



Report on

Market Conduct Examination

of the

United Guaranty Mortgage Indemnity Company
United Guaranty Residential Insurance Company

Greensboro, North Carolina

by Representatives of the
North Carolina Department of Insurance

as of

May 19, 2014

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Raleigh, North Carolina
May 19, 2014

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Commissioner:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of

United Guaranty Mortgage Indemnity Company (NAIC #26999)
United Guaranty Residential Insurance Company (NAIC #15873)
NAIC Exam Tracking System Exam Number: NC299-M56
Greensboro, North Carolina

hereinafter generally referred to as the Companies, at the Companies' home office located at 230 North Elm Street, Greensboro, North Carolina and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of United Guaranty Mortgage Indemnity Company and United Guaranty Residential Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that revealed no concerns were omitted.

SCOPE OF EXAMINATION

This examination commenced on May 5, 2014, and covered the period of January 1, 2008, through December 31, 2012, with analyses of certain operations of the Companies being conducted through May 19, 2014. All comments made in this report reflect conditions observed during the period of the examination.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of underwriting practices and terminations.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for producers who were not appointed and/or licensed and the use of forms that were neither filed with nor approved by the Department; and 10 percent for all other areas reviewed.

EXECUTIVE SUMMARY

The market conduct examination revealed concerns with the Companies' procedures and practices in the following area:

Underwriting Practices – Producers not licensed and/or appointed.

Specific violations related to the area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative

Code cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com by clicking “INSURANCE DIVISIONS” then “Legislative Services”.

This examination identified a single non-compliant practice, which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate their ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

UNDERWRITING PRACTICES

Overview

The Companies write mortgage guaranty insurance by issuing a master policy to each insured (lender). A certificate of insurance is issued to the insured for each mortgage loan. The borrower is the party legally obligated to repay the debt obligation created by the loan. Each certificate was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the certificates were examined to determine compliance with the appropriate North Carolina statutes and rules and policy provisions.

Mortgage Guaranty

The Companies provided a listing of 13,391 active mortgage guaranty certificates issued during the period under examination. One hundred certificates were randomly selected for review.

All certificates within the survey represented loans with terms ranging from 180 months (15 years) to 360 months (30 years). No discrepancies were noted in the Companies' use of their underwriting guidelines. All certificates contained sufficient documentation to support the Companies' application of their rates and premiums charged.

The Companies were deemed to be in violation of the provisions of NCGS 58-33-5, 58-33-26, and 58-33-40 as the producer was not properly licensed and/or appointed by the Companies for 23 certificates reviewed (23.0 percent error ratio).

TERMINATIONS

Overview

The Companies' termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. Special attention was placed on the validity and reason for termination, timeliness in issuance of the termination notice, policy refund (where applicable), and documentation of the policy file.

A total of 20,633 certificates were terminated during the period under examination. The examiners randomly selected 150 terminations for review.

Mortgage Guaranty Cancellations

One hundred cancelled mortgage guaranty certificates were randomly selected for review from a population of 19,472.

The reason for cancellation was deemed valid for all certificates reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Certificates	Percentage
Insured's request	88	88.0
Nonpayment of premium	9	9.0
Underwriting reasons	3	3.0
Total	100	100.0

The Companies were not required to issue cancellation notices for 88 of the cancellations reviewed as these certificates were cancelled at the request of the insured. Cancellation notices for the remaining 12 certificates stated the specific reason for cancellation. All insureds were given proper and timely notification of cancellation.

The final area of this review encompassed documentation of the policy file. All policy files contained sufficient documentation to support the action taken by the Companies.

Declinations/Rejections

The Companies provided a listing of 1,161 declined/rejected new business applications for the period under examination. Fifty applications were randomly selected for review.

The review revealed the following reason for declination/rejection:

Reason for Declination/Rejection	Number of Declinations/Rejections
Underwriting reasons	50
Total	50

All reasons for declination/rejection were deemed valid and handled in a timely manner. All files contained sufficient documentation to support the Companies' actions.

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

The Companies should reinforce procedures to ensure that producers who submit applications for insurance to the Companies are properly appointed.

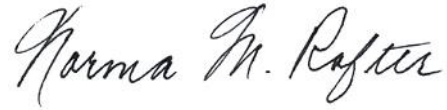
CONCLUSION

An examination has been conducted on the market conduct affairs of United Guaranty Mortgage Indemnity Company and United Guaranty Residential Insurance Company for the period January 1, 2008, through December 31, 2012, with analyses of certain operations of the Companies being conducted through May 19, 2014.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures including analyses of underwriting practices and terminations.

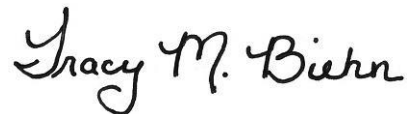
In addition to the undersigned, Sharon O'Quinn, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,

Handwritten signature of Norma M. Rafter in black ink.

Norma M. Rafter, CPCU
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

Handwritten signature of Tracy M. Biehn in black ink.

Tracy Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina