January 2, 2017 and January 1, 2018. The combined ILN/XOL structure has five tranches: Class A, M-1, M-2, B-1, and B-2.

RGI retained $204.9 million on the first loss coverage level (i.e., Class B-2) and $8.4 million at the senior coverage level (i.e., Class A). RGI has not exercised their right to reinsure up to fifty percent of Class B-2 or up to one-hundred percent of Class A.

Eagle Re and Renaissance provide a pro rata share of ninety percent and ten percent coverage, respectively, on the mezzanine layer up to $241.4 in excess of $204.9 million.

Eagle Re provides $241.4 million at coverage level M-1, $168 million at coverage level M-2, and $24.6 million at coverage level B-1, which represents one-hundred percent of risk for Class M-1 and ninety percent of risk for Classes M-2 and B-1.

Renaissance provides $18.7 million at Class M-2 and $2.7 million at Class B-1, which represents the remaining ten percent of credit risk for Classes M-2 and B-1 alongside Eagle Re.

Captive Reinsurance Arrangements

RGI previously participated in captive reinsurance arrangements usually on an excess-of-loss basis. Most of these captive arrangements have attached, resulting in an immaterial amount of ceded loss recoverable. The captive reinsurance arrangements still in effect are on a run-off basis.

No new captive agreements have been entered into during the examination period, as part of the settlement reached with the Consumer Financial Protection Bureau rescinding the privilege for ten years until April 2013 and a Consent Order with the Minnesota Department of Insurance rescinding the privilege until June 2025. Additionally, Private Mortgage Insurance Eligibility Requirements ("PMIERs") prohibit captive insurance arrangements.

Intercompany Quota Share Agreement

RGI and RRI entered into a quota-share agreement, dated December 30, 2015 and amended September 25, 2017, whereby RRI will cover a proportionate share of loss based upon a percentage of risk assumed on primary policies (i.e., deep coverage) and pool policies (i.e., pool coverage) where RGI provides greater than twenty-five percent of the insured loan amount, up to a maximum of seventy-five percent.

The examiner noted that all reinsurance contracts transfer risk as required by SSAP No. 62R.

TERRITORY AND PLAN OF OPERATION

RGI operates nationally with licenses in all fifty states, the District of Columbia, and Guam. Its highest concentration of risk is in California and Florida. It also had some directly and indirectly owned subsidiaries in Hong Kong, the United Kingdom and Mauritius.

The Company writes only mortgage guaranty insurance. Its customers consist of mortgage originators, including mortgage bankers and brokers, commercial banks and savings institutions. The premiums for mortgage guaranty insurance are generally paid by the customers of the mortgage originators, the borrowers.

RGI's sales and marketing efforts are supported by field sales staff, operating in three divisions and supervised by area sales managers. In addition, the Company has dedicated staff for national accounts. The following table illustrates written premium by line of business as of December 31, 2018:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium
December 31, 2018			
Mortgage guaranty	$ 1,078,850,678	$ 206,144,239	$ 872,706,439
Totals	$ 1,078,850,678	$ 206,144,239	$ 872,706,439

California represents the largest writings for RGI amongst all of the states at 11.0%, followed by Texas at 10.2% and Florida at 7.9%.

SIGNIFICANT OPERATING RATIOS AND TRENDS

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

	Amount	Percentage
Premiums earned	4,034,080,521	100.0 %
Losses incurred	763,762,087	18.9 %
Loss expenses incurred	48,727,287	1.2 %
Other underwriting expenses incurred	1,220,516,902	30.3 %
Net underwriting gain or (loss)	2,001,074,245	49.6 %
Totals	4,034,080,521	100.0 %

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

	2018	2017	2016	2015	2014
Admitted assets	$ 4,059,597,933	$ 4,071,176,103	$ 3,900,132,081	$ 4,008,987,802	$ 3,643,318,258
Liabilities	$ 3,245,485,757	$ 2,870,223,409	$ 2,550,456,680	$ 2,322,474,905	$ 2,318,133,997
Surplus as regards policyholders	$ 814,112,176	$ 1,200,952,694	$ 1,349,675,401	$ 1,686,512,897	$ 1,325,184,261
Gross premium written	$ 1,078,850,678	$ 1,027,721,327	$ 998,389,690	$ 1,007,726,382	$ 980,845,979
Net premium written	$ 872,706,439	$ 706,817,528	$ 628,682,018	$ 845,693,317	$ 797,458,700
Underwriting gain/(loss)	$ 526,618,820	$ 441,158,029	$ 381,116,458	$ 395,482,660	$ 256,698,278
Investment gain/(loss)	$ 111,543,689	$ 103,279,341	$ 109,277,760	$ 360,372,232	$ 22,855,447
Other gain/(loss)	$ (3,836,233)	$ 378,650	$ (235,602)	$ 48,783	$ 485,141
Net income	$ 501,930,930	$ 445,054,797	$ 480,825,074	$ 754,812,301	$ 273,744,310

In 2018 the Company recorded software impairment expense of $4.3 million relating to the write-off of previously capitalized costs associated with the Company's technology upgrade project.

PENDING LITIGATION

As of December 31, 2018, the Company is subject to litigation and arbitration arising in the normal course of business. The Company is not a party to any material litigation or arbitration other than as routinely encountered in claims activity, none of which will, in the opinion of management, have a material adverse effect on the Company's capital and surplus.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2018, and the results of its operations for the five-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

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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

	2018	2017	2016	2015	2014
Bonds	$ 3,650,664,609	$ 3,564,739,352	$ 3,215,268,769	$ 2,882,382,406	$ 1,376,533,667
Preferred stocks	0	0	0	0	17,427,360
Common stocks	43,369,699	35,859,727	806,300	21,970,179	1,351,921,642
Real estate	3,439,658	5,195,516	3,424,592	0	0
Cash, cash equivalents, and short term investments	110,501,780	217,700,127	354,689,922	694,949,698	429,480,158
Other invested assets	86,792,055	89,602,617	87,544,642	87,945,456	101,765,386
Receivable for securities	25,733	0	0	0	0
Securities lending reinvested collateral assets	10,885,817	17,089,878	0	0	0
Subtotals, cash and invested assets	3,905,679,351	3,930,187,217	3,661,734,225	3,687,247,739	3,277,128,213
Investment income due and accrued	26,573,512	26,812,364	25,186,266	22,568,599	11,512,579
Premiums and agents' balances due	45,281,227	41,076,172	36,292,602	33,065,720	39,638,618
Amounts recoverable from reinsurers	2,435,212	4,048,429	7,326,210	10,592,043	6,021,122
Other amounts receivable under reinsurance contracts	0	0	0	0	24,233,752
Net deferred tax asset	29,128,703	29,509,106	126,080,141	215,572,465	170,505,535
Electronic data processing equipment and software	35,831,343	31,018,787	34,996,813	33,790,662	17,975,155
Receivable from parent, subsidiaries and affiliates	356,862	1,302,259	813,943	5,059,405	94,922,737
Aggregate write-ins for other than invested assets	14,311,723	7,221,769	7,701,881	1,091,169	1,380,547
Total	$ 4,059,597,933	$ 4,071,176,103	$ 3,900,132,081	$ 4,008,987,802	$ 3,643,318,258
Losses	$ 325,346,490	$ 421,013,657	$ 635,211,612	$ 811,955,619	$ 1,283,062,019
Loss adjustment expenses	10,583,047	13,704,567	19,562,681	27,440,788	59,699,803
Commissions payable, contingent commissions and other similar charges	524,113	1,830,921	2,371,406	2,345,279	2,979,971
Other expenses	43,386,286	40,615,462	33,747,446	39,513,734	50,297,769
Taxes, licenses and fees	7,120,559	6,093,336	4,432,874	5,868,819	3,218,251
Current federal and foreign income taxes	2,182,376	69,909,662	842,338	802,587	5,805,914
Borrowed money and interest thereon	82,255,062	0	0	0	0
Unearned premiums	234,666,211	247,693,309	353,633,927	524,418,742	481,983,538
Ceded reinsurance premiums payable (net of ceding commissions)	13,838,902	13,294,001	13,905,681	11,879,508	15,844,238
Funds held by company under reinsurance treaties	321,212,127	288,397,887	158,001,287	0	0
Amounts withheld or retained by company for account of others	849,221	790,983	733,981	717,598	667,606
Payable to parent, subsidiaries and affiliates	15,073,746	13,251,815	16,501,317	9,699,959	3,190,226
Payable for securities	0	1,000,000	1,500,000	1,578,065	0
Payable for securities lending	10,885,817	17,089,878	0	0	0
Aggregate write-ins for liabilities	2,177,561,800	1,735,537,931	1,310,012,130	886,254,207	411,384,662
Total liabilities	3,245,485,757	2,870,223,409	2,550,456,680	2,322,474,905	2,318,133,997
Common capital stock	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Surplus notes	100,000,000	100,000,000	0	325,000,000	0
Gross paid in and contributed surplus	1,413,479,016	1,863,479,016	2,038,479,017	2,038,960,233	2,038,417,413
Unassigned funds (surplus)	(701,866,840)	(765,026,322)	(691,303,616)	(679,947,336)	(715,733,152)
Surplus as regards policyholders	814,112,176	1,200,952,694	1,349,675,401	1,686,512,897	1,325,184,261
Totals	$ 4,059,597,933	$ 4,071,176,103	$ 3,900,132,081	$ 4,008,987,802	$ 3,643,318,258

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2018	2017	2016	2015	2014
Premiums earned	$ 885,733,537	$ 812,758,146	$ 799,466,833	$ 803,258,113	$ 732,863,892
Deductions:					
Losses incurred	80,053,416	111,808,809	176,309,570	185,586,596	210,003,696
Loss expenses incurred	10,995,251	7,538,649	5,448,398	(7,276,064)	32,021,053
Other underwriting expenses incurred	268,066,050	252,252,659	236,592,407	229,464,921	234,140,865
Total underwriting deductions	359,114,717	371,600,117	418,350,375	407,775,453	476,165,614
Net underwriting gain or (loss)	526,618,820	441,158,029	381,116,458	395,482,660	256,698,278
Investment Income					
Net investment income earned	130,619,803	108,648,911	100,598,241	299,871,009	195,657,682
Net realized capital gains or (losses)	(19,076,114)	(5,369,570)	8,679,519	60,501,223	(172,802,235)
Net investment gain or (loss)	111,543,689	103,279,341	109,277,760	360,372,232	22,855,447
Other Income					
Aggregate write-ins for miscellaneous income	(3,836,233)	378,650	(235,602)	48,783	485,141
Total other income	(3,836,233)	378,650	(235,602)	48,783	485,141
Net income before dividends to policyholders and before federal and foreign income taxes	634,326,276	544,816,020	490,158,616	755,903,675	280,038,866
Federal and foreign income taxes incurred	132,395,346	99,761,223	9,333,542	1,091,374	6,294,556
Net income	$ 501,930,930	$ 445,054,797	$ 480,825,074	$ 754,812,301	$ 273,744,310

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

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31, previous year	$ 1,200,952,694	$ 1,349,675,401	$ 1,686,512,897	$ 1,325,184,261	$ 1,317,763,931
Net income	501,930,930	445,054,797	480,825,074	754,812,301	273,744,310
Net unrealized capital gains or (losses)	(6,438,089)	531,389	(370,300)	(245,482,194)	(175,614,225)
Change in net unrealized foreign exchange capital gain or (loss)	0	0	3,254	(137)	26
Change in net deferred income tax	92,752,946	(200,595,554)	(16,472,104)	(1,355,931)	579,466,692
Change in nonadmitted assets	(82,219,537)	84,089,924	(78,521,665)	2,132,234	(403,749,660)
Change in provision for reinsurance	1	0	0	0	0
Change in surplus notes	0	100,000,000	(325,000,000)	325,000,000	0
Surplus adjustments:					
Paid in	(450,000,000)	(175,000,000)	0	0	100,005,134
Aggregate write-ins for gains and losses in surplus	(442,866,769)	(402,803,263)	(397,301,755)	(473,777,637)	(366,431,947)
Change in surplus as regards policyholder for the year	(386,840,518)	(148,722,707)	(336,837,496)	361,328,636	7,420,330
Surplus as regards policyholders, December 31, current year	$ 814,112,176	$ 1,200,952,694	$ 1,349,675,401	$ 1,686,512,897	$ 1,325,184,261

