



I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina, do hereby certify that: I have caused to United Guaranty Mortgage Insurance Group, as of December 31, 2020, with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 17<sup>th</sup> day of February 2022.



Mike Causey  
Commissioner of Insurance

Ke Xu, CPA, CFE  
Chief Financial Examiner  
Financial Examination Division

**United Guaranty Mortgage Insurance Group**

Greensboro, North Carolina

**Report on Examination**

As of December 31, 2020

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January 26, 2022

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

**United Guaranty Residential Insurance Company (“UGRIC”)  
United Guaranty Residential Insurance Company of North Carolina (“UGRIC-NC”)**

(hereinafter referred to as the “United Guaranty Mortgage Insurance Group”), at its main administrative and statutory home office located at 230 North Elm Street, Greensboro, North Carolina 27401.

## **SCOPE OF THE EXAMINATION**

We performed a full-scope statutory examination of the United Guaranty Mortgage Insurance Group. This examination covered the period from January 1, 2018, to December 31, 2020, 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 United Guaranty Mortgage Insurance Group was as of December 31, 2017.

The purpose of this examination was to review and evaluate the United Guaranty Mortgage Insurance Group business processes and controls to assist in accessing and monitoring its current financial condition and prospective solvency. Pursuant to GS §58-2-132, this Report on Examination comprises only facts appearing in the books, records, or other documents of the United Guaranty Mortgage Insurance Group (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 five insurance company subsidiaries of Arch U.S. MI Holdings Inc., collectively referred to as the “Arch Mortgage Insurance Subgroup”. North Carolina served as the Facilitating State for the subgroup and Wisconsin was a Participating State. Missouri served as the Lead State for the Arch Insurance Group.

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 United Guaranty Mortgage Insurance Group, 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 United Guaranty Mortgage Insurance Group were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Investments  
Related Parties  
Capital and Surplus  
Premiums and Underwriting  
Reserves and Claims Handling  
Reinsurance Ceded and Assumed

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.

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 United Guaranty Mortgage Insurance Group.

The United Guaranty Mortgage Insurance Group’s Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. Trial balance reconciliations of the Annual Statements were 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 ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from the United Guaranty Mortgage Insurance Group’s management.

The books and records of the United Guaranty Mortgage Insurance Group are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). PricewaterhouseCoopers of Charlotte, North Carolina, the designated independent public accountant of the United Guaranty Mortgage Insurance Group, issued an unqualified opinion on each company for each year subsequent to the Department’s prior examination through, and including, the year ended December 31, 2020.

## REPORT ABBREVIATIONS

General Statutes of North Carolina	“GS”
North Carolina Department of Insurance	“Department”
Financial Condition Examiners Handbook	“Handbook”
National Association of Insurance Commissioners	“NAIC”
Board of Directors	“Board”
Information Technology General Controls	“ITGCs”
Information Technology Planning Questionnaire	“ITPQ”
Arch Capital Group Ltd	“ACGL”
Arch Capital Group (U.S.) Inc.	“ACG”
Arch U.S. MI Services, Inc.	“Arch MI”
American Home Assurance Company	“AHAC”
Arch U.S. MI Holdings, Inc.	“Holdings”
Arch U.S. MI First Lien Insurance Group	“Group”
Lexington Insurance Company	“LIC”
National Union Fire Insurance Company	“NUFIC”
United Guaranty Services, Inc.	“UGS”
United Guaranty Corporation	“UGC”

“Arch Mortgage Insurance Subgroup” includes the following companies:

United Guaranty Residential Insurance Company	“UGRIC”
United Guaranty Residential Insurance Company of North Carolina	“UGRIC-NC”
Arch Mortgage Insurance Company	“AMIC”
Arch Mortgage Assurance Company	None
Arch Mortgage Guaranty Company	None

“United Guaranty Mortgage Insurance Group” includes the following companies:

United Guaranty Residential Insurance Company	“UGRIC”
United Guaranty Residential Insurance Company of North Carolina	“UGRIC-NC”

