

**Republic Mortgage Insurance Company of North Carolina  
(NKA Republic Mortgage Guaranty Insurance Corporation)**

Winston-Salem, North Carolina

**Report on Examination**

As of December 31, 2016

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November 3, 2017

Honorable Mike Causey  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

**Republic Mortgage Insurance Company of North Carolina  
(NKA Republic Mortgage Guaranty Insurance Corporation)**

(hereinafter referred to as the “Company”), at its main administrative office and statutory home office located at 101 North Cherry Street, Suite 101, Winston-Salem, North Carolina 27101. The following report on examination is respectfully submitted.

## **SCOPE OF THE EXAMINATION**

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2013 to December 31, 2016, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2012.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This was a multi-state coordinated financial examination of twenty three (23) insurance company subsidiaries of Old Republic International Corporation (“ORI”). North Carolina served as the Facilitating State for the Mortgage Insurance Subgroup, which includes the Company and two other subsidiaries domiciled in Florida, North Carolina, and Vermont. Pennsylvania served as the Lead State for this coordinated examination and Florida was the only Participating State within the Mortgage Insurance Subgroup as the insurance subsidiary domiciled in Vermont was not included in the scope of this examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook

("Handbook"). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. 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 and the following key functional activities were identified:

Premiums  
Claims Handling and Reserving  
Reinsurance – Assuming and Ceding  
Related Parties  
Investments  
Capital and Surplus

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact, and general information about the insurer 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 the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). KPMG of Chicago, Illinois, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2016.

The statutory reserves and related items for 2016 were reviewed and certified by the Company's Appointed Actuary, J. Paul Cochran, FCAS, MAAA, Vice President Actuarial Services (retired) of Old Republic General Services. ("ORGS").

## REPORT ACRONYMS

“NKA”	Now Known As
“GS”	General Statutes of North Carolina
“Department”	North Carolina Department of Insurance
“Company”	Republic Mortgage Insurance Company of North Carolina
“ORI”	Old Republic International Corporation
“NAIC”	National Association of Insurance Commissioners
“Handbook”	Financial Condition Examiners Handbook
“FCAS”	Fellow of the Casualty Actuarial Society
“MAAA”	Member of the American Academy of Actuaries
“ORGS”	Old Republic General Services
“ORMGG”	Old Republic Mortgage Guaranty Group, Inc.
“RFIG”	Republic Financial Indemnity Group, Inc.
“RMIC Corp”	RMIC Corporation
“RMICC”	RMIC Companies, Inc.
“RMIC”	Republic Mortgage Insurance Company
“RMICFL”	Republic Mortgage Insurance Company of Florida
“ORGIG”	Old Republic General Insurance Group
“DPO”	Deferred Payment Obligations
“Board”	Board of Directors
“ORAM”	Old Republic Asset Management

## COMPANY HISTORY

The Company was incorporated in the State of Maryland on March 13, 1973, as Mid Atlantic Mortgage Insurance, Inc. and commenced business on April 5, 1974. On December 10, 1976, Old Republic Mortgage Insurance Company acquired control of the Company. Subsequent to the acquisition, ownership was internally transferred within ORI and the Company became a wholly owned subsidiary of Old Republic Mortgage Guaranty Group, Inc. (“ORMGG”), an insurance holding company owned by ORI.

On June 14, 1977, the Company changed its name to Old Republic Mortgage Assurance Company. Effective January 31, 1994, the Company re-domesticated to North Carolina and on May 4, 1994, changed its name to Republic Mortgage Insurance Company of North Carolina.

On March 21, 2012, ORI announced it was combining its Consumer Credit Indemnity division with its Mortgage Guaranty segment. The two operations offered similar insurance coverages, shared the same senior management leadership, and had been operating in run-off mode since 2008 and 2011, respectively. With this action, ORMGG was re-named Republic Financial Indemnity Group, Inc. (“RFIG”) and, in 2013, RFIG contributed the stock of the Company and RMIC Corporation (“RMIC Corp”) to RMIC Companies, Inc. (“RMICC”), an insurance holding company domiciled in Delaware. RFIG wholly owns RMICC.

RMICC wholly owns the Company, Republic Mortgage Insurance Company (“RMIC”), Republic Mortgage Insurance Company of Florida (“RMICFL”) and RMIC Corp.

