

Examination Warrant Number 18-00766-20720-R1

Report of Examination of

**Radian Insurance Inc.
Philadelphia, Pennsylvania**

As of December 31, 2018

For Informational Purposes Only

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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 18-00766-20720-R1, dated August 14, 2018, an examination was made of

Radian Insurance Inc., NAIC Code: 20720

a Pennsylvania domiciled, single-state, mortgage guaranty insurance company, hereinafter referred to as "RII" or "the Company." The examination was conducted at RII'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

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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 Mortgage Assurance Inc. (“RMAI”)	30872	PA
Radian Guaranty Inc. (“RGI”)	33790	PA
EnTitle Insurance Company, Inc.	51632	OH

HISTORY

The Company was incorporated on June 28, 1993 as CMAC Mortgage Insurance Company, licensed by the Department on December 10, 1993, and commenced business on that date. On April 27, 1998 the Company amended its Articles of Incorporation to reflect its current name.

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 \$19,245,791, consisting of 100,000 capital shares of issued and outstanding common stock with a par value of \$25.00 per share amounting to \$2,500,000; \$249,364,404 in gross paid-in and contributed surplus; and \$(232,618,613) 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.

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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 GUARANTY INC.

RGI is domiciled in Pennsylvania and is 100% owned by RDN. 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. It 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 traditional first-lien primary mortgage insurance written on a flow basis. A mortgage insurance policy is issued to a lender to protect against losses arising from a borrower's monetary default. RGI's principal customers are mortgage originators such as mortgage bankers, mortgage brokers, commercial banks and savings institutions.

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 a direct subsidiary of 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.

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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
Derek V. Brummer	Executive Vice President
Timothy W. Hunter	Senior Vice President and General Counsel and Secretary
William T. Tomljanovic	Senior Vice President and Treasurer
Robert V. Radicioni	Senior Vice President
Robert Quigley	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 AGREEMENT

RII 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 RII 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

RII 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

RII entered into an Intercompany Transfer Agreement with RDN, RGI, RMII, 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

ASSUMED

RII had several arrangements with RGI which were designed to cap RII's risk to 25% of each insured party's indebtedness or limit the total loss for all claims during the year (Excess of Loss). All previously assumed reinsurance under these agreements was terminated in 2017 when the regulatory requirement for mortgage insurers to reinsure excess of loss risk was eliminated.

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

TERRITORY AND PLAN OF OPERATION

The Company is only licensed in the Commonwealth of Pennsylvania and writes mortgage and financial guaranty insurance. The Company is not writing new business and is currently in a runoff mode.

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

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium
December 31, 2018			
Mortgage guaranty	\$ 361,184	\$ 0	\$ 361,184
Financial guaranty	678,537	678,309	228
Totals	<u>\$ 1,039,721</u>	<u>\$ 678,309</u>	<u>\$ 361,412</u>

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	<u>39,570,245</u>	<u>100.0 %</u>
Losses incurred	(17,541,838)	(44.3)%
Loss expenses incurred	322,908	0.8 %
Other underwriting expenses incurred	13,971,580	35.3 %
Aggregate write-ins for underwriting deductions	(1,056,247)	(2.7)%
Net underwriting gain or (loss)	<u>43,873,842</u>	<u>110.9 %</u>
Totals	<u>39,570,245</u>	<u>100.0 %</u>

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	\$ 21,994,165	\$ 22,453,425	\$ 22,818,569	\$ 23,266,840	\$ 330,082,899
Liabilities	\$ 2,748,374	\$ 2,697,366	\$ 3,660,428	\$ 4,132,784	\$ 73,743,157
Surplus as regards policyholders	\$ 19,245,791	\$ 19,756,059	\$ 19,158,141	\$ 19,134,056	\$ 256,339,742
Gross premium written	\$ 1,039,721	\$ 1,246,574	\$ 1,480,999	\$ 16,179,559	\$ 23,279,165
Net premium written	\$ 361,412	\$ 518,312	\$ 699,444	\$ 15,336,046	\$ 22,365,249
Underwriting gain/(loss)	\$ (1,073,695)	\$ (45,739)	\$ 425,575	\$ 19,030,505	\$ 25,537,196
Investment gain/(loss)	\$ 93,338	\$ 19,640	\$ (4,722)	\$ 4,819,665	\$ 7,239,317
Other gain/(loss)	\$ 0	\$ 2,433	\$ 117,800	\$ 76,832	\$ 6
Net income	\$ (980,357)	\$ (23,666)	\$ 511,676	\$ 24,608,155	\$ 31,887,516

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.

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

	2018	2017	2016	2015	2014
Bonds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 229,502,092
Preferred stocks	0	0	0	0	7,189,705
Cash, cash equivalents, and short term investments	21,913,715	22,364,966	22,717,128	21,234,228	65,297,184
Subtotals, cash and invested assets	21,913,715	22,364,966	22,717,128	21,234,228	301,988,981
Investment income due and accrued	7,123	3,177	877	758	3,008,144
Premiums and agents' balances due	64,374	75,216	86,589	99,757	1,680,392
Net deferred tax asset	0	0	0	0	23,387,496
Receivable from parent, subsidiaries and affiliates	455	604	2,377	1,918,110	2,372
Aggregate write-ins for other than invested assets	8,498	9,462	11,598	13,987	15,514
Total	\$ 21,994,165	\$ 22,453,425	\$ 22,818,569	\$ 23,266,840	\$ 330,082,899
Losses	\$ 417,774	\$ 531,764	\$ 701,379	\$ 841,379	\$ 22,642,936
Reinsurance payable on paid loss and loss adjustment expenses	0	0	0	0	376,663
Loss adjustment expenses	10,444	13,294	17,534	21,831	37,927
Commissions payable, contingent commissions and other similar charges	0	0	0	0	372
Other expenses	168,336	148,261	156,577	260,860	147,399
Taxes, licenses and fees	0	1,337	765	38,245	30,157
Current federal and foreign income taxes	0	0	0	0	654,175
Unearned premiums	0	263	793	45,483	169,309
Ceded reinsurance premiums payable (net of ceding commissions)	101,654	109,299	117,329	126,180	136,561
Payable to parent, subsidiaries and affiliates	60,574	177,235	140,587	306,035	575,810
Aggregate write-ins for liabilities	1,989,592	1,715,913	2,525,464	2,492,771	48,971,848
Total liabilities	2,748,374	2,697,366	3,660,428	4,132,784	73,743,157
Common capital stock	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Gross paid in and contributed surplus	249,364,404	249,364,404	249,364,404	249,364,404	533,364,404
Unassigned funds (surplus)	(232,618,613)	(232,108,345)	(232,706,263)	(232,730,348)	(279,524,662)
Surplus as regards policyholders	19,245,791	19,756,059	19,158,141	19,134,056	256,339,742
Totals	\$ 21,994,165	\$ 22,453,425	\$ 22,818,569	\$ 23,266,840	\$ 330,082,899

Comparative Statement of Income For the Year Ended December 31,

	2018	2017	2016	2015	2014
Underwriting Income					
Premiums earned	\$ 361,675	\$ 518,842	\$ 744,134	\$ 15,459,872	\$ 22,485,722
Deductions:					
Losses incurred	230,169	(174,661)	(616,505)	(7,641,676)	(9,339,165)
Loss expenses incurred	86,071	108,606	67,829	54,372	6,030
Other underwriting expenses incurred	832,360	1,249,937	1,205,872	4,845,562	5,837,849
Aggregate write-ins for underwriting deductions	286,770	(619,301)	(338,637)	(828,891)	443,812
Total underwriting deductions	1,435,370	564,581	318,559	(3,570,633)	(3,051,474)
Net underwriting gain or (loss)	(1,073,695)	(45,739)	425,575	19,030,505	25,537,196
Investment Income					
Net investment income earned	86,189	19,545	(40,892)	9,413,630	7,675,228
Net realized capital gains or (losses)	7,149	95	36,170	(4,593,965)	(435,911)
Net investment gain or (loss)	93,338	19,640	(4,722)	4,819,665	7,239,317
Other Income					
Aggregate write-ins for miscellaneous income	0	2,433	117,800	76,832	6
Total other income	0	2,433	117,800	76,832	6
Net income before dividends to policyholders and before federal and foreign income taxes	(980,357)	(23,666)	538,654	23,927,002	32,776,518
Federal and foreign income taxes incurred	0	0	26,978	(681,153)	889,002
Net income	\$ (980,357)	\$ (23,666)	\$ 511,676	\$ 24,608,155	\$ 31,887,516