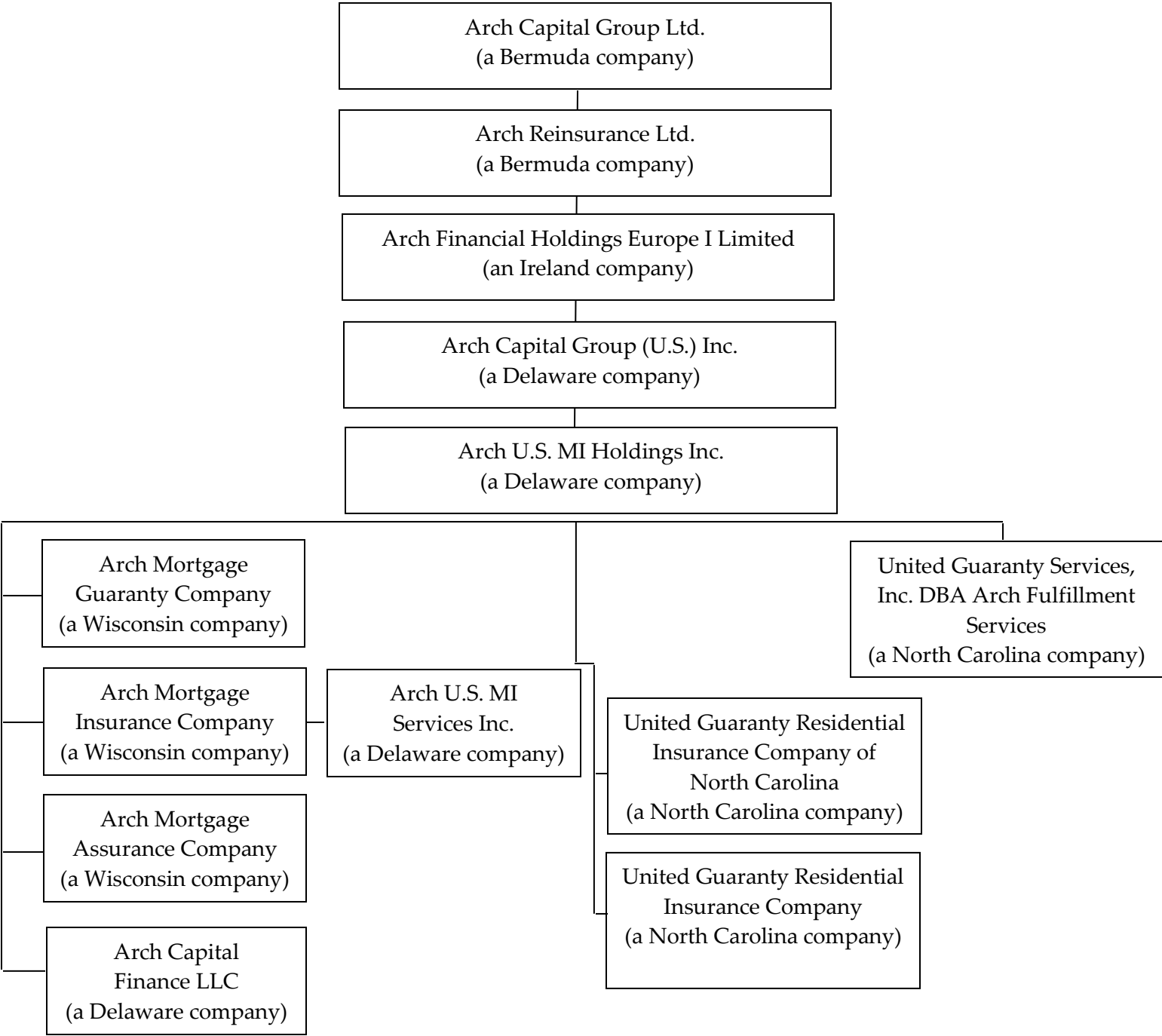
## ORGANIZATIONAL STRUCTURE

### INSURANCE HOLDING COMPANY GROUP

The companies within the United Guaranty Mortgage Insurance Group are part of an insurance holding company system as defined in GS § 58-19 and are wholly owned subsidiaries of Arch U.S. MI Holdings, Inc. (“Holdings”). The ultimate controlling entity is Bermuda-domiciled Arch Capital Group, Ltd. (“ACGL”). ACGL is a publicly traded company and shares are traded on NASDAQ.

**ORGANIZATIONAL CHART**

The following is an organizational chart of the United Guaranty Mortgage Insurance Group, its parent, subsidiaries and affiliated companies as of December 31, 2020:



## INDIVIDUAL COMPANY HISTORY

### UGRIC

UGRIC was incorporated on November 27, 1963, and commenced business on December 18, 1963, under the laws of the State of Iowa as Excel Mortgage Insurance Corporation with 50,000 shares of \$10 par value common stock authorized and issued. UGRIC increased its authorized common shares to 100,000 of \$12.50 par value on September 8, 1965. Effective December 30, 1974, the articles of incorporation were amended to change the name to United Guaranty Residential Insurance Company of Iowa and, on March 8, 1978, its authorized shares increased to 500,000 of \$12.50 par value common stock.

On October 23, 1979, United Guaranty Residential Insurance Company of Iowa entered into a Joint Agreement and Plan of Reorganization with two affiliated companies, United Guaranty Residential Insurance Company of California and United Guaranty Residential Insurance Company of Louisiana and the companies merged on December 11, 1979.

Effective January 1, 1989, the articles of incorporation were amended to change the company name to United Guaranty Residential Insurance Company and the state of incorporation was changed to North Carolina. On October 10, 2017, internal ownership changed to 100% United Guaranty Corporation (“UGC”).

### UGRIC-NC

UGRIC-NC was incorporated on April 5, 1963, as First Mortgage Insurance Company (“FMIC”) and commenced business on May 9, 1963. FMIC began business with one million shares of \$1 par value common capital stock and subsequently increased the number of authorized shares to three million effective April 29, 1964.

Through a consent action by the Board of Directors (“Board”), FMIC entered into an Agreement and Plan of Exchange whereby the shareholders of FMIC exchanged their shares on a share-for-share basis for the stock of FMIC Corp, with FMIC becoming a subsidiary of FMIC Corp effective August 31, 1973. Charter amendments were made to change FMIC name to UGRIC-NC and FMIC Corp’s name to UGC effective December 30, 1974.

## CAPITAL STOCK

As of December 31, 2020, capitalization of the United Guaranty Mortgage Insurance Group consisted of the following:

### UGRIC

Description	Value
Number of authorized common capital shares	500,000
Number of shares issued and outstanding	479,784
Total common capital stock	\$5,997,300
Par value per share	\$12.50



No additional shares were issued during the period under examination. As of December 31, 2020, all outstanding shares were owned by Holdings, which is wholly owned by Arch Capital Group (U.S) Inc., which is a wholly owned, indirect subsidiary of ACGL, an actively traded Bermuda public company. At December 31, 2020, UGRIC reported \$39,781,388 in gross paid-in and contributed surplus and \$135,608,579 in unassigned funds.

### **UGRIC-NC**

<b>Description</b>	<b>Value</b>
Number of authorized common capital shares	3,000,000
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, 2020, all outstanding shares were owned by Holdings. At December 31, 2020, UGRIC-NC reported \$375,000 in gross paid-in and contributed surplus and \$21,412,858 in unassigned funds.

### **DIVIDENDS TO STOCKHOLDER**

Dividends on common capital stock are paid as declared by the Board of the United Guaranty Mortgage Insurance Group. Under the insurance regulations of North Carolina, the maximum amount of dividends that the United Guaranty Mortgage Insurance Group 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.

### **UGRIC**

In 2018, UGRIC paid an extraordinary dividend of \$300 million to UGC, its former parent. In 2019, UGRIC paid an extraordinary dividend of \$240 million to Arch U.S. holdings, Inc., its parent.

### **UGRIC-NC**

In 2018, UGRIC-NC paid an extraordinary dividend of \$35 million to UGC, its former parent. In 2020, UGRIC-NC paid an ordinary dividend of \$16 million and an extraordinary dividend of \$20 million to Holdings.

## **MANAGEMENT AND CONTROL**

### **CORPORATE GOVERNANCE**

The companies within the United Guaranty Mortgage Insurance Group have the same directors and principal officers. The companies occupy the same home office and share accounting systems and personnel. All personnel are employees of Arch U.S. MI Services, Inc.

## **Shareholders**

The United Guaranty Mortgage Insurance Group bylaws provide that an annual meeting of the shareholders be held in March of each year on any day as determined by the Board. Special meetings of the shareholders may be called at any time by the president, secretary or the Board.

## **Board of Directors**

The business of the United Guaranty Mortgage Insurance Group is conducted by its management team and subject to review by the Board. The bylaws specify that the number of directors shall be not less than five nor more than twenty-five. Directors are elected annually, at the annual meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors of both companies in the United Guaranty Mortgage Insurance Group at December 31, 2020, unless otherwise specified below:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
Robert Schmeiser	Greensboro, NC	President and Chief Executive Officer
Thomas Jeter	Greensboro, NC	Chief Financial Officer
Cheryl Feltgen	Greensboro, NC	Chief Risk Officer *
John Gaines	Greensboro, NC	Chief Credit and Pricing Officer
Michael Hitt	Greensboro, NC	Senior Vice President, Insurance Operations
Carl Tyree	Greensboro, NC	Chief Sales Officer

\* Cheryl Feltgen is not a director of UGRIC.

The Board established several management committees including the Insurance Risk Committee, Operational Risk Committee, Enterprise Risk Management Committee and Model Risk Governance Advisory Committee to act on behalf of the United Guaranty Mortgage Insurance Group. The Board also operates under the oversight of the Audit Committee established by ACGL, its ultimate parent company.

The following individuals served on Board committee at December 31, 2020:

### **Audit Committee**

Brian Posner, Chair  
Laurie Goodman  
Thomas Watjen  
Louis Paglia

## **Officers**

The bylaws provide that the Board will elect the officers, which shall consist of a chairperson of the Board, president, secretary, treasurer and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any

two offices may be held by the same person, but no officer may act in more than one capacity where action of two or more officers is required.

The following individuals served as officers at December 31, 2020:

<b>Name</b>	<b>Title</b>
Robert Schmeiser	President and Chief Executive Officer
Thomas Jeter	Executive Vice President and Chief Financial Officer
Theresa Cameron	Vice President and Secretary
Brian Smith	Senior Vice President and Controller
John Gaines	Executive Vice President and Chief Actuary
Cheryl Feltgen	Executive Vice President and Chief Risk Officer
Carl Tyree	Executive Vice President and Chief Sales Officer
Tracie Cranford	Senior Vice President and Treasurer

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

The United Guaranty Mortgage Insurance Group has an established policy and procedures to identify existing or potential conflicts of interest and to report the same to the Board. Annually, ACGL requires a signed statement from each director and officer disclosing any conflicts of interest. A review of the signed conflict of interest statements for the examination period revealed that the United Guaranty Mortgage Insurance Group 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 contained documentation on significant transactions and events related to the United Guaranty Mortgage Insurance Group, and that the directors approved these transactions and events.

The United Guaranty Mortgage Insurance Group's articles of incorporation and bylaws were reviewed for any changes during the period under examination. No changes were noted regarding the bylaws or articles of incorporation for the companies within the United Guaranty Mortgage Insurance Group.

## **STATUTORY DEPOSITS**

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The 2020 Annual Statement Schedule E, Part 3 contains a complete description and listing of the statutory deposits by state.

## **ACCOUNTS AND RECORDS**

The United Guaranty Mortgage Insurance Group's books and records are maintained at its main administrative office at 230 North Elm Street in Greensboro, North Carolina.

The United Guaranty Mortgage Insurance Group utilizes various systems to sell products to customers, establish service and maintain customer policies, as well as to gather and report financial data. The environment for internal controls over financial reporting is highly automated and includes application controls and system generated reports supporting its financial reporting functions. Significant applications are hosted on multiple servers at the data center located in Greensboro, North Carolina.

## **INFORMATION TECHNOLOGY CONTROLS**

The Department performed a risk-based assessment and review of the United Guaranty Mortgage Insurance Group's Information Technology ("IT") General Controls ("ITGCs") in accordance with the NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the United Guaranty Mortgage Insurance Group's ITGCs was derived from the IT Planning Questionnaire and the IT Work Program (collectively referred to as the "ITPQ"). The United Guaranty Mortgage Insurance Group's responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and functioning properly.

The Department's objectives were to obtain reasonable assurance about whether:

- a. the United Guaranty Mortgage Insurance Group had a process in place to effectively identify, mitigate and manage its IT risks;
- b. the United Guaranty Mortgage Insurance Group's control structure and policies and procedures were suitably designed to achieve the control objectives specified in the ITPQ; and
- c. the United Guaranty Mortgage Insurance Group was complying with those policies and procedures.

The objectives above were achieved through a combination of reviewing the United Guaranty Mortgage Insurance Group's policies and procedures, testing in key areas related to the ITPQ, interviewing IT management, reviewing IT risk assessment processes, and leveraging relevant risk assessment procedures performed by the designated external auditors.

Based upon the risk-based assessment and review, the United Guaranty Mortgage Insurance Group's ITGCs were determined to be effective.

## **FIDELITY BONDS AND OTHER INSURANCE**

The companies in the United Guaranty Mortgage Insurance Group are named insureds under a Financial Institution Bond which covers ACGI and its affiliates with coverage totaling \$20 million in aggregate. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for the United Guaranty Mortgage Insurance Group on a consolidated basis.

In addition, the companies in the United Guaranty Mortgage Insurance Group are named insureds on various corporate property and liability policies issued to ACGI, which appeared to be adequate to cover risks in the normal course of business.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The United Guaranty Mortgage Insurance Group has no employees. All employees are provided by Arch US MI Services (“Arch MI”) and employee benefit plans are administered by Arch Capital Services, Inc., which are affiliates.

## **RELATED PARTY AGREEMENTS**

### **UGRIC**

UGRIC has an administrative services agreement with United Guaranty Services, Inc. (“UGS”) and UGRIC-NC, effective September 1, 2010, whereby UGRIC may provide administration, financial planning, advertising, clerical and other services as agreed upon by the parties. UGRIC did not receive any administrative fees under this agreement for 2020.

UGRIC has an administrative service agreement with Holdings and Arch MI and UGRIC-NC whereby UGRIC may be provided services in the areas of administration, financial planning, advertising, clerical and other areas as agreed upon by the parties. UGRIC paid administrative fees totaling \$107,507,355 under this agreement for 2020.

UGRIC has a service agreement with UGS whereby UGRIC may be provided support staff and/or available facilities and resources to assist UGRIC in the performance of duties and obligations. UGRIC paid fees totaling \$198,742 under this agreement for 2020.

### **UGRIC-NC**

UGRIC-NC has an administrative services agreement with UGRIC, effective September 1, 2010, whereby UGRIC-NC may provide services in the areas of administration, financial planning, advertising, clerical and other areas as agreed upon by the parties. UGRIC-NC did not receive any administrative fees under this agreement for 2020.

UGRIC-NC has an administrative service agreement with Holdings, Arch MI, and UGRIC whereby UGRIC-NC may be provided services in the areas of administration, financial planning, advertising, clerical and other areas as agreed upon by the parties. UGRIC-NC paid administrative fees totaling \$1,580,465 under this agreement for 2020.

UGRIC-NC has a service agreement with UGS whereby UGRIC-NC may be provided support staff and/or available facilities and resources to assist UGRIC in the performance of duties and obligations. UGRIC paid fees totaling \$3,358,209 under this agreement for 2020.

### **Tax Allocation Agreement**

The United Guaranty Mortgage Insurance Group is included in a consolidated income tax return in accordance with a tax allocation agreement between Arch Capital Group U.S. (“ACG”), effective January 1, 2017. The agreement sets forth the parties’ obligations in connection with their filing as a consolidated tax filing group. Each entity shall remit to ACG any amount determined to be due in accordance with the agreement no more than 90 days after the taxes are due. Refunds received by ACG resulting from tax savings shall be remitted to the applicable entity 90 days after the tax refund was received. Refunds received by ACG resulting from adjustments to previously filed tax returns shall be remitted to the applicable entity no more than 90 days after such payments are received.

### **Investment Advisory Agreement**

The United Guaranty Mortgage Insurance Group was provided investment advisory and portfolio management services by Arch Investment Management, LLC under an investment advisory agreement

effective January 1, 2017. Investment advisory fees are based on a percentage of the total market value of company investments. In 2020, the United Guaranty Mortgage Insurance Group paid investment advisory fees totaling \$4,376,691 which were allocated to each company as follows:

UGRIC	\$4,242,701
<u>UGRIC-NC</u>	<u>133,990</u>
Total Fees	\$4,376,691

## **TERRITORY AND PLAN OF OPERATION**

### **UGRIC**

UGRIC provides private residential mortgage guaranty insurance to mortgage lenders, protecting them from losses on mortgage loans upon default of the borrower. UGRIC is licensed in all 50 states, the District of Columbia, and the U.S. Virgin Islands. Currently UGRIC is the lead mortgage guaranty insurer of the Arch Mortgage Insurance Group writing rate card business. As a mortgage guaranty insurer, UGRIC's primary customers are banks and mortgage loan originators, and UGRIC has limited individual policyholders.

### **UGRIC-NC**

UGRIC-NC provides credit insurance that protects lenders from losses on second-lien mortgages. UGRIC-NC is licensed in 46 states and the District of Columbia. UGRIC-NC is not licensed in Arizona, California, New York and Wyoming. UGRIC-NC has been in run-off since 2008 and continues to service its existing policies. Under a Voluntary Settlement Agreement with the Department, UGRIC-NC's license was restricted to "no new business," effective January 7, 2009. In January 2021, the Department approved a request from UGRIC-NC to enter into a 100% quota share reinsurance agreement with affiliate Arch Mortgage Assurance Company ("AMAC") to reinsure all existing junior lien mortgage business.

## **GROWTH OF COMPANIES**

The data obtained from annual statements filed with the Department illustrates the growth of the companies within the United Guaranty Mortgage Insurance Group for the three-year period ended 2020 and is reflected in Appendix B.

## **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 2020 were reviewed and certified by Arch MI's Appointed Actuary, John Gaines, FCAS, MAAA. Actuarial opinions regarding the United Guaranty Mortgage Insurance Group's reserves for loss 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 United Guaranty Mortgage Insurance Group for reasonableness and consistency of the loss and loss adjustment expense reserve. According to the actuarial opinions, the United Guaranty Mortgage Insurance Group's reserves on the loss and loss adjustment expenses met the requirements of the insurance laws of North Carolina; reserves were consistent with reserves computed in accordance with accepted actuarial standards

and principles; and reserves made a reasonable provision for all unpaid loss and loss expense obligations of the United Guaranty Mortgage Insurance Group.

## REINSURANCE PROGRAM OVERVIEW

The following table provides a summarized overview of each company and the reinsurance contracts in effect as of December 31, 2020:

<b>UGRIC</b>		
<p><b>Company Operations:</b> Licensed in all 50 States, DC and U.S. Virgin Islands</p> <p>Lead mortgage guaranty insurer of the Arch Mortgage Insurance Group</p>	<p><b>Ceded Contracts:</b></p> <ol style="list-style-type: none"> <li>1. Bellemeade Re 2017-1, 2018-1, 2018-2, 2018-3, 2019-1, 2019-2, 2019-3, 2019-4, 2020-1, 2020-2, 2020-3, and 2020-4 agreements</li> <li>2. Traditional excess of loss agreements for unfunded portion of Bellemeade Re 2020-1, 2020-2, 2020-3, and 2020-4 agreements</li> <li>3. Excess of loss with NUFIC, AHAC and Lexington</li> <li>4. 50% quota share with NUFIC, AHAC and Lexington</li> <li>5. 7.5% quota share CUMIS Mortgage Reinsurance</li> <li>6. 7.5% quota share of 2020 business to reinsurance panel</li> <li>7. 50% quota share contract with Arch Reinsurance Ltd.</li> <li>8. 50% quota share with AMIC</li> </ol>	<p><b>Assumed Contracts:</b></p> <ol style="list-style-type: none"> <li>1. 90% quota share contract with Massachusetts Housing Finance Agency</li> <li>2. 100% quota share contract with AMIC</li> </ol>

<b>UGRIC-NC</b>		
<p><b>Company Operations:</b> Licensed in 46 states and the District of Columbia</p> <p>No new business written</p>	<p><b>Ceded Contracts:</b></p> <ol style="list-style-type: none"> <li>1. 100% quota share with AMAC of Iowa 2<sup>nd</sup> lien business</li> <li>2. Original 5% quota share with Everest Reinsurance Ltd</li> </ol>	<p><b>Assumed Contracts:</b></p> <ol style="list-style-type: none"> <li>1. 100% quota share contract with New Hampshire Insurance Company for student loan business</li> </ol>

## **INTERNAL REINSURANCE CEDED AND ASSUMED**

### **UGRIC**

AMIC has a 100% quota share reinsurance contract with UGRIC, whereby AMIC cedes 100% of policies with effective dates on or after July 1, 2017. Under this contract, AMIC ceded premiums totaling \$361 million to UGRIC in 2020.

UGRIC has a 50% quota share reinsurance contract with AMIC, whereby UGRIC cedes 50% of policies with effective dates on or after July 1, 2017. Under this contract, UGRIC ceded premiums totaling \$290 million to AMIC in 2020.

### **UGRIC-NC**

UGRIC-NC has a 100% quota share reinsurance contract with AMAC, whereby UGRIC-NC cedes all 2<sup>nd</sup> lien business written in Iowa. Under this contract, UGRIC-NC ceded premiums totaling approximately \$0.5 thousand in 2020.

## **EXTERNAL REINSURANCE CEDED AND ASSUMED**

### **UGRIC**

UGRIC has a 50% quota share reinsurance contract with Arch Reinsurance Ltd., whereby UGRIC cedes 50% of policies with effective dates on or after January 1, 2017. Under this contract, UGRIC ceded premiums totaling \$33 million in 2020.

UGRIC has a 7.5% quota share reinsurance contract with CUMIS Mortgage Reinsurance Company, whereby UGRIC cedes policies with effective dates on or after January 1, 2017. Under this contract, UGRIC ceded premiums totaling approximately \$390,000 in 2020.

UGRIC has a 50% quota share reinsurance contract with American Home Assurance Company (“AHAC”), Lexington Insurance Company (“LIC”) and National Union Fire Insurance Company (“NUFIC”), whereby UGRIC cedes policies effective on January 1, 2014 through January 31, 2016. Under these contracts, UGRIC ceded premiums totaling \$73 million in 2020.

UGRIC has excess of loss contract with AHAC, LIC and NUFIC, whereby the ultimate net loss paid on or after December 31, 2016, under policies issued by UGRIC between January 1, 2009, and December 31, 2016, on a 35% quota share basis to NUFIC, 35% to AHAC and 30% to LIC. UGRIC has not paid sufficient claims to attach under this contract for 2020.

