

Examination Warrant Number 18-00766-15842-A1

Report of Examination of
Radian Reinsurance 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 18-00766-15842-A1, dated August 14, 2018, an examination was made of

Radian Reinsurance Inc., NAIC Code: 15842

a Pennsylvania domiciled, single-state, mortgage guaranty insurance company, hereinafter referred to as "RRI" or "the Company." The examination was conducted at RRI'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 November 10, 2015. This examination covered the period from November 11, 2015 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 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
Radian Guaranty Inc. (“RGI”)	33790	PA
Entitle Insurance Company, Inc.	51632	OH

HISTORY

The Company was incorporated on September 10, 2015, licensed by the Department on December 29, 2015, and commenced business about that same date.

The Company is engaged in the business of credit insurance, which includes the authority to insure and reinsure policies of mortgage guaranty insurance, and is headquartered in Philadelphia, Pennsylvania.

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 \$356,236,147, consisting of 100,000 capital shares of issued and outstanding common stock with a par value of \$10.00 per share amounting to \$1,000,000; \$440,000,000 in gross paid-in and contributed surplus; and \$(84,763,853) 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

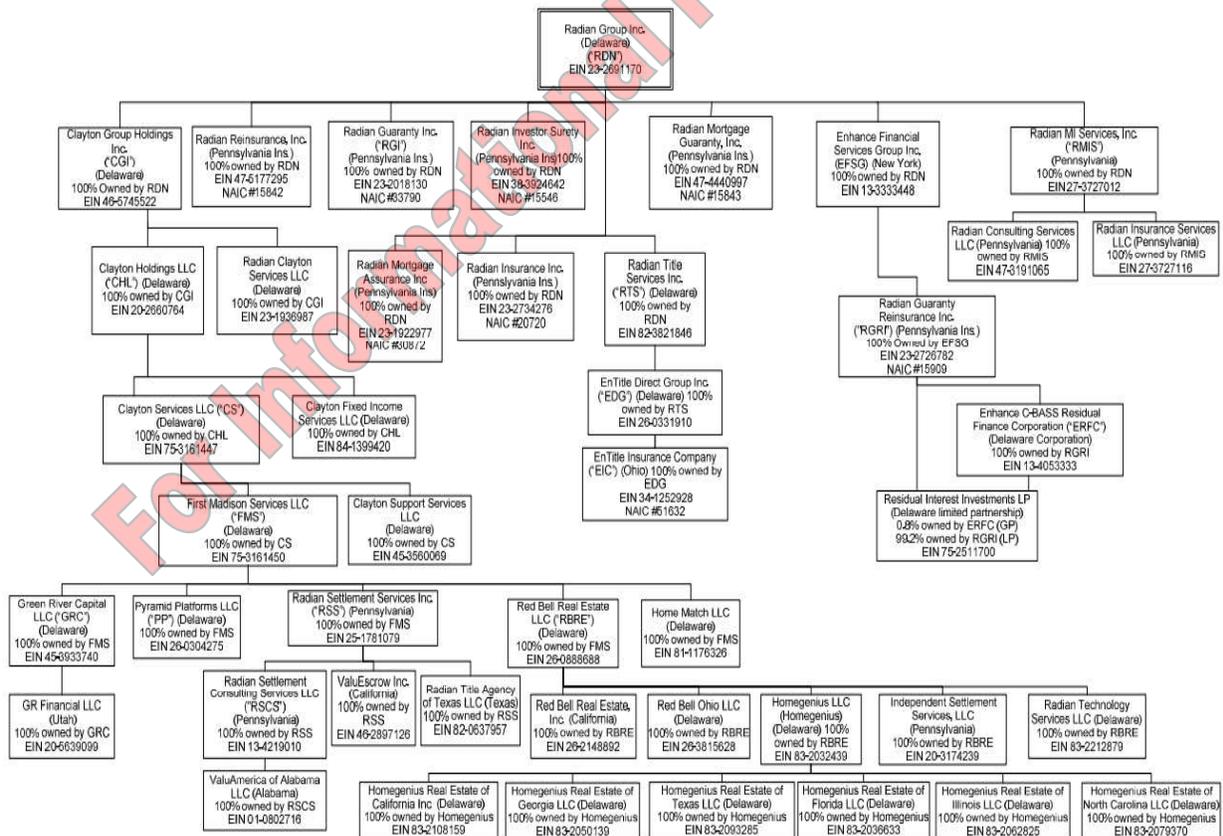
RRI is a wholly owned subsidiary of Radian Group Inc. (“RDN”). During the examination period, RRI paid no dividends to its stockholder. However, RRI was a party to the following transaction:

- On March 31, 2017, the Company’s affiliate, RGI, reallocated \$175 million of capital, in the form of cash and marketable securities, to the Company. 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 increase in RRI’s statutory policyholders’ surplus (i.e., statutory capital and surplus).

INSURANCE HOLDING COMPANY SYSTEM

During the period under examination, RRI 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:



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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 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 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.

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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 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.

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Edward J. Hoffman
Wynnewood, PA

Brien J. McMahon
Randolph, NJ

Derek V. Brummer
Blue Bell, PA

General Counsel and Secretary
Radian Group, Inc.

Chief Franchise Officer
Radian Group, Inc.

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
Derek V. Brummer	Senior 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 AGREEMENTS

RRI 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 RRI 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

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- 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.

TAX ALLOCATION AGREEMENT

RRI 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.

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

REINSURANCE

RRI primarily provides quota share reinsurance protection to RGI. Additionally, RRI participates in the Front-end and Back-end credit risk transfer (“CRT”) programs developed by the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”).

A general overview of RRI’s reinsurance program is provided below.

INTERCOMPANY

RRI and RGI 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 quota-share agreement was determined to have the proper insolvency, entire contract, arbitration, and intermediary clauses as required by *Statements of Statutory Accounting Principles* (“SSAP”) No. 62R. paragraph 8 and 40 P.S. § 443(a)(2). In addition, this agreement was found to include language that properly transfers risk pursuant to the requirements of SSAP No. 62R.

ASSUMED

RRI participates in the Front-end and Back-end CRT programs developed by the government sponsored enterprises (“GSE’s”) Fannie Mae and Freddie Mac. The CRT programs are essentially a credit insurance risk sharing deal that shifts credit risk on a pool of mortgage

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loans owned or guaranteed by the GSE's to an insurance provider which then may transfer that credit risk to reinsurers.

In the CRT structure, the GSE retains the first loss layer and the insurer or reinsurer covers actual losses up to an aggregate limit of liability if the retention layer is depleted. The GSE retains catastrophic losses.

Since 2016, RRI has participated in thirteen CRT transactions as either the insurer or a subscribing reinsurer. The total risk in force for the CRT programs as of December 31, 2018 was \$196.8 million. The examiner noted that the reinsurance contracts transfer risk as required by SSAP No. 62R

TERRITORY AND PLAN OF OPERATION

Company is licensed only in the Commonwealth of Pennsylvania and writes mortgage guaranty insurance. 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	\$ 117,953,236	\$ 0	\$ 117,953,236
Totals	\$ 117,953,236	\$ 0	\$ 117,953,236

SIGNIFICANT OPERATING RATIOS AND TRENDS

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

	Amount	Percentage
Premiums earned	<u>337,780,150</u>	<u>100.0 %</u>
Losses incurred	57,482,173	17.0 %
Other underwriting expenses incurred	29,161,445	8.6 %
Net underwriting gain or (loss)	<u>251,136,532</u>	<u>74.4 %</u>
Totals	<u>337,780,150</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
Admitted assets	\$ 767,006,788	\$ 704,215,445	\$ 491,892,216	\$ 466,588,933
Liabilities	\$ 410,770,641	\$ 375,329,863	\$ 344,262,364	\$ 327,896,470
Surplus as regards policyholders	\$ 356,236,147	\$ 328,885,582	\$ 147,629,852	\$ 138,692,463
Gross premium written	\$ 117,953,236	\$ 111,080,967	\$ 104,341,240	\$ 63,886,188
Net premium written	\$ 117,953,236	\$ 111,080,967	\$ 104,341,240	\$ 63,886,188
Underwriting gain/(loss)	\$ 89,767,854	\$ 80,098,135	\$ 75,835,616	\$ 5,434,927
Investment gain/(loss)	\$ 18,749,511	\$ 17,144,365	\$ 15,093,519	\$ 37,336
Other gain/(loss)	\$ (115,440)	\$ (5,083)	\$ 0	\$ 0
Net income	\$ 86,114,185	\$ 64,280,344	\$ 60,254,359	\$ (973,166)

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 four-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
Bonds	\$ 607,946,127	\$ 589,341,671	\$ 431,365,986	\$ 258,293,301
Common stocks	104,800	120,700	23,500	0
Cash, cash equivalents, and short term investments	141,987,115	96,748,010	45,638,879	194,759,247
Securities lending reinvested collateral assets	813,370	2,267,560	0	0
Subtotals, cash and invested assets	<u>750,851,412</u>	<u>688,477,941</u>	<u>477,028,365</u>	<u>453,052,548</u>
Investment income due and accrued	4,439,759	4,073,319	3,024,514	2,594,592
Premiums and agents' balances due	8,985,844	9,719,374	9,150,946	8,481,238
Net deferred tax asset	2,729,773	1,944,811	2,688,391	2,460,555
Total	<u>\$ 767,006,788</u>	<u>\$ 704,215,445</u>	<u>\$ 491,892,216</u>	<u>\$ 466,588,933</u>
Losses	\$ 50,524,002	\$ 63,975,216	\$ 97,925,130	\$ 127,677,314
Reinsurance payable on paid loss and loss adjustment expenses	2,368,301	3,906,447	6,809,627	7,826,369
Other expenses	143,496	139,588	100,648	20,117
Taxes, licenses and fees	199,380	83,477	0	0
Current federal and foreign income taxes	123,241	9,130,216	1,508,492	6,445,429
Borrowed money and interest thereon	500,973	0	0	0
Unearned premiums	59,481,482	60,576,181	56,757,166	55,501,842
Payable to parent, subsidiaries and affiliates	3,127,744	1,286,494	827,593	1,634,648
Payable for securities lending	813,370	2,267,560	0	0
Aggregate write-ins for liabilities	293,488,652	233,964,684	180,333,708	128,790,751
Total liabilities	<u>410,770,641</u>	<u>375,329,863</u>	<u>344,262,364</u>	<u>327,896,470</u>
Common capital stock	1,000,000	1,000,000	1,000,000	1,000,000
Gross paid in and contributed surplus	440,000,000	440,000,000	265,000,000	265,000,000
Unassigned funds (surplus)	(84,763,853)	(112,114,418)	(118,370,148)	(127,307,537)
Surplus as regards policyholders	<u>356,236,147</u>	<u>328,885,582</u>	<u>147,629,852</u>	<u>138,692,463</u>
Totals	<u>\$ 767,006,788</u>	<u>\$ 704,215,445</u>	<u>\$ 491,892,216</u>	<u>\$ 466,588,933</u>

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

	2018	2017	2016	2015
Underwriting Income				
Premiums earned	\$ 119,047,936	\$ 107,261,952	\$ 103,085,916	\$ 8,384,346
Deductions:				
Losses incurred	12,041,647	20,110,825	22,400,282	2,929,419
Other underwriting expenses incurred	17,238,435	7,052,992	4,850,018	20,000
Total underwriting deductions	<u>29,280,082</u>	<u>27,163,817</u>	<u>27,250,300</u>	<u>2,949,419</u>
Net underwriting gain or (loss)	<u>89,767,854</u>	<u>80,098,135</u>	<u>75,835,616</u>	<u>5,434,927</u>
Investment Income				
Net investment income earned	20,900,243	16,757,131	13,013,877	37,336
Net realized capital gains or (losses)	<u>(2,150,732)</u>	<u>387,234</u>	<u>2,079,642</u>	<u>0</u>
Net investment gain or (loss)	<u>18,749,511</u>	<u>17,144,365</u>	<u>15,093,519</u>	<u>37,336</u>
Other Income				
Aggregate write-ins for miscellaneous income	(115,440)	(5,083)	0	0
Total other income	<u>(115,440)</u>	<u>(5,083)</u>	<u>0</u>	<u>0</u>
Net income before dividends to policyholders and before federal and foreign income taxes	108,401,925	97,237,417	90,929,135	5,472,263
Federal and foreign income taxes incurred	<u>22,287,740</u>	<u>32,957,073</u>	<u>30,674,776</u>	<u>6,445,429</u>
Net income	<u>\$ 86,114,185</u>	<u>\$ 64,280,344</u>	<u>\$ 60,254,359</u>	<u>\$ (973,166)</u>

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

	2018	2017	2016	2015
Surplus as regards policyholders, December 31, previous year	\$ 328,885,582	\$ 147,629,852	\$ 138,692,463	\$ 0
Net income	86,114,185	64,280,344	60,254,359	(973,166)
Net unrealized capital gains or (losses)	(19,342)	(58,604)	2,714	(2,714)
Change in net deferred income tax	13,288,033	(15,745,464)	17,798,803	49,606,899
Change in nonadmitted assets	(12,508,343)	14,986,241	(17,575,529)	(47,147,805)
Capital changes:				
Paid in	0	0	0	1,000,000
Surplus adjustments:				
Paid in	0	175,000,000	0	265,000,000
Aggregate write-ins for gains and losses in surplus	(59,523,968)	(57,206,787)	(51,542,958)	(128,790,751)
Change in surplus as regards policyholder for the year	<u>27,350,565</u>	<u>181,255,730</u>	<u>8,937,389</u>	<u>138,692,463</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 356,236,147</u>	<u>\$ 328,885,582</u>	<u>\$ 147,629,852</u>	<u>\$ 138,692,463</u>