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**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	\$ 19,756,059	\$ 19,158,141	\$ 19,134,056	\$ 256,339,742	\$ 230,833,364
Net income	(980,357)	(23,666)	511,676	24,608,155	31,887,516
Net unrealized capital gains or (losses)	0	0	0	0	23,420
Change in net unrealized foreign exchange capital gain or (loss)	2,785	(2,218)	(140,053)	(50,253)	(192)
Change in net deferred income tax	(97,227)	183,218	150,074	(144,017,113)	(6,175,772)
Change in nonadmitted assets	551,441	342,000	(126,282)	120,603,338	11,014,124
Surplus adjustments:					
Paid in	0	0	0	(284,000,000)	0
Aggregate write-ins for gains and losses in surplus	13,090	98,584	(371,330)	45,650,187	(11,242,718)
Change in surplus as regards policyholder for the year	(510,268)	597,918	24,085	(237,205,686)	25,506,378
Surplus as regards policyholders, December 31, current year	\$ 19,245,791	\$ 19,756,059	\$ 19,158,141	\$ 19,134,056	\$ 256,339,742

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

	2018	2017	2016	2015	2014
Cash from Operations					
Premiums collected net of reinsurance	\$ 364,609	\$ 521,652	\$ 703,761	\$ 16,906,300	\$ 22,822,527
Net investment income	82,054	16,984	(149,337)	10,437,967	8,481,948
Miscellaneous income	0	2,433	117,800	76,832	6
Total income	446,663	541,069	672,224	27,421,099	31,304,481
Benefit and loss related payments	(7,303)	(351,386)	(404,379)	14,607,012	12,034,190
Commissions, expenses paid and aggregate write-ins for deductions	813,433	1,257,421	1,239,308	4,787,859	5,885,944
Federal and foreign income taxes paid (recovered)	0	0	0	0	(96,320)
Total deductions	806,130	906,035	834,929	19,394,871	17,823,814
Net cash from operations	(359,467)	(364,966)	(162,705)	8,026,228	13,480,667
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	0	0	1	17,242,297	35,448,590
Stocks	0	0	0	7,301,280	3,307,500
Net gain or (loss) on cash and short-term investments	0	16	14	80	194
Miscellaneous proceeds	7,149	79	9,178	93,043	13,041
Total investment proceeds	7,149	95	9,193	24,636,700	38,769,325
Cost of investments acquired (long-term only):					
Bonds	0	0	0	59,798,606	73,010,576
Total investments acquired	0	0	0	59,798,606	73,010,576
Net cash from investments	7,149	95	9,193	(35,161,906)	(34,241,251)
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	0	(16,646,653)	0
Other cash provided or (applied)	(98,933)	12,709	1,636,412	(280,625)	(257,897)
Net cash from financing and miscellaneous sources	(98,933)	12,709	1,636,412	(16,927,278)	(257,897)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(451,251)	(352,162)	1,482,900	(44,062,956)	(21,018,481)
Cash and short-term investments:					
Beginning of the year	22,364,966	22,717,128	21,234,228	65,297,184	86,315,665
End of the year	\$ 21,913,715	\$ 22,364,966	\$ 22,717,128	\$ 21,234,228	\$ 65,297,184

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
Cash	15,418,354	70.4 %
Cash equivalents	6,495,361	29.6 %
Totals	<u>21,913,715</u>	<u>100.0 %</u>

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

NAIC Designation	Amount	Percentage
1 - highest quality	6,495,361	100.0 %
Totals	<u>6,495,361</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	6,495,361	100.0 %
Totals	<u>6,495,361</u>	<u>100.0 %</u>

During the examination period the Company disposed of all investments other than cash and short-term investments.

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 \$417,774 for losses and \$10,444 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 50.0% 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 \$361,675 for RII and decreased the contingency reserve, net of early releases due to excess losses, by \$13,091 to \$1.7 million as of December 31, 2018. The contingency reserve was calculated in accordance with SSAP No. 58, paragraph 22.

SUBSEQUENT EVENTS

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.

For Informational Purposes Only

CONCLUSION

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

	Amount	Percentage
Admitted assets	21,994,165	100.0 %
Liabilities	2,748,374	12.5 %
Surplus as regards policyholders	19,245,791	87.5 %
Total liabilities and surplus	21,994,165	100.0 %

Since the previous examination, made as of December 31, 2013, the Company's assets decreased by \$291,663,622, its liabilities decreased by \$80,586,317, and its surplus decreased by \$211,077,305.

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

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David Evans

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