UGRIC has a quota share contract with Massachusetts Housing Finance Agency, whereby UGRIC assumes 90% of losses on policies issued on or after July 1, 2004, through June 30, 2007. Under this contract, UGRIC assumed premiums totaling approximately \$20,000 in 2020.

## **BELLEMEADE REINSURANCE**

### **Bellemeade Re 2017-1**

On October 25, 2017, Arch U.S MI First Lien Insurance Group (the “Group” consisting of AMIC and UGRIC) secured approximately \$368 million of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2017 through a mortgage insurance-linked notes offering by Bellemeade Re 2017-1, a special purpose reinsurance company domiciled in



Bermuda. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$145.6 million and \$216.4 million as of December 31, 2020 and 2019, respectively. For the coverage period, the ceding insurers will retain the first layer of \$165.7 million of aggregate losses and Bellemeade Re 2017-1 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2017-1 for certain operating expenses. The mortgage insurance-linked notes mature in October 2027 and are non-redeemable.

### **Bellemeade Re 2018-1**

On April 25, 2018, the Group secured approximately \$375 million of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2018 through a mortgage insurance-linked notes offering by Bellemeade Re 2018-1, a special purpose reinsurance company domiciled in Bermuda. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$250.1 million and \$328.5 million as of December 31, 2020 and 2019, respectively. For the coverage period, the ceding insurers will retain the first layer of \$168.5 million of aggregate losses and Bellemeade Re 2018-1 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2018-1 for certain operating expenses. The mortgage insurance-linked notes mature in April 2028 and are non-redeemable.

### **Bellemeade Re 2018-2**

On August 25, 2018, the Group secured approximately \$653 million of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2018 through a mortgage insurance-linked notes offering by Bellemeade Re 2018-2, a special purpose reinsurance company domiciled in Bermuda. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$108.4 million and \$437.0 million as of December 31, 2020 and 2019, respectively. For the coverage period, the ceding insurers will retain the first layer of \$352.3 million of aggregate losses and Bellemeade Re 2018-2 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2018-2 for certain operating expenses. The mortgage insurance-linked notes mature in August 2028 and are non-redeemable.

### **Bellemeade Re 2018-3**

On October 25, 2018, the Group secured approximately \$506 million of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2018 through a mortgage insurance-linked notes offering by Bellemeade Re 2018-3, a special purpose reinsurance company domiciled in Bermuda. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$302.6 million and \$426.8 million as of December 31, 2020 and 2019, respectively. For the coverage period, the ceding insurers will retain the first layer of \$179.3 million of aggregate losses and Bellemeade Re 2018-3 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2018-3 for certain operating expenses. The mortgage insurance-linked notes mature in October 2028 and are non-redeemable.

### **Bellemeade Re 2019-1**

On March 25, 2019, the Group secured approximately \$342 million of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued prior to 2016 through a mortgage insurance-linked notes offering by Bellemeade Re 2019-1, a special purpose reinsurance company domiciled in Bermuda. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$219.3 million and \$257.4 million as of December 31, 2020 and 2019, respectively. For the coverage period, the ceding insurers will retain the first layer of \$208.0 million of aggregate losses and Bellemeade Re 2019-1 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2019-1 for certain operating expenses. The mortgage insurance-linked notes mature in March 2029 and are non-redeemable.

### **Bellemeade Re 2019-2**

On April 25, 2019, the Group secured approximately \$621 million of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2018 through a mortgage insurance-linked notes offering by Bellemeade Re 2019-2, a special purpose reinsurance company domiciled in Bermuda. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$398.3 million and \$621.0 million as of December 31, 2020 and 2019, respectively. For the coverage period, the ceding insurers will retain the first layer of \$221.8 million of aggregate losses and Bellemeade Re 2019-2 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2019-2 for certain operating expenses. The mortgage insurance-linked notes mature in April 2029 and are non-redeemable.

### **Bellemeade Re 2019-3**

On July 25, 2019, the Group secured approximately \$701 million of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2016 through a mortgage insurance-linked notes offering by Bellemeade Re 2019-3, a special purpose reinsurance company domiciled in Bermuda. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$528.1 million and \$700.9 million as of December 31, 2020 and 2019, respectively. For the coverage period, the ceding insurers will retain the first layer of \$232.1 million of aggregate losses and Bellemeade Re 2019-3 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2019-3 for certain operating expenses. The mortgage insurance-linked notes mature in July 2029 and are non-redeemable.

### **Bellemeade Re 2019-4**

On October 25, 2019, the Group secured approximately \$577 million of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2019 through a mortgage insurance-linked notes offering by Bellemeade Re 2019-4, a special purpose reinsurance company domiciled in Bermuda. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$468.7 million and \$577.3 million as of December 31, 2020 and 2019, respectively. For the coverage period, the ceding insurers will retain the first layer of

\$162.4 million of aggregate losses and Bellemeade Re 2019-4 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2019-4 for certain operating expenses. The mortgage insurance-linked notes mature in October 2029 and are non-redeemable.

### **Bellemeade Re 2020-1**

On June 30, 2020, the Group secured approximately \$529 million total of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2019. \$450 million was directly funded through a mortgage insurance-linked notes offering by Bellemeade Re 2020-1, a special purpose reinsurance company domiciled in Bermuda, and an additional \$79 million of capacity was provided to the Group through a traditional excess of loss agreement with a separate panel of reinsurers. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$308.5 million as of December 31, 2020. For the coverage period, the ceding insurers will retain the first layer of \$792.8 million of aggregate losses and Bellemeade Re 2020-1 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2020-1 for certain operating expenses. The mortgage insurance-linked notes mature in June 2030 and are non-redeemable.

### **Bellemeade Re 2020-2**

On September 3, 2020, the Group secured approximately \$449 million total of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2020. \$423 million was directly funded through a mortgage insurance-linked notes offering by Bellemeade Re 2020-2, a special purpose reinsurance company domiciled in Bermuda, and an additional \$26 million of capacity was provided to the Group through a traditional excess of loss agreement with a separate panel of reinsurers. coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$449.2 million as of December 31, 2020. For the coverage period, the ceding insurers will retain the first layer of \$251.5 million of aggregate losses and Bellemeade Re 2020-2 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2020-2 for certain operating expenses. The mortgage insurance-linked notes mature in August 2030 and are non-redeemable.

### **Bellemeade Re 2020-3**

On November 3, 2020, the Group secured approximately \$452 million total of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2020. \$418 million was directly funded through a mortgage insurance-linked notes offering by Bellemeade Re 2020-3, a special purpose reinsurance company domiciled in Bermuda, and an additional \$34 million of capacity was provided to the Group through a traditional excess of loss agreement with a separate panel of reinsurers. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$451.8 million as of December 31, 2020. For the coverage period, the ceding insurers will retain the first layer of \$173.8 million of aggregate losses and Bellemeade Re 2020-3 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make

risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2020-3 for certain operating expenses. The mortgage insurance-linked notes mature in October 2030 and are non-redeemable.

#### **Bellemeade Re 2020-4**

On December 22, 2020, the Group secured approximately \$337 million total of aggregate excess of loss reinsurance coverage at inception for new delinquencies on a portfolio of in-force policies issued in 2019. \$321 million was directly funded through a mortgage insurance-linked notes offering by Bellemeade Re 2020-4, a special purpose reinsurance company domiciled in Bermuda, and an additional \$16 million of capacity was provided to the Group through a traditional excess of loss agreement with a separate panel of reinsurers. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$337 million as of December 31, 2020. For the coverage period, the ceding insurers will retain the first layer of \$150.2 million of aggregate losses and Bellemeade Re 2020-4 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2020-4 for certain operating expenses. The mortgage insurance-linked notes mature in June 2030 and are non-redeemable.

Under Bellemeade Re contracts, the Group ceded premiums for the year 2020 was totaling \$97,434,663.

#### **7.5% QUOTA SHARE TREATY**

Effective July 1, 2020, the Group entered into a 7.5% quota share reinsurance agreement (“agreement”) with a panel of subscribing reinsurers whereby the Group cedes 7.5% of the risk borne by policies with coverage effective dates during the period from January 1, 2020, to June 30, 2021, both days inclusive. By entering into this agreement, the Group cedes 7.5% of its earned premiums in exchange for a 20% commission and a separate profit commission earned each calendar year. The Group also receives 7.5% of losses on policies covered under the agreement, limited to 300% of premiums earned for any one calendar year and 200% of premiums earned for the term of this agreement. In accordance with SSAP No. 62R, Property and Casualty Reinsurance, this agreement will be accounted for prospectively.

The panel of subscribing reinsurers and their participation percentages are as follows:

<b>Reinsurer(s)</b>	<b>Participation</b>
Aspen Re America (for and on behalf of Aspen Insurance UK Limited)	4.000%
AXIS Reinsurance Company	16.000%
Markel Global Reinsurance Company	6.350%
Partner Reinsurance Company Ltd.	36.825%
RenaissanceRe Europe AG (Bermuda Branch)	36.825%
<b>Total</b>	<b>100.000%</b>

Under this contract, UGRIC ceded premiums totaling approximately \$358,000 in 2020.

## UGRIC-NC

UGRIC-NC has an original 5% quota share reinsurance agreement with Everest Reinsurance Ltd. whereby UGRIC-NC cedes credit default insurance identified as Countrywide "Bulk or Accumulation" business with an effective date between October 1, 2006 and December 31, 2007. On June 29, 2013, arbitration proceedings limited the ceded liability to 70% under the reinsurance treaty. Under this contract, UGRIC-NC ceded premiums totaling approximately \$66,000 in 2020.

## FINANCIAL STATEMENTS

The financial statements in Appendix A are based on the statutory financial statements filed with the Department and present the financial condition of each company in the United Guaranty Mortgage Insurance Group for the period ending December 31, 2020. The supporting tables and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statement information related to the prior year is unexamined and is presented for comparative purposes only.

## COMMENTS ON FINANCIAL STATEMENTS

### 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 United Guaranty Mortgage Insurance Group are as follows:

**Bonds:** Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific 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 on a basis consistent with the original policies issued and the terms of the reinsurance contracts. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

**Non-admitted assets:** Certain assets, such as furniture and equipment, electronic data processing equipment and software, and deferred taxes (not allowed due to admissibility calculations) are "non-admitted" and are charges against surplus.

**Unpaid loss & loss adjustment expense:** Includes amounts determined from individual case estimates 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**

UGRIC had the following assets that were not admitted at December 31, 2020: \$328,768,974 in deferred tax assets, \$799,130 in electronic data processing equipment and software, \$6,900,000 in licenses purchased and \$20,000 in prepaid expenses.

UGRIC-NC had the following assets that were not admitted at December 31, 2020: \$2,701,883 in deferred tax assets and \$6,000,000 in licenses purchased.

### **Reinsurance Activity**

The companies in the United Guaranty Mortgage Insurance Group have excess of loss and quota share contracts to minimize their exposure to losses. Reinsurance contracts do not relieve the companies of their primary obligation to policyholders and failure of the reinsurers to discharge their obligations could result in losses to the companies.

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

<b>UGRIC</b>	<b>2020</b>
Direct and assumed written	\$705,297,317
Ceded written	416,649,953
<b>Net written</b>	<b>288,647,364</b>
Direct and assumed earned	876,951,514
Ceded earned	538,403,693
<b>Net earned</b>	<b>\$338,547,821</b>

<b>UGRIC-NC</b>	<b>2020</b>
Direct and assumed written	\$6,622,885
Ceded written	66,525
<b>Net written</b>	<b>6,556,360</b>
Direct and assumed earned	6,625,744
Ceded earned	66,606
<b>Net earned</b>	<b>\$6,559,138</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.

## Summary of Reserves

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

### UGRIC

UGRIC reduced reserves by anticipated salvage and subrogation of \$1.7 million at December 31, 2020. Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under UGRIC's reinsurance contracts. At December 31, 2020, UGRIC's liability for losses and loss adjustment expenses was reduced by \$72.5 million for amounts to be recovered from non-pooling reinsurers.

<b>UGRIC</b>	<b>2020</b>
Reserve for losses and loss adjustment expenses, beginning of year	\$113,582,518
<b>Add:</b>	
Provision for losses and loss adjustment expenses, current year	134,114,400
Change in estimated losses and loss adjustment expenses, prior years	8,851,153
Total incurred	142,965,553
<b>Deduct:</b>	
Losses and loss adjustment expenses paid, current year	457,396
Losses and loss adjustment expenses paid, prior year	28,661,237
Total paid	29,118,632
Reserve for losses and loss adjustment expenses, end of year	227,429,439
Decrease in reserve for losses and loss adjustment expenses	(\$113,846,921)

### UGRIC-NC

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under UGRIC-NC's reinsurance contracts. At December 31, 2020, UGRIC-NC's liability for losses and loss adjustment expenses was reduced by \$2.1 million due to higher cure rates of delinquent loans.