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

	2018	2017	2016	2015	2014
Cash from Operations					
Premiums collected net of reinsurance	$ 970,410,216	$ 766,058,630	$ 879,849,246	$ 857,535,193	$ 781,350,837
Net investment income	137,962,722	114,877,802	110,017,021	84,455,578	209,054,133
Miscellaneous income	(1,214,120)	378,649	(235,602)	48,783	485,145
Total income	1,107,158,818	881,315,081	989,630,665	942,039,554	990,890,115
Benefit and loss related payments	187,734,279	328,621,978	360,999,648	691,011,538	696,137,126
Commissions, expenses paid and aggregate write-ins for deductions	340,437,143	243,624,393	317,525,041	238,776,446	239,860,837
Federal and foreign income taxes paid (recovered)	198,311,186	30,803,924	9,125,967	12,131,315	675,105
Total deductions	726,482,608	603,050,295	687,650,656	941,919,299	936,673,068
Net cash from operations	380,676,210	278,264,786	301,980,009	120,255	54,217,047
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	1,050,954,961	1,227,198,247	969,020,525	304,733,216	393,446,882
Stocks	38,889,542	17,561,162	30,522,793	983,728,787	0
Real estate	12,979,989	14,541,726	13,156,466	4,476,352	2,366,410
Other invested assets	2,596,116	900,954	2,642,822	18,224,801	8,606,686
Net gain or (loss) on cash and short-term investments	(37,427)	(34,986)	(67,385)	(23,455)	0
Miscellaneous proceeds	0	0	0	1,594,338	303,094
Total investment proceeds	1,105,383,181	1,260,167,103	1,015,275,221	1,312,734,039	404,723,072
Cost of investments acquired (long-term only):					
Bonds	1,551,061,033	1,616,478,321	1,431,530,302	1,341,300,276	238,765,512
Stocks	50,128,328	51,533,630	1,456,300	1,496,609	0
Real estate	12,874,653	18,825,198	18,784,654	4,476,352	2,366,410
Other invested assets	6,047	18,273	153,886	1,508,322	3,172,691
Miscellaneous applications	966,731	467,835	24,666	0	0
Total investments acquired	1,615,036,792	1,687,323,257	1,451,949,808	1,348,781,559	244,304,613
Net cash from investments	(509,653,611)	(427,156,154)	(436,674,587)	(36,047,520)	160,418,459
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Surplus notes, capital notes	0	22,080,771	(201,631,400)	216,135,305	0
Capital and paid in surplus, less treasury stock	(70,325,820)	(74,667,758)	0	100,000,000	100,005,134
Borrowed funds received or (repaid)	82,098,056	0	0	0	0
Other cash provided or (applied)	10,006,818	64,488,560	(3,933,798)	(14,738,500)	(9,489,193)
Net cash from financing and miscellaneous sources	21,779,054	11,901,573	(205,565,198)	301,396,805	90,515,941
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(107,198,347)	(136,989,795)	(340,259,776)	265,469,540	305,151,447
Cash and short-term investments:					
Beginning of the year	217,700,127	354,689,922	694,949,698	429,480,158	124,328,711
End of the year	$ 110,501,780	$ 217,700,127	$ 354,689,922	$ 694,949,698	$ 429,480,158

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, 2018, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	3,650,664,609	93.5 %
Common stocks	43,369,699	1.1 %
Real estate	3,439,658	0.1 %
Cash	27,069,707	0.7 %
Cash equivalents	43,722,806	1.1 %
Short-term investments	39,709,267	1.0 %
Other invested assets	86,792,055	2.2 %
Receivable for securities	25,733	0.0 %
Securities lending reinvested collateral assets	10,885,817	0.3 %
Totals	3,905,679,351	100.0 %

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

NAIC Designation	Amount	Percentage
1 - highest quality	2,590,876,035	69.4 %
2 - high quality	1,065,467,697	28.5 %
3 - medium quality	6,405,361	0.2 %
4 - low quality	71,347,589	1.9 %
Totals	3,734,096,682	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	468,190,070	12.5 %
2 to 5 years	1,417,833,309	38.0 %
6 to 10 years	1,378,059,516	36.9 %
11 to 20 years	224,761,228	6.0 %
over 20 years	245,252,559	6.6 %
Totals	3,734,096,682	100.0 %

Investment management is provided under written agreements with various external advisors.

The Company's investment in bonds more than doubled since the previous examination. The total investment consisted of approximately $605 million in U.S. Treasury and GSE bonds, $70 million in U.S. State and Municipal bonds, $1.9 billion in Corporate bonds, and $1.1 billion in various Commercial Mortgage-Backed and Miscellaneous Securities. The latter two categories reflected increases that largely accounted for the overall increase. Low quality bond investments are primarily exchange traded funds identified by the NAIC's Securities Valuation Office as eligible for reporting as bonds.

The increase in investment in bonds during the examination period was primarily offset by a corresponding decrease in investment in common stocks, particularly those of affiliated securities. As of the examination date the Company's investment in common stock was $43 million, distributed between approximately $25 million in mutual funds (59.0% of equity investment) and approximately $18 million (41.0%) of various unaffiliated shares. The Company no longer has any investment in affiliated company shares.

Cash and short-term investments amounted to (all approximate amounts): $39 million of issues maturing within one-year, cash equivalents of $44 million, $27 million of cash, and securities lending collateral assets of $11 million, for a net total of approximately $121 million.

Other Invested Assets consisted of approximately $83 million in company-owned life insurance and $4 million in various limited partnerships.

