Report of the Examination of

Arch Mortgage Insurance Company

Greensboro, North Carolina

As of December 31, 2020

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Wisconsin Office of the
COMMISSIONER OF INSURANCE
FINANCIAL REGULATION

Tony Evers, Governor of Wisconsin
Nathan Houdek, Commissioner of Insurance

January 26, 2022

Honorable Nathan Houdek
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

ARCH MORTGAGE INSURANCE COMPANY
Greensboro, North Carolina

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Arch Mortgage Insurance Company (the company or AMIC) was conducted in 2016 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the Arch Mortgage Insurance sub-group. The North Carolina Department of Insurance (North Carolina DOI) acted in the capacity as the lead state for the coordinated examination. Work performed by the North Carolina DOI was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The 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 at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

Independent Actuary's Review

The company is a party to several intercompany quota share reinsurance agreements whereby the company cedes 100% of its business to United Guaranty Residential Insurance Company (UGRIC) and assumes 50% of UGRIC's direct and assumed business, net of all other reinsurance ceded. Due to the reinsurance agreements with UGRIC, an independent actuarial firm was engaged under a contract with the North Carolina DOI. The actuary reviewed the adequacy of loss and loss adjustment expense reserves of UGRIC and the company. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Arch Mortgage Insurance Company is a monoline provider of residential mortgage guaranty insurance. AMIC was organized in Illinois under the name TIMIC Mortgage Insurance Company (TIMIC) on December 30, 1980, as a subsidiary of Continental Equivest Inc. Effective December 31, 1981, TIMIC merged with Investors Mortgage Insurance Company, another Illinois-domiciled mortgage guaranty insurer. TIMIC was the surviving corporate entity from the 1981 merger, and concurrent with the merger, the name of the company was changed to Investors Mortgage Insurance Company. Ownership and control of the company was acquired by Investors Mortgage Insurance Holding Company effective October 31, 1986.

The company discontinued writing new policies of insurance and became a dormant insurer in runoff in 1987.

Effective April 14, 1994, all of the outstanding capital stock of the company was purchased by CUNA Mutual Investment Corporation (CMIC), a wholly owned subsidiary of CUNA Mutual Insurance Society (CMIS). Concurrent with CMIC's acquisition, the name of the company was changed to CMG Mortgage Insurance Company (CMG MI).

On June 23, 1994, CMIC and PMI Mortgage Insurance Co. (PMI), a subsidiary of The PMI Group, Inc. (TPG), entered into an arrangement for the joint ownership of the company, with PMI purchasing from CMIC 45% of the company's outstanding capital stock. Effective September 8, 1994, CMIC and PMI entered into a CMG MI Shareholders Agreement that established a strategic alliance between CMIC and PMI for governance of the joint management and operation of CMG MI. PMI purchased from CMIC 200,000 additional shares of CMG MI capital stock in 1998, thereby increasing PMI's ownership of the company to 50%.

CMIS obtained 50% ownership of the company through a stock dividend from CMIC on June 30, 2009.

In June 2011, the board of directors of CMIS, one of the company's ultimate parent companies, approved a plan to convert CMIS from a mutual insurance company to a mutual insurance holding company. In September 2011, policyholders and the Iowa Insurance Commissioner approved the plan to reorganize CMIS into a mutual holding company, effective January 31, 2012. Under the reorganization plan, CMIS was renamed CMFG Life Insurance Company (CUNA Mutual).

On August 19, 2011, PMI and its wholly owned subsidiary PMI Insurance Co. (PIC) were placed under a supervisory order by the Arizona Director of Insurance, as a result of the determination by the Arizona Department of Insurance (Arizona DOI) of a hazardous financial condition under Arizona insurance laws and regulations relating to PMI’s June 30, 2011, financial condition. The order required the two companies to cease issuing new mortgage guaranty insurance commitments at close of business on August 19, 2011, and to cease issuing mortgage insurance certificates under pending commitments at the close of business on September 16, 2011. An interim supervisor was appointed for PMI and PIC. Effective August 22, 2011, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (together, the GSEs) each suspended PMI and PIC from their respective lists of approved mortgage insurers. On March 14, 2012, the Superior Court of Maricopa County (Arizona Court) issued an Order for Appointment of Receiver and Injunction placing PMI into rehabilitation.

On February 7, 2013, CUNA Mutual and the Receiver for PMI, on behalf of PMI, entered into a Stock Purchase Agreement with Arch U.S. MI Holdings, Inc. (Arch U.S. MI Holdings) and Arch Capital Group (U.S.) Inc. (ACG US) pursuant to which, Arch U.S. MI Holdings, an indirect subsidiary of Arch Capital Group Ltd. (ACGL), a publicly traded Bermuda-domiciled stock corporation, for purchase of all the capital stock of CMG Mortgage Insurance Company, as well as PMI’s mortgage insurance operating platform and related assets. ACGL and CMG MI were included as parties to this agreement for limited purposes stated in the agreement. The agreement was approved by the Arizona Court and the GSEs. Both the Wisconsin Office of the Commissioner of Insurance (OCI) and the Arizona DOI approved the transaction and, effective January 30, 2014, the company became a wholly owned subsidiary of Arch U.S. MI Holdings. The company changed its name from CMG Mortgage Insurance Company to Arch Mortgage Insurance Company.

On August 15, 2016, American International Group (AIG), entered into a definitive stock purchase agreement to sell its 100 percent interest in United Guaranty Corporation (UGC) and certain related affiliates, including United Guaranty Residential Insurance Company (UGRIC) and United

Guaranty Residential Insurance Company of North Carolina (UGRIC-NC), to ACGL. Upon obtaining all required approvals from the North Carolina DOI, Arch U.S. MI Holdings, an indirect subsidiary of ACGL, completed the acquisition of UGC, including certain related affiliates, on December 31, 2016. Following the acquisition, the combined entity pursued a restructuring of legal entities to eliminate redundancies in the legal entity structure.

AMIC is licensed to transact residential mortgage guaranty insurance business in all 50 U.S. states, the District of Columbia, Puerto Rico, and Guam. In 2020, the company wrote direct premium in the following states:

Texas	$ 65,326,582	7.9%
California	61,545,960	7.5
Florida	52,330,946	6.3
Georgia	35,836,551	4.3
North Carolina	30,253,597	3.7
All others	580,381,235	70.3
Total	$825,674,871	100.0%

The company offers primary mortgage guaranty insurance written on a flow, that is, an individual loan-by-loan transaction basis. Private mortgage insurance coverage is issued to mortgage lenders, including mortgage bankers, savings institutions, commercial banks, mortgage brokers, credit unions, and other lenders. Mortgage guaranty insurance is generally required by a lender to insure the lender’s risk in originating a low-down-payment mortgage loan to a home buyer, and a lender typically requires mortgage insurance when the mortgage loan exceeds 80% of the value of the mortgaged real estate. In the event of borrower default, private mortgage insurance covers the risk exposure of the insured lender in excess of 80% of the value of the underlying mortgaged property. Private mortgage insurance also facilitates the sale of low-equity mortgage loans in the secondary mortgage securities market, primarily to Fannie Mae and Freddie Mac.

Primary mortgage guaranty insurance can be placed on many loan and property types, but is generally written on first mortgage loans secured by owner-occupied one-to-four family houses and condominiums. The company expects that single-family homes will be approximately 90% of its business with the remainder being condominiums, planned unit developments with homeowners associations, and two-to-four family units. Primary mortgage insurance is also written on first liens secured by nonowneroccupied houses, often referred to as investor loans, and on vacation or second homes, but insurance on such risks is only a modest amount of the company's business.

Mortgage insurance premiums are usually paid by the mortgage borrower to the mortgage lender or servicer, which in turn remits the premium to the mortgage insurer. This form of payment is referred to as "borrower paid." In a "lender paid" payment structure, the premium is paid by the mortgage lender to the mortgage insurer. The mortgage lender then typically recovers the premium through either an increase in the mortgage interest rate or through higher origination fees. Most of the company's business consists of borrower paid mortgage insurance.

The company offers two basic types of premium payment plans: a single premium plan and a monthly premium plan. Under the single premium plan, the premium would be paid in advance by adding the premium to the principal amount of the mortgage or by payment in cash at the mortgage closing. The premium can either cover an initial fixed term with annual renewals or the entire term of the mortgage. Under the monthly premium plan, the borrower or lender pays a premium payment on a monthly basis for each month of insurance coverage. The monthly premium plan represents a substantial majority of business written.

Prior to the acquisition by ACGL, AMIC provided primary mortgage insurance products, issuing policies to insure first-lien residential mortgage loans that were originated solely by credit unions. Following the ACGL acquisition, the company expanded its underwriting guidelines and sales platform to offer mortgage insurance coverage to traditional lenders such as banks and other mortgage originators, in addition to its ongoing credit union business. The company is approved as an eligible mortgage insurer for loans to be acquired by Fannie Mae and Freddie Mac, subject to maintaining compliance with certain ongoing requirements.

As of December 31, 2020, the company marketed its products on a nationwide basis to traditional lenders and credit unions through 60 staff salespersons employed by an affiliate of the company, Arch U.S. MI Services Inc. All salespersons are licensed agents, where required.

The following table is a summary of the net insurance premiums written by the company in 2020. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	$825,674,871	$288,647,364	$825,674,871	$288,647,364
Total All Lines	$825,674,871	$288,647,364	$825,674,871	$288,647,364

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Five directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members do not receive any compensation for serving on the board. Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
John E. Gaines Winston Salem, North Carolina	Executive Vice President, Chief Actuary	2022
Thomas M. Hitt Colfax, North Carolina	Senior Vice President, Insurance Operations	2022
Thomas H. Jeter Chapel Hill, North Carolina	Executive Vice President, Chief Financial Officer	2022
Robert M. Schmeiser Chapel Hill, North Carolina	President, Chief Executive Officer, Chairman	2022
Carl E. Tyree Darnestown, Maryland	Executive Vice President, Chief Sales Officer	2022

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office
Robert M. Schmeiser	President and Chief Executive Officer
Theresa M. Cameron	Vice President and Secretary
Tracie R. Cranford	Senior Vice President and Treasurer
Cheryl A. Feltgen	Executive Vice President and Chief Risk Officer
John E. Gaines	Executive Vice President and Chief Actuary
Thomas M. Hitt	Senior Vice President, Insurance Operations
Thomas H. Jeter	Executive Vice President and Chief Financial Officer
Brian J. Smith	Senior Vice President and Controller
Carl E. Tyree	Executive Vice President and Chief Sales Officer

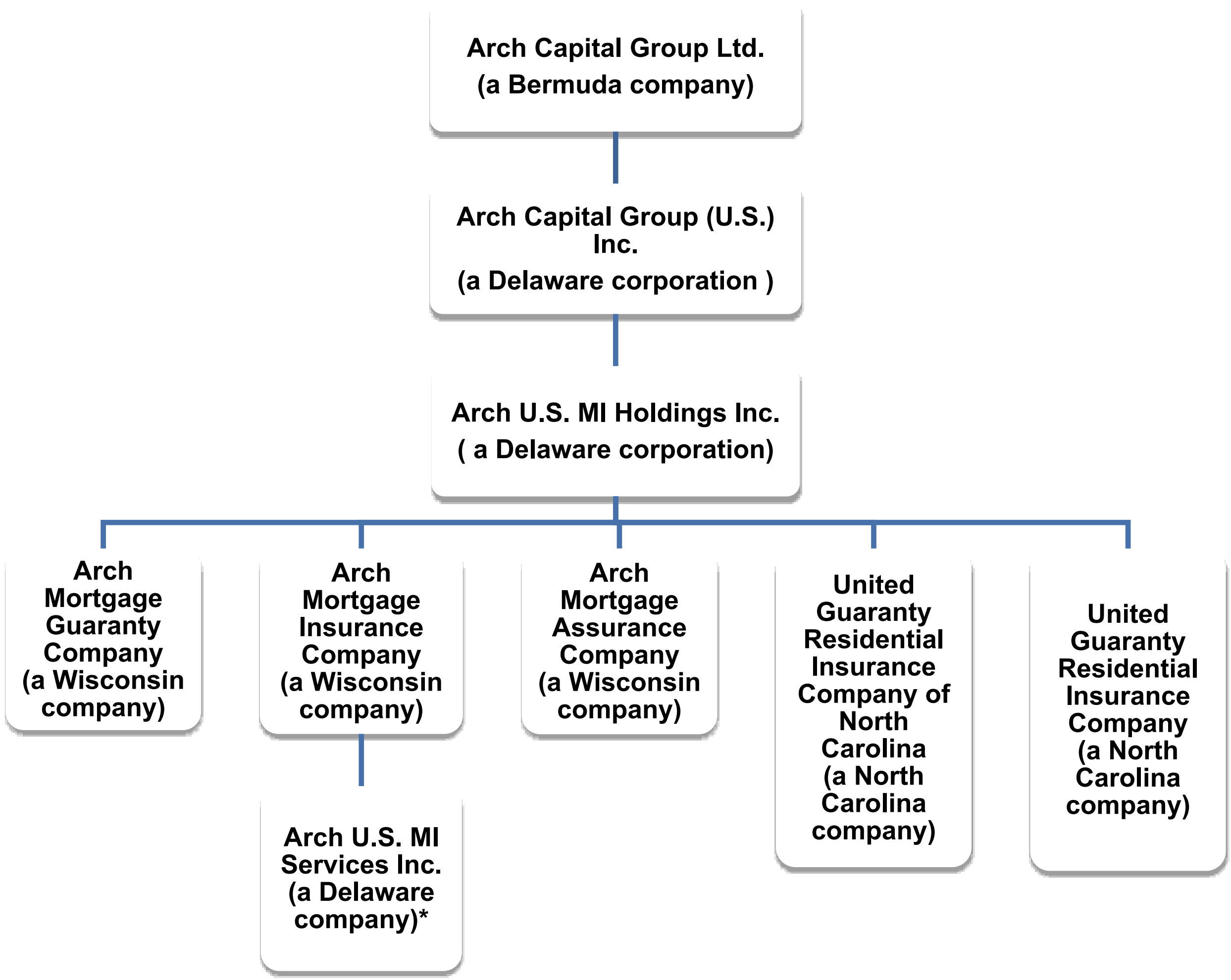
Committees of the Board

There are no committees of the board.

IV. AFFILIATED COMPANIES

Arch Mortgage Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart. Note that the organizational chart is a simplified version of the complete organization due to the size and complexity of the holding company system.

Organizational Chart
As of December 31, 2020



*Effective September 1, 2021, all shares of issued and outstanding stock of Arch U.S. MI Services Inc. were transferred to Arch U.S. MI Holdings Inc. via dividend. Arch U.S. MI Services Inc. is no longer a subsidiary of the company.

Arch Capital Group Ltd.

Arch Capital Group Ltd. (ACGL), a Bermuda publicly traded company, is a global insurer and reinsurer with operations in Bermuda, the United States, Canada, Europe, and Australia. ACGL is the company's ultimate parent which owns 100% interest of the company. As of December 31, 2020, the audited GAAP consolidated financial statements of ACGL reported assets of $43.3 billion, liabilities of $29.3 billion, and shareholders' equity of $14.0 billion including ACGL's redeemable noncontrolling interests. Operations for 2020 produced net income of $1.4 billion.

Arch Capital Group U.S. Inc.

Arch Capital Group (U.S.) Inc. (ACG US) is a wholly owned, indirect subsidiary of ACGL. As of December 31, 2020, the unaudited GAAP financial statements of ACG US reported assets of $5.8 billion, liabilities of $1.1 billion, and shareholders' equity of $4.7 billion. Operations for 2020 produced net income of $325.2 million.

Arch U.S. MI Holdings Inc.

Arch U.S. MI Holdings Inc. (Arch U.S. MI Holdings) is a wholly owned subsidiary of ACG US, which is a wholly owned, indirect subsidiary of ACGL. Arch U.S. MI Holdings owns 100% of the shares of AMIC, Arch Mortgage Guaranty Company, and Arch Mortgage Assurance Company. As of December 31, 2020, the unaudited GAAP financial statements of Arch U.S. MI Holdings reported assets of $4.0 billion, liabilities of $961.2 million, and shareholders' equity of $3.0 billion. Operations for 2020 produced net income of $348.0 million.

Arch Mortgage Assurance Company

Arch Mortgage Assurance Company (AMAC) is a wholly owned subsidiary of Arch U.S. MI Holdings Inc. AMAC is currently in run-off and has not written any new business since 2008. AMAC is currently licensed in 41 states and the District of Columbia. As of December 31, 2020, the audited statutory financial statements of AMAC reported assets of $8.2 million, liabilities of $0.5 million, and policyholders' surplus of $7.7 million. Operations for 2020 produced statutory net income of $171,200.

Arch Mortgage Guaranty Company

Arch Mortgage Guaranty Company (AMGC) is a wholly owned subsidiary of Arch U.S. MI Holdings Inc. AMGC is licensed to transact residential mortgage insurance business in all 50 states and the District of Columbia. AMGC is not subject to GSE mortgage insurer eligibility requirements and is not approved by the GSEs as an eligible GSE mortgage insurer. As of December 31, 2020, the audited statutory financial statements of AMGC reported assets of $47.6 million, liabilities of $2.7 million, and policyholders' surplus of $44.9 million. Operations for 2020 produced statutory net loss of $1.5 million.

Arch U.S. MI Services Inc.