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

	2018	2017	2016	2015
Cash from Operations				
Premiums collected net of reinsurance	\$ 118,686,766	\$ 110,512,539	\$ 103,671,532	\$ 55,404,950
Net investment income	22,757,901	18,061,069	13,766,478	2,768
Miscellaneous income	(115,439)	(5,083)	0	0
Total income	141,329,228	128,568,525	117,438,010	55,407,718
Benefit and loss related payments	27,031,007	62,465,166	53,169,209	(83,383,857)
Commissions, expenses paid and aggregate write-ins for deductions	17,114,063	6,969,515	4,870,021	0
Federal and foreign income taxes paid (recovered)	31,294,714	23,600,068	36,731,520	0
Total deductions	75,439,784	93,034,749	94,770,750	(83,383,857)
Net cash from operations	65,889,444	35,533,776	22,667,260	138,791,575
Cash from Investments				
Proceeds from investments sold, matured or repaid:				
Bonds	291,759,739	310,273,780	261,532,619	0
Stocks	435,900	1,279,908	0	0
Net gain or (loss) on cash and short-term investments	(28,791)	(26,623)	(376)	0
Total investment proceeds	292,166,848	311,527,065	261,532,243	0
Cost of investments acquired (long-term only):				
Bonds	314,739,278	385,669,034	432,483,291	12
Stocks	420,000	1,330,971	23,500	0
Miscellaneous applications	0	0	0	4,175
Total investments acquired	315,159,278	387,000,005	432,506,791	4,187
Net cash from investments	(22,992,430)	(75,472,940)	(170,974,548)	(4,187)
Cash from Financing and Miscellaneous Services				
Other cash provided (applied):				
Capital and paid in surplus, less treasury stock	0	90,580,709	0	55,971,743
Borrowed funds received or (repaid)	500,973	0	0	0
Other cash provided or (applied)	1,841,118	467,586	(813,080)	116
Net cash from financing and miscellaneous sources	2,342,091	91,048,295	(813,080)	55,971,859
Reconciliation of cash and short-term investments:				
Net change in cash and short-term investments	45,239,105	51,109,131	(149,120,368)	194,759,247
Cash and short-term investments:				
Beginning of the year	96,748,010	45,638,879	194,759,247	0
End of the year	\$ 141,987,115	\$ 96,748,010	\$ 45,638,879	\$ 194,759,247

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	607,946,127	81.0 %
Common stocks	104,800	0.0 %
Cash	15,300,542	2.0 %
Cash equivalents	24,232,762	3.2 %
Short-term investments	102,453,811	13.7 %
Securities lending reinvested collateral assets	813,370	0.1 %
Totals	<u>750,851,412</u>	<u>100.0 %</u>

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

NAIC Designation	Amount	Percentage
1 - highest quality	579,769,293	78.9 %
2 - high quality	152,618,927	20.8 %
3 - medium quality	2,244,480	0.3 %
Totals	<u>734,632,700</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	170,560,924	23.2 %
2 to 5 years	256,936,993	35.0 %
6 to 10 years	243,902,037	33.2 %
11 to 20 years	26,260,905	3.6 %
over 20 years	36,971,841	5.0 %
Totals	<u>734,632,700</u>	<u>100.0 %</u>

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

The Company's investment in bonds consisted of approximately \$85 million in U.S. Treasury and GSE bonds, \$14 million in U.S. State and Municipal bonds, \$381 million in Corporate bonds, and \$128 million in various Commercial Mortgage-Backed and Miscellaneous Securities.

The Company's investment in common stock consisted entirely of Class B membership stock in the Federal Home Loan Bank ("FHLB") and FHLB activity stock totaling approximately \$0.1 million.

Cash and short-term investments amounted to (all approximate amounts): \$103 million of issues maturing within one year, cash equivalents of \$24 million, \$15 million of cash, and securities lending collateral assets of \$1 million, for a net total of approximately \$143 million.

The Company has no investments in either preferred stock or other invested assets.

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 \$50,524,002 for losses and \$0 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 \$119 million for RRI and increased the contingency reserve by \$59.5 million to \$293.4 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.

CONCLUSION

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

	Amount	Percentage
Admitted assets	<u>767,006,788</u>	<u>100.0 %</u>
Liabilities	410,770,641	53.6 %
Surplus as regards policyholders	<u>356,236,147</u>	<u>46.4 %</u>
Total liabilities and surplus	<u>767,006,788</u>	<u>100.0 %</u>

Since its inception in 2015 the Company's assets increased by \$767,006,788, its liabilities increased by \$410,770,641, and its surplus increased by \$356,236,147.

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
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William Michael

William Michael, CFE, CIA, CPCU, ARE
Examiner-in-Charge