The Company no longer has any investments in preferred stock.

The Company has a written investment policy as required by 40 P.S. § 653b(b). The investment policy is reviewed and approved on an annual basis by the Board. The Company was following its investment policy at December 31, 2018.

The Company has a custodial agreement with Northern Trust Company and is in compliance with 31 Pa. Code § 148a.3.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported net reserves in the amount of $325,346,490 for losses and $10,583,047 for loss adjustment expenses ("LAE") on the December 31, 2018 Annual Statement.

For each year in the examination period, the appointed actuary, Michael Schmitz, FCAS, MAAA, of Milliman, Inc. provided a Statement of Actuarial Opinion ("Opinion") stating that the Loss and LAE reserve amounts made a reasonable (or otherwise) provision on the adequacy of its Loss and LAE reserves as provided in the NAIC *Annual Statement Instructions – Property and Casualty*.

In order for the examination team to gain an adequate comfort level with the reserve estimates, the Department engaged the actuarial examination services of Risk and Regulatory Consulting, LLC ("RRC") of Farmington, Connecticut to perform a risk-focused review of the

Company's Loss and LAE reserves, the forecasting and reserving models, and pricing and underwriting activities in conjunction with this examination. In the course of their work, RRC actuarial examiners relied upon the underlying financial and risk-focused procedures performed by the financial examiners, the Company's Internal Audit Department, and the work of the Company's CPA firm.

Based on the procedures performed and the results obtained, the examination team obtained sufficient documentation to support the conclusion that the Company's carried Loss and LAE reserve amounts are reasonably stated as of December 31, 2018.

CONTINGENCY RESERVE

A contingency reserve is established by mortgage insurers to protect policyholders against severe loss during periods of extreme economic contraction. The formula requires there to be an annual addition to reserves equal to 50% of the mortgage insurer's earned premium, and that the contingency reserve shall be maintained for a period of 10 years. The net earned premium during 2018 was approximately $885.7 million for RGI and increased the contingency reserve by $442.8 million to $2.109 billion as of December 31, 2018. The contingency reserve was calculated in accordance with SSAP No. 58, paragraph 22.

SUBSEQUENT EVENTS

In April 2019 the Company entered into a second fully collateralized reinsurance agreement with Eagle Re 2019-1 Ltd. ("Eagle Re 2019"), an unaffiliated special purpose reinsurer domiciled in Bermuda. This reinsurance agreement provides for up to $562 million of aggregate excess-of-loss reinsurance coverage for the mortgage insurance losses on new defaults on an existing portfolio of eligible monthly premium policies issued between January 1, 2018 and January 1, 2019, with an initial risk in force of $10.7 billion. Eagle Re 2019 financed its coverage by issuing mortgage insurance-linked notes in an aggregate amount of $562 million to unaffiliated investors.

In April 2019 the Company distributed $375 million of capital to RDN in the form of cash and marketable securities. This transfer was approved by the Department as an Other Distribution and resulted in a $375 million decrease in the Company's statutory surplus.

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Company. As such, the Department will continue to monitor and share information with the Company as appropriate related to COVID-19 developments.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report did not contain any recommendations.

CURRENT EXAMINATION

As a result of the current examination, no recommendations are being made.

CONCLUSION

As a result of this examination, the financial condition of RGI, as of December 31, 2018, was determined to be as follows:

	Amount	Percentage
Admitted assets	4,059,597,933	100.0 %
Liabilities	3,245,485,757	79.9 %
Surplus as regards policyholders	814,112,176	20.1 %
Total liabilities and surplus	4,059,597,933	100.0 %

Since the previous examination, made as of December 31, 2013, the Company's assets increased by $402,054,833, its liabilities increased by $905,706,588, and its surplus decreased by $503,651,755.

This examination was conducted by John Garner, CPA; Glenn LeGault, CFE, CPA; Pamela Roberts, AFE; LeeAnne Creevy, CPA, CISA, CITP, CRMA, MCM; Steve Skenyon, CPA, CISA; Brian Menard, CFE, CISA, FLMI; David Heppen, FCAS, MAAA; Andrew Chandler, ACAS, MAAA; Barry Ash; Stephan Donk, AIE, CPCU, MCM; Edward Toy; and William Michael, CFE, CIA, CPCU, ARe, with the latter in charge.

Respectfully,

Melissa Greiner

Melissa L. Greiner
Director
Bureau of Financial Examinations

David Evans

David R. Evans, CFE
Examination Manager

William Michael

William Michael, CFE, CIA, CPCU, ARe
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.