Arch U.S. MI Services Inc. (Arch U.S. MI Services), is an affiliate of AMIC and was established to provide operational and technological support to the other companies within the Arch U.S. MI Holdings. consolidated group. The vast majority of employees that provide operational, financial, and legal services to this group are employed by Arch U.S. MI Services. Arch U.S. MI Services entered into a services agreement with AMIC on January 30, 2014. The subject matter of the agreement is described further in the "Agreements with Affiliates" section of this report. Prior to September 1, 2021, Arch U.S. MI Services was a wholly owned subsidiary of AMIC. On September 1, 2021, AMIC contributed the common stock of Arch U.S. MI Services to Arch U.S. MI Holdings. As of December 31, 2020, the unaudited GAAP financial statements of Arch U.S. MI Services reported assets of $159.8 million, liabilities of $86.1 million, and shareholders' equity of $73.6 million. The shareholder equity of Arch U.S. MI Services is a non-admitted asset on the company's balance sheet because the entity is not audited. Operations for 2020 produced net loss of $6.4 million.

United Guaranty Residential Insurance Company

United Guaranty Residential Insurance Company (UGRIC) was incorporated on November 27, 1963, and commenced business on December 18, 1963. UGRIC provides private residential mortgage guaranty insurance to mortgage lenders and is approved as an eligible mortgage insurer for loans that are to be acquired by Fannie Mae and Freddie Mac (Government Sponsored Entities, or collectively "GSEs"). In addition to the GSEs, UGRIC's primary customers include banks, mortgage loan originators and servicers. UGRIC is licensed in all 50 states, the District of Columbia, and the U.S. Virgin Islands.

As of December 31, 2020, the audited statutory financial statements of UGRIC reported assets of $1.9 billion, liabilities of $1.8 billion, and policyholders' surplus of $181.4 million. Operations for 2020 produced net income of $138.8 million.

United Guaranty Residential Insurance Company of North Carolina

United Guaranty Residential Insurance Company of North Carolina (UGRIC-NC) is a credit insurer licensed in 46 states and the District of Columbia. UGRIC-NC provided credit insurance that protected lenders from losses on second-lien mortgages. However, UGRIC-NC ceased writing this business in 2008 and is under a Voluntary Settlement Agreement with the North Carolina DOI to write no new business. UGRIC-NC's license has been restricted to "No New Business" accordingly, and it is in runoff, servicing its existing policies. In January 2021, the North Carolina DOI and Wisconsin OCI 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.

As of December 31, 2020, the audited statutory financial statements of UGRIC-NC reported assets of $37.5 million, liabilities of $13.2 million, and policyholders' surplus of $24.3 million. Operations for 2020 produced net income of $20.4 million.

Agreements with Affiliates

Surplus Notes

On March 27, 2015, AMIC issued a Contribution Note in the amount of $7.5 million to ACG US in exchange for receipt of the principal amount, with an annual interest rate of 6.5%. The Contribution Note had a maturity date of March 27, 2045, but was redeemed on April 3, 2017.

On April 17, 2015, AMIC issued a Contribution Note in the amount of $32 million to ACG US in exchange for receipt of the principal amount, with an annual interest rate is 6.25%. The Contribution Note had a maturity date of April 17, 2045, but was redeemed on April 3, 2017.

On December 22, 2016, AMIC issued a Contribution Note in the amount of $10 million to Arch Capital Finance (Ireland) Limited in exchange for receipt of the principal amount with an annual interest rate is 6.8%. The Contribution Note's maturity date is December 22, 2046.

On April 1, 2017, AMIC issued a Contribution Note in the amount of $39.5 million to Arch Capital Finance (Ireland) Limited in exchange for receipt of the principal amount with an annual interest rate of 6.3% to repay in full the principal and final accrued interest of the aforementioned Contribution Notes issued to ACG US on March 27, 2015, and April 17, 2015. The Contribution Note has a maturity date of April 1, 2047.

Service Agreements

Effective January 30, 2014, AMIC entered into service agreement with Arch U.S. MI Services. Under the agreement, Arch U.S. MI Services provides various services to AMIC, including accounting, data processing, systems work, records information technology, employee administration, legal services, SEC reports and filings, tax returns, and other services such as office space, general overhead items, advertising, allocation of expenses, arranging of separate insurance coverage, and collection and handling of insurance premiums. AMIC is liable to compensate Arch U.S. MI Services for the cost of the provided service, as billed by the service provider. AMIC reimburses Arch U.S. MI Services for all reasonable and documented out-of-pocket expenses. The agreement can be terminated by giving at least 90 days' written notice or upon resolution of the boards of directors of the company, Arch U.S. MI Services, and Arch U.S. MI Holdings, expressing intent to terminate the agreement. The agreement was amended effective September 1, 2021, to require approval from OCI and the GSEs prior to terminating the agreement.

Effective July 1, 2018, AMIC entered into service agreement with United Guaranty Services, Inc. Under the agreement, United Guaranty Services, Inc. provides subrogation services, including but not limited to debt collection, in order to assist AMIC in the transaction of its business. AMIC is liable to compensate United Guaranty Services, Inc. for the cost of the provided service, as billed by the service provider. AMIC reimburses United Guaranty Services, Inc. for all reasonable and documented out-of-pocket expenses. The agreement can be terminated by giving at least 90 days' written notice or upon resolution of the boards of directors of the company, United Guaranty Services, Inc., and Arch U.S. MI Holdings, expressing intent to terminate the agreement.

Investment Manager Agreement

The company has an Investment Manager Agreement with an indirect affiliate, Arch Investment Management Ltd. (AIM), effective January 30, 2014, for investment management services to be provided to the company. Under this agreement, AIM acts as the company's investment manager and assumes the responsibilities and obligations of a fiduciary with respect to the services subject of the agreement including investment advisory and oversight, investment market risk monitoring, investment credit risk monitoring, investment compliance monitoring, and asset allocation monitoring. AIM provides appraisals of investment accounts, performance tabulations, compliance certifications, summaries of purchases and sales, and any other reports agreed upon. The company compensates AIM by payment of a monthly asset management fee at an annual rate based on whether the services provided by AIM for the assets under management in the investment accounts are Investment Consulting and Oversight Services, or Direct Investment Management Services, with such allocation set forth in the investment manager's invoice. The agreement can be terminated by both parties at any time upon 45 days' prior written notice.

Loan Agreement

On June 1, 2021, the company entered into an Intercompany Loan Agreement with ACG US. Under the Intercompany Loan Agreement, the company would loan ACG US up to $200 million, subject to certain limitations. In conjunction with the Intercompany Loan Agreement, the company entered into a Guaranty Agreement with ACGL on the same date. Under the Guaranty Agreement, ACGL guarantees to pay the company the principal and interest payments required under the Intercompany Loan if ACG US fails to pay.

Tax Sharing Agreement

Effective upon the close of the acquisition on January 30, 2014, the company became a party to the Amended and Restated Tax Sharing Agreement between ACG US and its subsidiaries. As of that date, AMIC became a member of the "Parent Group" addressed in this agreement, which includes ACG US and its subsidiaries. Effective November 1, 2014, AMIC was specifically named in the Third Amended and Restated Tax Sharing Agreement between ACG US and its subsidiaries. Effective January 1, 2017, the Fourth Amended and Restated Tax Sharing Agreement added North Carolina domestic insurers as parties to the agreement. Under the tax sharing agreement, ACG US files a consolidated U.S. Federal Income Tax Return that includes AMIC and other affiliates of the ACG US holding company group, whereby the income taxes are computed as if each subsidiary filed a separate tax return on a stand-alone basis, utilizing the applicable Group consolidated tax rate for the applicable taxable year or part thereof during which such subsidiary was a member of the Group. Tax payments are payable directly to the company's immediate parent, Arch U.S. MI Holdings, which will thereafter make any necessary payments of taxes to ACG US. Taxes payable to the parent are due within 90 days of the date the Group tax liability is paid. A credit is given to each company for any net operating losses or other items used in the consolidated tax return filed by ACG US, to the extent those losses or items may be utilized by each company on a separate return basis. The agreement also addresses the filing of consolidated state income tax returns on a state-by-state basis in a manner consistent with the approach provided in respect to the U.S. Federal Income Tax Return.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Affiliated Ceding Contracts

1.	Type:	Quota Share
	Reinsurer:	United Guaranty Residential Insurance Company
	Scope:	In-force and new policies, not including business assumed in the UGRIC Retrocession
	Retention:	0%
	Coverage:	100% of the company's liability for business covered, net of reinsurance with Arch Reinsurance Ltd (ARL), PMI Insurance Co. (PIC), and CUMIS Mortgage Reinsurance Company (CUMIS Re)
	Effective date:	July 1, 2017
	Termination:	Agreement has no specific termination date, but may be terminated by either party with 180 days prior written notice or at any time upon mutual consent of the parties
	Comment:	This agreement is also referred to as "Treaty 4". As noted below, AMIC is also party to a 50% quota share with UGRIC, known as "Treaty 6", whereby AMIC assumes 50% of UGRICs direct and assumed business. The result of which is that AMIC and UGRIC have homogeneous books of business. Treaty 4 and Treaty 6 are net of all other reinsurance and Treaty 4 is applied prior to Treaty 6.
2.	Type:	Quota Share
	Reinsurer:	Arch Reinsurance Ltd.
	Scope:	Individual in-force and new residential lenders mortgage guaranty insurance policies or certificates
	Retention:	Company retains 50% quota share under the agreement. The contract requires AMIC to retain at least 20% of the Business Reinsured
	Coverage:	50% of the company's liability for business reinsured, net of reinsurance with PIC and CUMIS Re; Aggregate coverage on the new policies is 250% of 50% of net earned premiums for any three-year calendar period (current period consists of 2020, 2021, and 2022)

Effective date:	Original agreement effective January 30, 2014, amended and restated agreements effective December 31, 2015, and again effective January 1, 2017, and addendum effective January 1, 2018
Termination:	Agreement has no specific termination date. Agreement can be terminated by either party by providing at least 365 days or will terminate after the natural expiration of all liability in respect of the policies.

Nonaffiliated Ceding Contracts

1.	Type:	Quota Share
	Reinsurer:	PMI Insurance Company
	Scope:	Individual residential lenders mortgage guaranty insurance policies or certificates becoming effective on and after the effective date and prior to January 30, 2021
	Retention:	80% of the company's liability for business reinsured, not including other reinsurance
	Coverage:	20% of all net losses and net written premium for new insurance written for both banks and credit unions on an indemnity reinsurance basis
	Effective date:	January 30, 2014
	Termination:	Agreement was automatically terminated on a cutoff basis on January 20, 2021

2.	Type:	Quota Share
	Reinsurer:	CUMIS Mortgage Reinsurance Company
	Scope:	Residential lenders mortgage guaranty insurance certificates issued to credit unions between 2014-2019
	Retention:	Depending on the year the policy was issued, 92.5%-97.5% of the company's liability for business reinsured, not including other reinsurance
	Coverage:	2.5% of all net losses and net written premium for new insurance written in 2014, 5.0% of such business in 2015, and 7.5% of such business in 2016-2019.
	Effective date:	Original agreement effective January 30, 2014, and first amendment effective September 29, 2017
	Termination:	Agreement terminated on runoff basis, effective December 31, 2019

3. Type: Quota Share

Reinsurer	Participation
Partner Reinsurance Company Ltd.	36.825%
RenaissanceRe Europe AG (Bermuda Branch)	36.825

	AXIS Reinsurance Company	16.000
	Markel Global Reinsurance Company	6.350
	Aspen Re America (for and on behalf of Aspen Insurance UK Limited)	4.000
	Total	100.000%

Scope: Policies classified as mortgage guaranty insurance business issued with coverage effective dates during the period from January 1, 2020, to June 30, 2021, both days inclusive

Retention: 92.5% of the company's liability for business reinsured, not including other reinsurance

Coverage: 7.5% of the company's liability for business reinsured, up to 300% of premiums earned for any one calendar year, and up to 200% of premiums earned for the term of the contract

Effective date: July 1, 2020

Termination: June 30, 2031, but may be terminated by the company on January 1, 2024, or on any July 1 or January 1 thereafter, by providing 60 days prior written notice to the reinsurer

4. Type: Quota Share

Reinsurer: Transatlantic Reinsurance Company

Scope: Policies classified as mortgage guaranty insurance business issued with coverage effective dates during the period from January 1, 2021, to June 30, 2021, both days inclusive