## REGULATORY ACTIONS

The Company has been in Administrative Supervision by the Department since 2012 as disclosed in the 2012 Report on Examination.

On April 16, 2014, the Company submitted a petition for an Amended and Corrective Plan that was approved by the Department on June 27, 2014. Under the Amended Plan, the Company was authorized to pay 100% of their Deferred Payment Obligations (“DPO”) accrued as of June 30, 2014, and to settle all subsequent valid claims entirely in cash without establishing any DPOs. In July 2014, the Company processed payments for substantially all of their accumulated DPO balances. As of December 31, 2014, all of the Company’s accrued DPO was paid.

## **CAPITAL STOCK**

As of December 31, 2016, the Company’s capitalization consisted of the following:

<b>Description</b>	<b>Value</b>
Number of authorized common capital shares	6,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

No additional shares were issued during the period under examination. As of December 31, 2016, all outstanding shares are owned by RMICC. The Company had gross paid-in and contributed surplus of approximately \$93.1 million and a negative balance in unassigned funds totaling approximated (\$76.0) million at December 31, 2016.

## **DIVIDENDS TO STOCKHOLDER**

Dividends on common stock are paid as declared by the Board of Directors (“Board”) of the Company. Under the insurance regulations of North Carolina, the maximum amount of dividends which the Company may pay to shareholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. The Company paid no dividends in 2016 and 2015.

# MANAGEMENT AND CONTROL

## CORPORATE GOVERNANCE

### Board of Directors

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws specify that the number of directors shall be at least five but no more than nine. Directors are elected at the annual meeting of shareholders for a term of one year and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors at December 31, 2016:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
Aldo C. Zucaro	Sarasota, FL	Board Chairman and Chief Executive Officer - ORI
Richard Scott Rager	Oak Brook, IL	President & Senior Vice President - ORI
Spencer LeRoy, III	LaGrange, IL	Senior Vice President & General Counsel (retired) - ORI
Jimmy A. Dew	Bermuda Run, NC	Director (retired) – ORI, RMIC, RMICNC and RMICFL
Kevin J. Henry	Lewisville, NC	President & Chief Operating Officer - RMIC, RMICNC and RMICFL

The Board has the authority to establish committees including, but not limited to, an executive committee, an audit committee, and a compensation committee. The Board has appointed ORI's Audit Committee to act on behalf of the Company.

The following individuals served on the Audit Committee at December 31, 2016:

Fredricka Taubitz, Chair  
James Hellauer  
Charles Titterton  
Dennis Van Mieghem  
Steven Walker

### Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer and any other officers deemed necessary by the Board. All officers shall hold office until their successors are elected and qualified. The same person may hold any two offices unless the certificate of incorporation or the bylaws otherwise provide.

The following individuals served as officers of the Company at December 31, 2016:

<b>Name</b>	<b>Title</b>
Kevin J. Henry	President & Chief Operating Officer
David C. Cash	Vice President & Chief Financial Officer
Steven R. Buckland	Vice President & Chief Information Officer
Crystal E. Martin	Secretary & Assistant Vice President
Cynthia L. Lowe	Assistant Secretary
Gloria G. Huntsman	Treasurer & Financial Operations Manager
Michele D. Nuckles	Vice President of Claims

### **CODE OF CONDUCT AND CONFLICT OF INTEREST**

The Company has established a policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

### **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. There have been no changes to the Articles of Incorporation or the Bylaws since the Department's 2012 examination