<b>UGRIC-NC</b>	<b>2020</b>
Reserve for losses and loss adjustment expenses, beginning of year	\$14,173,326
<b>Add:</b>	
Provision for losses and loss adjustment expenses, current year	5,831,189
Change in estimated losses and loss adjustment expenses, prior years	(21,086,082)
Total incurred	(15,254,893)
<b>Deduct:</b>	
Losses and loss adjustment expenses paid, current year	909,751
Losses and loss adjustment expenses paid, prior year	(14,070,476)
Total paid	(13,160,725)
Reserve for losses and loss adjustment expenses, end of year	12,079,158
Decrease in reserve for losses and loss adjustment expenses	(\$2,094,168)

### **Statutory Contingency Reserve**

Appropriations to a Statutory Contingency Reserve (“SCR”) are required per GS § 58-10-135 in annual amounts equal to 50% of mortgage guaranty premiums earned. Appropriated amounts may not be withdrawn for a period of ten years, except as may be permitted if losses incurred exceed 35% of the net earned premium or by special approval from the Department.

### **UGRIC**

In 2020, UGRIC released \$24,473,816 from its SCR to unassigned surplus to cover year-to-date incurred loss and loss expense incurred greater than 35% of year-to-date net earned premiums as approved by the Department.

The following summarizes the changes in UGRIC’s SCR since the Department’s last examination:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Balance at January 1	\$1,275,094,059*	\$1,097,599,634	\$920,734,999
Additions	169,273,911	177,459,733	176,864,635
Withdrawals	(24,473,816)	-	
Balance at December 31	\$1,419,894,154	\$1,275,059,367	\$1,097,599,634

\* There is an immaterial difference of \$34,692 from the ending balance as of January 1, 2019.



## **Capital and Surplus**

The following, in conjunction with the Statutory Statement of Capital and Surplus in Appendix A, represents the changes in capital and surplus since the Department's last examination:

<b>UGRIC</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Capital and surplus, beginning of year	\$184,787,640	\$312,248,169	\$1,003,015,764
Capital and surplus increases (decreases):			
Net income	138,800,985	301,039,611	296,978,244
Change in net unrealized capital gain (loss)	642,129	636,665	(24,393,082)
Change in net deferred income tax	77,911,124	13,840,962	26,537,463
Change in non-admitted assets	(75,954,516)	(26,570,403)	(111,973,216)
Change in surplus notes	-	-	(100,000,000)
Paid in surplus	-	(240,000,000)	(300,000,000)
Dividends to stockholders	-	-	(300,000,000)
Change in statutory contingency reserve	(169,273,911)	(177,459,733)	(176,864,635)
Elimination of prior year intercompany realized gain		1,052,369	(1,052,369)
Decrease in statutory contingency reserve due to excess loss	24,473,816	-	-
Change in surplus as regards policyholders for the year	(3,400,373)	(127,460,529)	(690,767,595)
Capital and surplus, end of year	\$181,387,267	\$ 184,787,640	\$312,248,169

The Company paid \$240 million return of capital to Holdings, its parent on September 23, 2019 and \$300 million return of capital to United Guaranty Corporation on November 16, 2018.

<b>UGRIC-NC</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Capital and surplus, beginning of year	\$40,341,904	\$21,903,447	\$39,560,208
Capital and surplus increases (decreases):			
Net income	20,445,968	16,033,440	19,646,296
Change in net deferred income tax	(3,051,441)	1,236,455	(247,969)
Change in non-admitted assets	2,176,427	3,641,471	(2,055,088)
Change to paid in	375,000	-	-
Dividends to stockholders	(36,000,000)	-	(35,000,000)
Change in surplus as regards policyholders for the year	(16,054,046)	18,438,456	(17,656,761)
Capital and surplus, end of year	\$24,287,858	\$40,341,904	\$21,903,447

## **Contingencies and Commitments**

The United Guaranty Mortgage Insurance Group 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 United Guaranty Mortgage Insurance Group.

## **SUBSEQUENT EVENTS**

In January 2021, the Department approved a request from UGRIC-NC to enter into a 100% quota share reinsurance agreement with affiliate AMAC to reinsure all existing junior lien mortgage business.

In 2021, the Department approved a service agreement amendment between UGRIC and UGRIC-NC, Holdings and Arch MI, that was effective on August 3, 2021. The agreement was amended to add a provision which requires regulatory approval before termination of the agreement.

In 2021, the Department approved a Quota share reinsurance amendment between UGRIC and ARCH Reinsurance LTD, that was effective on August 9, 2021. The agreement was amended to add an inuring reinsurance clause.

**United Guaranty Mortgage Insurance Group**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**December 31, 2020**

Robert Schmeiser, President and Chief Executive Officer  
230 North Elm Street  
Greensboro, North Carolina 27401

Thomas Jeter, Executive Vice President and Chief Financial Officer  
230 North Elm Street  
Greensboro, North Carolina 27401

Theresa Cameron, Executive Vice President, General Counsel, and Secretary  
230 North Elm Street  
Greensboro, North Carolina 27401

Brian Smith, Senior Vice President and Controller  
230 North Elm Street  
Greensboro, North Carolina 27401

## CONCLUSION

We conclude that UGRIC is in compliance with the capital and surplus requirements of GS § 58-7-75 and the policyholder position requirements of GS § 58-10-125, for the kind of insurance it has been authorized to write. The company is required to maintain the greater of \$1,250,000 minimum capital and surplus pursuant to GS § 58-7-75 or minimum policyholder position of not less than one twenty-fifth of the insurer's aggregate insured risk outstanding pursuant to GS § 58-10-125(a) unless the Commissioner grants a waiver from requirements of GS § 58-10-125(a).

We conclude that UGRIC-NC is in compliance with the minimum capital surplus requirements of GS § 58-7-75 for the kind of insurance that the company has been authorized to write. The requirements pursuant to that statute are a combined minimum capital and surplus of \$1,250,000.

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

Respectfully submitted,



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Ke Xu, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

January 26, 2022

STATE OF NORTH CAROLINA

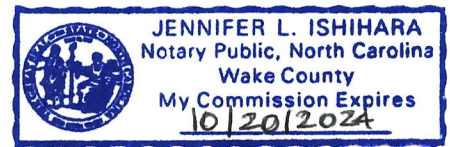
COUNTY OF WAKE

Keith Greene, Examination Supervisor, 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: Keith Greene Date: 1/26/2022  
Name

Sworn and subscribed before me this 26<sup>th</sup> day of January, 2022.

Notary Public Signature: Jennifer Ishihara Notary Public Seal:



**United Guaranty Mortgage Insurance Group**  
**Examination as of December 31, 2020**

**Appendix A**

**Statutory Statement of Admitted Assets at December 31, 2020**

	<b>UGRIC</b>	<b>UGRIC-NC</b>
Bonds	\$1,817,684,393	\$17,658,365
Cash and short-term investments	37,614,829	14,116,271
Receivable for securities	62,260	-
<b>Total cash and invested assets</b>	<b>1,855,361,482</b>	<b>31,774,636</b>
Investment income due and accrued	8,738,740	39,035
Premiums and agents' balances in course of collection	51,612,793	581,895
Reinsurance recoverable	683,394	-
Federal income tax recoverable	-	660,046
Net deferred tax asset	23,659,209	4,386,975
Receivable from parent, subsidiaries and affiliates	7,220,263	-
State premium taxes recoverable	772,928	-
Miscellaneous receivables	35,100	-
Other assets	-	28,434
Premium tax recoverable	-	40,979
<b>Total admitted assets</b>	<b>\$1,948,083,909</b>	<b>\$37,512,000</b>

**United Guaranty Mortgage Insurance Group**  
**Examination as of December 31, 2020**

**Statutory Statement of Liabilities, Surplus and Other Funds at December 31, 2020**

	<b>UGRIC</b>	<b>UGRIC-NC</b>
Losses	\$220,255,119	\$9,109,158
Loss adjustment expenses	7,174,320	2,970,000
Other expenses	128,215	122,134
Taxes, licenses and fees	559,420	4,801
Federal income tax liability	5,380,404	-
Unearned premiums	69,947,255	50,339
Advance premium	239,228	-
Ceded reinsurance premiums payable	16,206,227	28,901
Remittances and items not allocated	2,839,205	132,688
Payable to parent, subsidiaries and affiliates	6,833,993	806,121
Statutory contingency reserve	1,419,894,153	-
Deferred ceded commission expense	15,152,908	-
Premium refund reserve	2,086,195	-
<b>Total Liabilities</b>	<b>1,766,696,642</b>	<b>13,224,142</b>
Common capital stock	5,997,300	2,500,000
Gross paid in and contributed surplus	39,781,388	375,000
Unassigned funds	135,608,579	21,412,858
Total capital and surplus	181,387,267	24,287,858
<b>Total Liabilities, Capital and Surplus</b>	<b>\$1,948,083,909</b>	<b>\$37,512,000</b>

**United Guaranty Mortgage Insurance Group**  
**Examination as of December 31, 2020**

**Statutory Statement of Income at December 31, 2020**

	<b>UGRIC</b>	<b>UGRIC-NC</b>
<b>Underwriting Income</b>		
Premiums Earned	\$338,547,821	\$6,559,138
<b>Deductions</b>		
Losses incurred	138,763,722	(18,961,113)
Loss adjustment expenses incurred	4,201,831	3,706,220
Other underwriting expenses incurred	45,951,928	1,896,885
<b>Total underwriting deductions</b>	<b>188,917,481</b>	<b>(13,358,008)</b>
<b>Net underwriting gain</b>	<b>149,630,340</b>	<b>19,917,146</b>
<b>Investment Income</b>		
Net investment income earned	37,279,484	538,958
Net realized capital gains	40,004,113	1,234,474
<b>Net investment gain</b>	<b>77,283,597</b>	<b>1,773,432</b>
<b>Other income</b>		
New Jersey BEIP Credit	15,500	-
<b>Net income before dividends to policyholders</b>	<b>226,929,437</b>	<b>21,690,578</b>
Federal income taxes incurred	88,128,452	1,244,610
<b>Net Income (Loss)</b>	<b>\$138,800,985</b>	<b>\$20,445,968</b>



**United Guaranty Mortgage Insurance Group**  
**Examination as of December 31, 2020**

**Statutory Statement of Capital and Surplus at December 31, 2020**

	<b>UGRIC</b>	<b>UGRIC-NC</b>
Capital and surplus, beginning of year	\$184,787,640	\$40,341,904
Capital and surplus increases (decreases):		
Net Income (Loss)	138,800,985	20,445,968
Change in net unrealized capital (losses)	642,129	-
Change in net deferred income tax	77,911,124	(3,051,441)
Change in non-admitted assets	(75,954,516)	2,176,427
Capital changes to paid-in	-	375,000
Change in statutory contingency reserve	(144,800,095)	-
Dividends to stockholders	-	(36,000,000)
Change in capital and surplus as regards policyholders for the year	(3,400,373)	(16,054,046)
<b>Capital and surplus, end of year</b>	<b>\$181,387,267</b>	<b>\$24,287,858</b>

**United Guaranty Mortgage Insurance Group**  
**Examination as of December 31, 2020**

**Statutory Statement of Cash Flow at December 31, 2020**

	<b>UGRIC</b>	<b>UGRIC-NC</b>
<b>Cash From (Used By) Operations</b>		
Premiums collected net of reinsurance	\$268,472,172	\$6,952,973
Net investment income	41,690,516	620,712
Miscellaneous income	15,500	-
<b>Total</b>	<b>310,178,188</b>	<b>7,573,685</b>
Benefit and loss related payments	17,261,813	(22,613,715)
Commissions, expenses paid and aggregate write-ins	51,480,653	6,582,717
Federal income taxes paid	95,623,487	1,345,257
<b>Total</b>	<b>164,365,953</b>	<b>(14,685,741)</b>
<b>Net cash from (used by) operations</b>	<b>(145,812,235)</b>	<b>22,259,426</b>
<b>Cash From (Used By) Investments</b>		
Proceeds from investments sold, matured, or repaid	2,097,404,246	56,908,841
Cost of investments acquired	2,254,137,049	41,152,744
<b>Net cash from (used by) investments</b>	<b>(156,732,803)</b>	<b>15,756,097</b>
<b>Cash From (Used By) Financing and Miscellaneous Sources</b>		
Cash from capital and paid-in surplus	-	375,000
Dividends to stockholders	-	36,000,000
Other cash (applied) provided	5,610,410	(5,715,700)
<b>Net cash from (used by) financing and miscellaneous sources</b>	<b>(5,610,410)</b>	<b>(41,340,700)</b>
<b>Reconciliation of Cash and Short-Term Investment</b>		
<b>Net change in cash and short-term investments</b>	<b>(5,310,158)</b>	<b>(3,325,177)</b>
<b>Cash and short-term investments, beginning of year</b>	<b>42,924,987</b>	<b>17,441,447</b>
<b>Cash and short-term investments, end of year</b>	<b>\$37,614,829</b>	<b>\$14,116,270</b>

**United Guaranty Mortgage Insurance Group  
Examination as of December 31, 2020**

**Appendix B**

**Growth of the Companies**

The following data, obtained from annual statements filed with the Department, illustrates the trends of each company within the United Guaranty Mortgage Insurance Group for the three-year period ended 2020:

**UGRIC**

<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>
2020	\$1,948,083,909	\$181,387,267	\$705,297,317	\$338,547,821	\$138,800,985
2019	\$1,816,274,753	\$184,787,640	\$791,120,409	\$354,919,466	\$301,039,611
2018	\$1,905,922,127	\$312,248,169	\$823,083,110	\$353,729,269	\$296,978,244

**UGRIC-NC**

<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>
2020	\$37,512,000	\$24,287,858	\$6,622,885	\$6,559,138	\$20,445,968
2019	\$61,277,935	\$40,341,904	\$9,506,793	\$9,431,448	\$16,033,440
2018	\$38,188,065	\$21,903,447	\$13,422,361	\$13,318,649	\$19,646,296