Retention: 98.75% of the company's liability for business reinsured, not including other reinsurance

Coverage: 1.25% of the company's liability for business reinsured, up to 300% of premiums earned for any one calendar year, and up to 200% of premiums earned for the term of the contract

Effective date: January 1, 2021

Termination: June 30, 2031, but may be terminated by the company on January 1, 2024, or on any July 1 or January 1 thereafter, by providing 60 days prior written notice to the reinsurer

5. Type: Insurance-linked notes

Reinsurer: Various Special Purpose Reinsurers Bellemeade

Scope: Each special purpose vehicle covers business produced during a specific time period. In all, the Bellemeade transactions cover business produced by UGRIC from 2005-2008, policies issued by both UGRIC and AMIC through 2015 and business produced from January 1, 2017, through June 30, 2021

AMIC and UGRIC have entered into various aggregate excess of loss mortgage reinsurance agreements with various special purpose reinsurance companies domiciled in Bermuda (the "Bellemeade Agreements"). For the respective coverage periods, AMIC and UGRIC retain the first layer of the respective aggregate losses and the special purpose reinsurance companies provide second layer coverage up to the outstanding coverage amount. AMIC and UGRIC then retain losses in excess of the outstanding coverage limit. The aggregate excess of loss reinsurance coverage decreases over a 10 year period as the underlying covered mortgages amortize. The table below shows the various Bellemeade transactions as of September 30, 2021:

(in thousands)

Transaction	Coverage Period	Initial Coverage	Current Coverage	Remaining Retention	Termination Date
Bellemeade Re 2017-1	01/01/2017-06/30/2017	$368,114	$145,573	$124,777	10/25/2027
Bellemeade Re 2018-1	07/01/2017-12/31/2017	374,460	228,938	121,411	04/25/2028
Bellemeade Re 2018-3	01/01/2018-06/30/2018	506,110	302,563	126,578	10/25/2028
Bellemeade Re 2019-1	Produced by UGRIC from 2005-2008 and through 2015 by both UGRIC and AMIC	341,790	210,529	98,340	03/25/2029
Bellemeade Re 2019-2	07/01/2018-12/31/2018	621,022	398,316	156,085	04/25/2029
Bellemeade Re 2019-3	01/01/2016-12/31/2016	700,920	491,634	178,759	07/25/2029
Bellemeade Re 2019-4	01/01/2019-06/30/2019	577,267	468,737	113,674	10/25/2029
Bellemeade Re 2020-2*	01/01/2020-05/31/2020	449,167	268,468	227,140	08/26/2030
Bellemeade Re 2020-3*	06/01/2020-08/31/2020	451,816	405,881	159,615	10/25/2030
Bellemeade Re 2020-4*	07/01/2019-12/31/2019	337,013	238,480	133,872	06/25/2030
Bellemeade Re 2021-1*	09/01/2020-11/30/2020	643,577	643,577	157,685	03/25/2031
Bellemeade Re 2021-2*	12/1/2020-03/31/2021	616,017	616,017	146,956	06/25/2031
Bellemeade Re 2021-3*	04/01/2021-06/30/2021	639,391	639,391	145,790	09/25/2031
Total		$6,626,664	$5,058,104	$1,890,682	

*AMIC has also entered into Traditional Reinsurance Agreements with external Subscribing Reinsurers to obtain XOL Reinsurance for the remaining portion of Unfunded Coverage Levels not reinsured by Bellemeade Re Ltd for each of the Bellemeade reinsurance contracts entered during 2020 and 2021.

Affiliated Assuming Contracts

1. Type: Quota Share

   Reinsured: UGRIC

Scope:	In force and new policies, including business ceded to UGRIC under Treaty 4
Retention:	50%
Coverage:	50% of the company’s liability for business insured
Effective date:	July 1, 2017
Termination:	Continuous but may be terminated by either party with 180 days prior written notice or at any time upon mutual consent of the parties
Comment:	This agreement is also referred to as “Treaty 6”. As noted above, AMIC is also party to a 100% quota share with UGRIC, known as “Treaty 4”, whereby AMIC cedes 100% of its business to UGRIC. The result of Treaty 6 and Treaty 4 is that AMIC and UGRIC have homogenous books of business. Treaty 4 and Treaty 6 are net of all other reinsurance and Treaty 6 is applied last.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2020, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the policyholders' position calculation.

Arch Mortgage Insurance Company
Assets
As of December 31, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$2,069,082,746	$	$2,069,082,746
Common stocks	27,003,677	26,993,677	10,000
Real estate:			
Properties held for sale	242,250		242,250
Cash, cash equivalents, and short-term investments	19,745,337		19,745,337
Receivables for securities	679,628		679,628
Investment income due and accrued	11,099,054		11,099,054
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	45,274,877		45,274,877
Reinsurance:			
Amounts recoverable from reinsurers	513,444		513,444
Net deferred tax asset	257,106,600	225,350,070	31,756,530
Receivable from parent, subsidiaries, and affiliates	6,720,417		6,720,417
Write-ins for other than invested assets:			
Other receivables	935,647		935,647
Licenses purchased	1,672,343	1,672,343	0
Other assets	10,000		10,000
Total Assets	$2,440,086,020	$254,016,090	$2,186,069,930

Arch Mortgage Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2020

Losses		$ 220,255,119
Loss adjustment expenses		7,174,320
Other expenses (excluding taxes, licenses, and fees)		605,983
Taxes, licenses, and fees (excluding federal and foreign income taxes)		2,419,406
Current federal and foreign income taxes		8,537,896
Unearned premiums		69,947,255
Advance premium		239,228
Ceded reinsurance premiums payable (net of ceding commissions)		108,371,786
Funds held by company under reinsurance treaties		59,685,252
Remittances and items not allocated		3,089,877
Payable to parent, subsidiaries, and affiliates		25,143,814
Write-ins for liabilities:		
Contingency reserve		1,419,894,153
Premium refund reserve		2,086,198
Deferred ceding commission		15,152,907
Total Liabilities		1,942,603,194
Common capital stock	$ 2,750,000	
Surplus notes	49,500,000	
Gross paid in and contributed surplus	27,294,315	
Unassigned funds (surplus)	163,922,421	
Surplus as Regards Policyholders		243,466,736
Total Liabilities and Surplus		$2,186,069,930

Arch Mortgage Insurance Company
Summary of Operations
For the Year 2020

Underwriting Income		
Premiums earned		$338,547,821
Deductions:		
Losses incurred	$138,763,722	
Loss adjustment expenses incurred	4,201,831	
Other underwriting expenses incurred	45,951,928	
Write-ins for underwriting deductions:		
Addition to the contingency reserve	169,273,911	
Release of the contingency reserve due to excess losses	(24,473,816)	
Total underwriting deductions		333,717,576
Net underwriting gain (loss)		4,830,245
Investment Income		
Net investment income earned	38,481,135	
Net realized capital gains (losses)	43,936,379	
Net investment gain (loss)		82,417,514
Other Income		
Write-ins for miscellaneous income:		
New Jersey BEP Credit		17,000
Net income (loss) before federal and foreign income taxes		87,264,759
Federal and foreign income taxes incurred		48,408,952
Net Income (Loss)		$ 38,855,807

Arch Mortgage Insurance Company
Cash Flow
For the Year 2020

Premiums collected net of reinsurance			$314,394,937
Net investment income			46,543,398
Miscellaneous income			17,000
Total			360,955,335
Benefit- and loss-related payments		$ 35,809,694	
Commissions, expenses paid, and aggregate write-ins for deductions		56,121,334	
Federal and foreign income taxes paid (recovered)		54,988,283	
Total deductions			146,919,311
Net cash from operations			214,036,024
Proceeds from investments sold, matured, or repaid:			
Bonds	$2,275,993,754		
Real estate	1,153,970		
Total investment proceeds		2,277,147,724	
Cost of investments acquired (long-term only):			
Bonds	2,483,416,379		
Stocks	10,000		
Real estate	1,611,581		
Miscellaneous applications	679,628		
Total investments acquired		2,485,717,588	
Net cash from investments			(208,569,864)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			(345,844)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			5,120,316
Cash, cash equivalents, and short-term investments:			
Beginning of year			14,625,021
End of Year			$ 19,745,337

Arch Mortgage Insurance Company
Policyholders' Position Calculation
December 31, 2020

Surplus as regards policyholders		$ 243,466,736	
Contingency reserve		1,419,894,153	
Total policyholders' position			$1,663,360,889
Net minimum policyholders' position:			
Individual loans:			
Loan-to-value more than 75%	$613,464,322		
Group loans:			
Equity 20-50%, or equity plus prior Insurance or a deductible 25-55%	4,159,011		
Total first liens loans		617,623,333	
Deduct aggregate minimum policyholder position for certain loans with established reserves		94,816,987	
Total minimum policyholders' position			522,806,346
Excess of Total Policyholders' Position over Minimum Policyholders' Position			$1,140,554,543

Arch Mortgage Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2020

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2020	2019	2018	2017	2016
Surplus, beginning of year	$198,716,615	$308,849,063	$471,931,915	$155,506,622	$134,484,740
Net income	38,855,807	112,140,352	60,255,638	12,121,160	(31,796,526)
Change in net unrealized capital gains/losses	(7,310,057)	(3,914,031)	(2,100,566)	(30,263)	
Change in net deferred income tax	39,778,832	25,888,149	28,423,776	107,745,335	11,873,238
Change in nonadmitted assets	(26,574,461)	(25,271,070)	(69,648,654)	(69,261,013)	(12,318,813)
Change in surplus notes					10,000,000
Surplus adjustments:					
Paid in		(218,975,848)	(180,013,047)	265,850,075	43,263,983
Surplus, End of Year	$243,466,736	$198,716,615	$308,849,063	$471,931,915	$155,506,622

Arch Mortgage Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2020

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2020	2019	2018	2017	2016
#1	Gross Premium to Surplus	458%	525%	273%	153%	128%
#2	Net Premium to Surplus	119	156	100	88	57
#3	Change in Net Premiums Written	-7	-0	-26	371*	46*
#4	Surplus Aid to Surplus	1	1	0	0	2
#5	Two-Year Overall Operating Ratio	79	68	63	70	133*
#6	Investment Yield	2.0*	2.6	2.2	0.7*	1.2*
#7	Gross Change in Surplus	23	-36*	-35*	203*	16
#8	Change in Adjusted Surplus	23	35*	4	33*	-24*
#9	Liabilities to Liquid Assets	94	99	94	88	80
#10	Agents' Balances to Surplus	19	56*	36	38	7
#11	One-Year Reserve Development to Surplus	5	-12	-7	-11	-9
#12	Two-Year Reserve Development to Surplus	-12	-12	-19	-17	-10
#13	Estimated Current Reserve Deficiency to Surplus	-44	36*	-4	-26	18

Ratio No. 3 measures the change in net premiums written from the prior year. Net premiums written increased 46% in 2016 compared to 2015 due to the increase in customer base and the growth of insurance in force. Net premiums written increased 371% in 2017 compared to 2016 due to continued increase in customer base and because of the pooling of risk with UGRIC. Refer to the “Affiliated Assuming Contracts” section of this report.

Ratio No. 5 measures the company’s profitability over the previous two-year period. The exceptional result in 2016 was due to an increase in other underwriting expenses due to increased staffing cost and contributions to contingency reserves as a result of the company’s growth, offset by a reduction in losses and LAE incurred. The contingency reserve is a special statutory reserve required of all mortgage insurers, which is designed to provide a capital cushion against the effect of adverse economic cycles.

Ratio No. 6 measures the average return on the company’s investments. The low investment yields in 2016, 2017, and 2020 were mainly due to the company’s conservative investment portfolio. The low-interest-rate environment also contributed to the exceptional results.

Ratio No. 7 represents the change in policyholders’ surplus from the prior year. The significant increase in policyholders’ surplus in 2017 was due primarily to the reinsurance agreements commuted and/or executed in 2017. The decrease in policyholders’ surplus in 2018 and 2019 was mainly due to the return of capital of $200 million and $225 million, respectively, to AMIC’s direct parent, Arch U.S. MI Holdings.