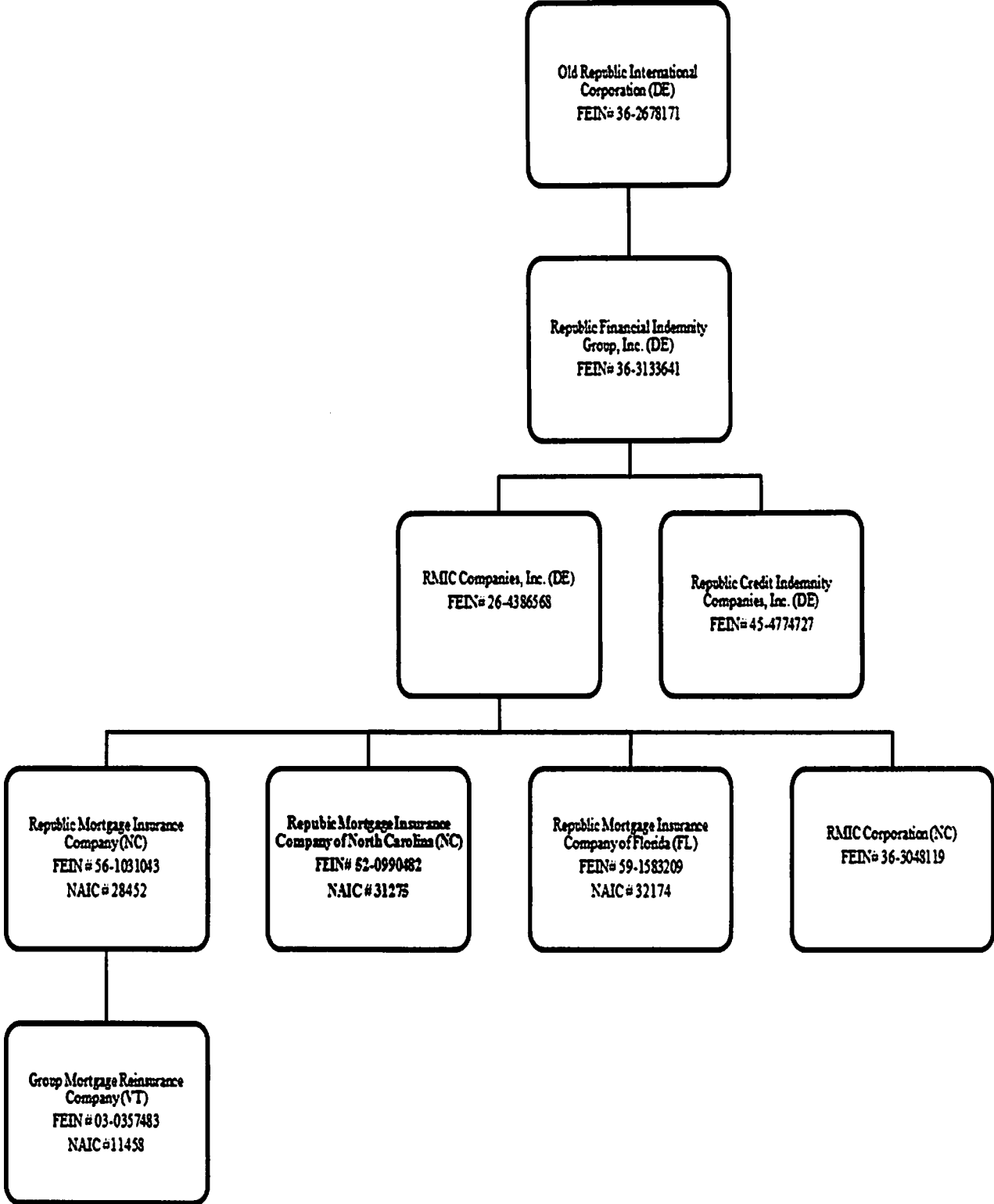
### **CORPORATE ORGANIZATION**

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is a wholly-owned subsidiary of RMICC, an insurance holding company owned by RFIG. ORI is the ultimate parent.



**ORGANIZATIONAL CHART**

The Company’s 2016 Annual Statement Schedule Y contains a complete organizational chart for ORI. The following is a summarized organizational chart including all of the entities under RFIG:



## **STATUTORY DEPOSITS**

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2016 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

## **ACCOUNTS AND RECORDS**

The Company's books and records are maintained at the main administrative office at 101 North Cherry Street, Winston-Salem, North Carolina 27101.

The Company's policy management and claims systems were developed internally and are maintained internally at the Company's main administrative office in Winston Salem, North Carolina. Business Objects and SQL report server are used for Data Warehouse and internal reporting. Multiview is used for financial reporting. The applications used for data warehousing and internal reporting are vendor supported, but are processed in-house.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company is a named insured under a fidelity bond issued to ORI with coverage totaling \$40 million in aggregate and \$20 million per occurrence. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for ORI on a consolidated basis.

In addition, the Company is a named insured on various corporate property and liability policies issued to ORI, which appeared to be adequate to cover risks in the normal course of business.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company has no employees, and company operations are conducted by RMIC Corp pursuant to a related party management services agreement. With the exception of the Republic Mortgage Insurance Company and Affiliates Profit Sharing Plan which is sponsored and administered by RMIC, employee benefit plans are administered through the Company's ultimate parent, ORI.

## **RELATED PARTY AGREEMENTS**

The Company, RMIC and RMICFL have a management services agreement with RMIC Corp, effective January 1, 2001, under which certain management services are provided, including executive management, marketing, treasury, personnel, legal, accounting, finance, regulatory compliance, and other administrative support services. Expenses are allocated among the affiliated companies based on estimated time and usage and intercompany balances are to be settled on a quarterly basis. Under this agreement, the expenses allocated from RMIC Corporation were \$730,751 and \$396,389 in 2016 and 2015, respectively.

The Company has an investment counsel services agreement with Old Republic Asset Management Corporation ("ORAM"), effective July 1, 2012, whereby ORAM has the authority to manage, purchase, and sell securities in certain accounts in accordance with the Company's investment policy. The Company pays ORAM an annual fee in quarterly installments based on the market value of all securities under

ORAM's supervision. The Company paid fees totaling \$57,230 and \$63,681 in 2016 and 2015, respectively, to ORAM for investment management services under this agreement

The Company is included in consolidated income tax returns in accordance with tax sharing agreements with ORI, effective December 31, 2004. The provisions for federal income tax are computed as if the Company were filing separate income tax returns. Benefits, which arise from tax credits and net operating losses, are allocated to the Company producing such results to the extent they are utilized in the consolidated income tax provisions. Intercompany tax balances are to be settled within 45 days after filing of the consolidated tax returns.

## **TERRITORY AND PLAN OF OPERATION**

At December 31, 2016, the Company was licensed in the District of Columbia and all states except Illinois and Minnesota. The Company's license was restricted to No New Business Written or Assumed effective September 1, 2011, and entered into a Voluntary Settlement Agreement on October 12, 2011, consenting to cease writing. The Company services the runoff of its existing business written in Missouri, New York, and Ohio.

The Company operates as a mono-line company providing only mortgage guaranty insurance on first lien mortgages primarily on residential properties incorporating one-to-four family dwelling units. Mortgage guaranty insurance protects mortgage lenders and investors from default-related losses on residential mortgage loans made primarily to homebuyers who make down payments of less than 20% of the home's purchase price. Master policies are issued to lenders and applications for coverage on individual loans submitted to the Company. The Company issues certificates of insurance under the terms of the master policy.

### **TRENDS OF THE COMPANY**

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the four year period ended 2016:

<b>Year</b>	<b>Net Admitted Assets</b>	<b>Capital and Surplus</b>	<b>Gross Premiums Written</b>	<b>Net Earned Premiums</b>	<b>Net Income</b>
2016	\$157,589,985	\$19,545,038	\$26,369,398	\$22,961,866	\$13,425,456
2015	\$179,804,712	\$14,174,305	\$33,831,560	\$30,056,031	\$14,981,619
2014	\$216,138,476	\$14,634,897	\$39,777,468	\$35,926,508	\$17,700,068
2013	\$391,056,669	\$68,236,781	\$50,131,555	\$45,276,360	\$20,461,141

### **ACTUARIAL OPINION**

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2016 were reviewed and certified by the Company's Appointed Actuary, J. Paul Cochran, FCAS, MAAA, and Vice President of Actuarial Services (retired) at ORGS.

Actuarial opinions regarding the Company's reserves for losses and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserves on the loss and loss adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Company.

## **REINSURANCE PROGRAM OVERVIEW**

The Company's reinsurance program consists of various assumed and ceded reinsurance contracts that have remained unchanged since the Department's most recent prior examination as of December 31, 2012. The Company cedes substantially all of its direct business written to RMIC. The Company only assumes business from RMIC.

### **REINSURANCE CEDED**

#### **Excess of Loss Coverage**

The Company has an excess of loss contract with RMICFL effective November 1, 2010, whereby the Company retains the first 25% loss of all loan-to-value policies. The Company ceded premiums totaling approximately \$7,000 and \$11,000 in 2016 and 2015, respectively, under this agreement.

#### **Quota Share Coverage**

The Company has a quota share contract with RMIC effective July 1, 2009, whereby the Company cedes substantially all of its direct business written to RMIC. The Company ceded premiums totaling approximately \$4.2 million and \$5.2 million in 2016 and 2015, respectively, to RMIC under this contract.