Ratio No. 8 measures the improvement or deterioration in the insurer’s financial condition during the year and is based on operational results. Changes in surplus notes, capital changes, and surplus adjustments are removed from policyholders’ surplus in order to highlight the insurer’s actual position. The exceptional result in 2016 was due primarily to an increase in other underwriting expenses due to increased staffing cost and contributions to contingency reserves as a result of company’s growth, offset by a reduction in losses and LAE incurred. As discussed in the paragraph above, the exceptional result in 2017 was due primarily to the reinsurance agreements commuted and/or executed in 2017. The exceptional result in 2019 was mainly due to limited losses, as the company’s net loss ratio was only 1.7%.

Ratio No. 10 measures agents' balances booked as written and billed to agents in relation to the insurer's policyholders' surplus. The exceptional result in 2019 was mainly due to the decrease in policyholders' surplus which was due to the return of capital to its direct parent, Arch U.S. MI Holdings.

Ratio No.13 provides an estimate of the adequacy of current reserves based on the reserve-to-premium ratios of the preceding two years. The exceptional result in 2019 was mainly due to the decrease in policyholders' surplus which was due to the return of capital to its direct parent, Arch U.S. MI Holdings.

Growth of Arch Mortgage Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2020	$2,186,069,930	$1,942,603,194	$243,466,736	$ 38,855,807
2019	1,986,748,028	1,788,031,413	198,716,615	112,140,352
2018	1,997,502,077	1,688,653,014	308,849,063	60,255,638
2017	2,134,562,236	1,662,630,321	471,931,915	12,121,160
2016	547,478,669	391,972,047	155,506,622	(31,796,526)
2015	436,418,566	301,933,826	134,484,740	(34,843,210)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2020	$1,114,322,235	$288,647,364	$338,547,821	42.2%	66.1%	108.3%
2019	1,043,143,991	309,582,836	354,919,466	1.1	74.2	75.3
2018	844,354,771	309,854,369	353,729,269	7.0	78.3	85.3
2017	723,723,001	416,197,026	236,326,635	17.6	45.6	63.2
2016	199,337,006	88,397,669	73,696,127	3.7	124.9	128.6
2015	134,493,846	60,703,476	54,568,093	23.3	136.6	159.9

During the period under examination, the fluctuation in policyholders' surplus was primarily due to capital contribution and capital return provided by and to its parent, Arch U.S. MI Holdings.

Loss and LAE ratio was elevated in 2020 due to higher levels of default activity due to the COVID-19 Pandemic. In March 2020, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, which provided a mortgage payment forbearance option for all borrowers with a federally backed mortgage who, either directly or indirectly, suffered a financial hardship due to the COVID-19 Pandemic. The forbearance is a temporary postponement of required mortgage payments for a period of up to 12 months (extended to 15 months in February 2021 for GSE-backed loans). Two or more missed payments due to this postponement result in the loan being reported to the mortgage insurer as a delinquency. In most cases, resolution of the forbearance will be achieved by the borrower making one payment at the end of their forbearance period.

Section 3.09 (12) (c), Wis. Adm. Code requires changes in the contingency reserve to be reported as a reduction to underwriting income. This requirement is a deviation from SSAP No. 58, Paragraph 22, which requires changes in the contingency reserve to be recorded directly to unassigned funds. As a result of the reporting requirement, during periods of premium growth the expense ratio is significantly inflated, as the company is required to contribute to the mandatory reserve.

The company has been reporting increases in income year over year and combined ratios of less than 100% from 2017 to 2019. The company remained profitable despite the COVID-19 Pandemic and the increase in losses were mostly due to the COVID-19 Pandemic.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2020, is accepted.

Examination Reclassifications

No reclassifications were made as a result of the examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation as required by s.611.63 (4) Wis. Stat.

   Action—Compliance.

2. Actuarial Report—It is recommended that future actuarial reports contain sufficient documentation for another actuary practicing in the same field to evaluate the entirety of the work by providing a thorough description for the dataset.

   Action—Compliance.

3. Actuarial Opinion Summary—It is recommended that future Actuarial Opinion Summaries include all elements for which the appointed actuary provides an estimate, including both a range and point estimate if both are calculated in the appointed actuary's analysis.

   Action—Compliance.

Summary of Current Examination Results

There were no adverse or material examination findings as a result of the current examination of the company.

VIII. CONCLUSION

Arch Mortgage Insurance Company is approved as an eligible mortgage insurer for loans to be acquired by Fannie Mae and Freddie Mac. During the period under examination, the fluctuation in the company's policyholders' surplus was primarily due to capital contribution and capital return provided by and to its parent, Arch U.S. MI Holdings.

Loss and LAE ratio was elevated in 2020 due to higher levels of default activity due to the COVID-19 Pandemic. The U.S. Congress passed the CARES act in March 2020, which provided a mortgage payment forbearance option for all borrowers with a federally backed mortgage who, either directly or indirectly, suffered a financial hardship due to the COVID-19 Pandemic. The forbearance is a temporary postponement of required mortgage payments for a period of up to 12 months (extended to 15 months in February 2021 for GSE-backed loans). Two or more missed payments due to this postponement result in the loan being reported to the mortgage insurer as a delinquency. In most cases, resolution of the forbearance will be achieved by the borrower making one payment at the end of their forbearance period.

The company has been reporting increases in income year over year and combined ratios of less than 100% from 2017 to 2019. The company remained profitable despite the COVID-19 Pandemic and the increase in losses were mostly due to the COVID-19 Pandemic.

The prior examination resulted in three examination recommendations, which the company has complied with. There were no recommendations made as a result of the current examination. No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2020, is accepted. No reclassifications were made as a result of the examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Xiaozhou (Zoey) Ye	Examiner-in-Charge
Gregory Mielke	Insurance Financial Examiner
Reed Tierney	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Nicholas Hartwig	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Levi Olson, CFE
Insurance Financial Examiner Chief