### **REINSURANCE ASSUMED**

#### **Excess of Loss Coverage**

The Company has an excess of loss contract with RMIC effective July 1, 2009, whereby the Company assumes the excess risk over 25% (after taking into consideration the quota share contracts noted above) on all direct and assumed loans insured by RMIC with contractual coverage in excess of 25% of the insured loan amount on. The Company assumed premiums totaling approximately \$5.5 million and \$6.8 million in 2016 and 2015, respectively, from RMIC under this contract.

### **Quota Share Coverage**

The Company has a quota share contract with RMIC effective January 1, 2008, whereby the Company assumes 43.5% of the direct pool business written by RMIC. The Company assumed premiums totaling approximately \$337,000 and \$1.2 million, in 2016 and 2015, respectively, from RMIC under this contract.

The Company also has quota share contract with RMIC effective January 1, 2009, whereby the Company assumes 11.5% of the unexpired net retained liability on all policies written and assumed by RMIC. The Company assumed premiums totaling approximately \$16.2 million and \$20.4 million, in 2016 and 2015, respectively, from RMIC under this contract.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2016. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2015, are unexamined and are presented for comparative purposes only.

**Republic Mortgage Insurance Company of North Carolina**  
**Statutory Statement of Admitted Assets**  
**December 31,**

	2016	2015 <i>(unexamined)</i>
Bonds	\$113,467,420	\$128,528,434
Common stocks	17,736,730	9,299,228
Cash and short-term investments	18,406,694	29,378,924
<b>Total cash and invested assets</b>	<b>149,610,844</b>	<b>167,206,586</b>
Investment income due and accrued	1,005,060	1,138,085
Premiums and agents' balances in course of collection	4,327,407	5,726,785
Reinsurance recoverable	2,389,143	3,618,298
Federal income tax recoverable	53,289	1,067,033
Net deferred tax asset	-	664,395
Receivable from parent, subsidiaries and affiliates	204,000	383,351
Accounts receivable - other	242	179
<b>Total admitted assets</b>	<b>\$157,589,985</b>	<b>\$179,804,712</b>

**Republic Mortgage Insurance Company of North Carolina**  
**Statutory Statement of Liabilities, Capital and Surplus**  
**December 31,**

	2016	2015 <i>(unexamined)</i>
Losses	\$ 71,657,253	\$99,912,239
Reinsurance payable on paid losses and loss adjustment expenses	10,336,722	12,688,952
Loss adjustment expenses	1,799,721	8,445,377
Other expenses	5,038	15,858
Taxes, licenses and fees	253	59,010
Net deferred tax liability	399,729	-
Unearned premiums	1,444,474	2,260,885
Ceded reinsurance premiums payable	822,124	929,754
Remittances and items not allocated	10,310	-
Payable to parent, subsidiaries and affiliates	115,201	64,295
Statutory contingency reserve	51,454,122	41,254,037
<b>Total Liabilities</b>	<b>138,044,947</b>	<b>165,630,407</b>
Common capital stock	2,500,000	2,500,000
Gross paid in and contributed surplus	93,067,874	93,067,874
Unassigned funds	(76,022,836)	(81,393,569)
Surplus as regards to policyholders	19,545,038	14,174,305
<b>Total Liabilities, Capital and Surplus</b>	<b>\$157,589,985</b>	<b>\$179,804,712</b>

**Republic Mortgage Insurance Company of North Carolina**  
**Statutory Statement of Operations**  
**December 31,**

	2016	2015 <i>(unexamined)</i>
<b>Underwriting Income</b>		
Premiums Earned	\$22,961,866	\$30,056,031
<b>Deductions</b>		
Losses incurred	10,588,735	7,074,518
Loss adjustment expenses incurred	(1,271,233)	7,714,040
Other underwriting expenses incurred	3,596,092	4,112,810
Total underwriting deductions	<u>12,913,594</u>	<u>18,901,368</u>
Net underwriting gain	<u>10,048,272</u>	<u>11,154,663</u>
<b>Investment Income</b>		
Net investment income earned	3,431,227	3,747,492
Net realized capital gains	26,409	157,776
Net investment gain	<u>3,457,636</u>	<u>3,905,268</u>
Net income before dividends to policyholders	<u>13,505,908</u>	<u>15,059,931</u>
Federal income taxes incurred	<u>80,452</u>	<u>78,312</u>
<b>Net Income</b>	<u><b>\$13,425,456</b></u>	<u><b>\$14,981,619</b></u>



**Republic Mortgage Insurance Company of North Carolina**  
**Statutory Statement of Capital and Surplus**  
**December 31,**

	<b>2016</b>	<b>2015</b> <i>(unexamined)</i>
Capital and surplus, beginning of year	\$14,174,305	\$14,634,897
Capital and surplus increases(decreases):		
Net Income	13,425,456	14,981,619
Change in net unrealized capital gains(losses)	2,082,292	(310,342)
Change in net deferred income tax	(309,176)	(495,590)
Change in non-admitted assets	372,246	391,737
Statutory contingency reserves	(11,480,933)	(15,028,016)
Release of Statutory contingency reserves for excess of loss	1,280,848	-
Change in surplus as regards policyholders for the year	5,370,733	(460,592)
<b>Capital and surplus, end of year</b>	<b>\$19,545,038</b>	<b>\$14,174,305</b>

**Republic Mortgage Insurance Company of North Carolina**  
**Statutory Statement of Cash Flow**  
**December 31,**

	2016	2015 <i>(unexamined)</i>
<b>Cash (Used By) Operations</b>		
Premiums collected net of reinsurance	\$23,437,203	\$29,954,554
Net investment income	4,693,425	5,431,013
<b>Total</b>	<b>28,130,628</b>	<b>35,385,567</b>
Benefit and loss related payments	39,966,796	63,733,225
Commissions, expenses paid and aggregate write-ins	9,040,092	6,009,535
Federal income taxes paid	(914,033)	204,423
<b>Total</b>	<b>48,092,855</b>	<b>69,947,183</b>
<b>Net (cash used) by operations</b>	<b>(19,962,227)</b>	<b>(34,561,616)</b>
<b>Cash From Investments</b>		
Proceeds from investments sold, matured, or repaid	21,941,805	30,729,698
Cost of investments acquired	13,198,273	6,755,023
<b>Net cash from investments</b>	<b>8,743,532</b>	<b>23,974,675</b>
<b>Cash From Financing and Miscellaneous Sources</b>		
Other cash provided	246,465	161,261
<b>Net cash from financing and miscellaneous sources</b>	<b>246,465</b>	<b>161,261</b>
<b>Reconciliation of Cash and Short-Term Investment</b>		
Net change in cash and short-term investments	(10,972,230)	(10,425,680)
Cash and short-term investments, beginning of year	29,378,924	39,804,604
<b>Cash and short-term investments, end of year</b>	<b>\$18,406,694</b>	<b>\$29,378,924</b>

## COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

### **Basis of Presentation and Summary of Significant Accounting Policies:**

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

**Bonds:** Carried at amortized cost or fair value based on their NAIC rating.

**Common stocks:** Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under equity method.

**Cash and short-term investments:** Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

**Premiums:** Earned over the policy period and reduced for reinsurance ceded.

**Reinsurance:** Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items.

**Non-admitted assets:** Certain assets, such as prepaid expenses, are "non-admitted" and are charged against surplus.

**Unpaid losses & loss adjustment expenses:** Liabilities for estimated losses determined from case estimates based on the number of reported loan defaults and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

## **Analysis of Assets:**

The following represents an analysis of the Company's net admitted assets:

	<b>Assets</b>	<b>Assets Not Admitted</b>	<b>Net Admitted Assets</b>
Bonds	\$113,467,420	-	\$113,467,420
Common stocks	17,736,730	-	17,736,730
Cash and short-term investments	18,406,694	-	18,406,694
<b>Total cash and invested assets</b>	<b>149,610,844</b>	-	<b>149,610,844</b>
Investment income due and accrued	1,005,060	-	1,005,060
Premiums and agents' balances in course of collection	4,327,407	-	4,327,407
Reinsurance recoverable	2,389,143	-	2,389,143
Current federal income tax recoverable and interest	53,289	-	53,289
Receivable from parent, subsidiaries and affiliates	204,000	-	204,000
Prepaid expenses	19,917	19,917	-
Accounts receivable – other	242	-	242
<b>Total admitted assets</b>	<b>\$157,609,902</b>	<b>\$19,917</b>	<b>\$157,589,985</b>

## **Reinsurance Activity:**

The Company has excess of loss, quota share and bulk quota share contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company.

Direct, assumed, and ceded premiums written and earned are as follows:

	<b>2016</b>	<b>2015</b>
Direct and assumed written	\$26,369,398	\$33,831,560
Ceded written	(4,223,943)	(5,234,615)
<b>Net written</b>	<b>22,145,455</b>	<b>28,596,945</b>
Direct and assumed earned	27,228,024	35,335,402
Ceded earned	(4,266,158)	(5,279,371)
<b>Net earned</b>	<b>\$22,961,866</b>	<b>\$30,056,031</b>

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview on page 10.

**Summary of Reserves:**

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	2016	2015
Reserve for losses and loss adjustment expenses, beginning of year	\$108,357,616	\$150,381,162
<b>Add:</b>		
Provision for losses and loss adjustment expenses, current year	20,535,412	37,903,152
Change in estimated losses and loss adjustment expenses, prior years	(11,217,910)	(23,114,594)
Total incurred	9,317,502	14,788,558
<b>Deduct:</b>		
Losses and loss adjustment expenses paid, current year	1,647,519	3,117,466
Losses and loss adjustment expenses paid, prior year	42,570,625	53,694,638
Total paid	44,218,144	56,812,104
Reserve for losses and loss adjustment expenses, end of year	73,456,974	108,357,616
(Decrease) in reserve for losses and loss adjustment expenses	(\$34,900,642)	(\$42,023,546)

The Company reduced reserves by anticipated salvage and subrogation of approximately \$276,000 and \$273,000 at December 31, 2016 and 2015, respectively.

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2016 and 2015, the liability for losses and loss adjustment expenses was reduced by \$26,381,147 and \$38,122,001 respectively, for amounts to be recovered from reinsurers.

## **Capital and Surplus:**

The following, in conjunction with the Statutory Statement of Capital and Surplus (see page 15), represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2012:

	2014	2013
Capital and surplus, beginning of year	\$68,236,781	\$14,669,743
Capital and surplus increases (decreases):		
Net income	17,700,068	20,461,141
Change in net unrealized (loss) capital gain	(237,408)	40,558
Change in net deferred income tax	1,231,331	21,839
Change in non-admitted assets	(730,405)	3,189
Statutory contingency reserve	(17,963,254)	(22,638,179)
Release of Statutory contingency reserve	4,831,000	9,544,412
Funds retained for claim payments	(62,290,581)	48,047,558
Deferred reinsurance balances recoverable	3,857,365	(1,913,480)
Change in surplus as regards policyholders for the year	(53,601,884)	53,567,038
Capital and surplus, end of year	\$14,634,897	\$68,236,781

## **Contingencies and Commitments:**

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

The Company disclosed various contingencies in its 2016 Annual Statement Notes to Financial Statements and accrues an estimated loss only if the loss is probable and reasonably estimable. The Company does not believe it probable that any of the actions disclosed will have a material adverse effect on its financial condition, results of operations, or cash flows. The effect, if any, of the Company's run-off operations and limited capital in the legal actions filed against it is uncertain.

## **SUBSEQUENT EVENTS**

On July 3, 2017 the Department approved the Company's request to change its corporate name. The Company's new name is Republic Mortgage Guaranty Insurance Corporation.

On October 17, 2017, a Notice of Hearing was issued by the Department to consider the Company's Petition to Allow Discretionary Payment of Investment Income to Policyholders in Regards to Previously Outstanding Deferred Payment Obligations ("Petition"). The hearing was conducted on November 2, 2017, and the Petition was approved by a final order dated November 9, 2017. The Company subsequently issued

payments totaling approximately \$54,000 to its policyholders which will be charged to loss adjustment costs and, accordingly, decrease policyholders' surplus in the fourth quarter of 2017.

**Republic Mortgage Insurance Company of North Carolina  
(NKA Republic Mortgage Guaranty Insurance Corporation)  
DISTRIBUTION OF REPORT ON EXAMINATION  
December 31, 2016**

Cindie Lowe  
Assistant Secretary  
Republic Mortgage Insurance Company of North Carolina  
101 North Cherry Street, Suite 101  
Winston Salem, North Carolina 27101




## CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$1,250,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



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Monique D. Smith, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

November 3, 2017

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Bill Keely, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Bill Keely Date: 11/3/17  
Bill Keely

Sworn and subscribed before me this 3 day of November, 2017.

Notary Public Signature: Thomas Smith Notary Public Seal:

