Report

of the

Examination of

Arch Mortgage Assurance Company

Walnut Creek, California

As of December 31, 2015

TABLE OF CONTENTS

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

April 7, 2017

Honorable Theodore K. Nickel
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 ASSURANCE COMPANY
Walnut Creek, California

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Arch Mortgage Assurance Company (Arch MA or the company), formerly known as CMG Mortgage Assurance Company, was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 transactions as deemed necessary to complete the examination.

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 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 the audit of 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 with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. 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 Assurance Company is a monoline provider of residential mortgage guaranty insurance. Arch MA was incorporated in California on March 4, 1969, under the name Investors Mortgage Insurance Company of California and licensed as a mortgage guaranty insurer. The company was initially established as a subsidiary of Investors Mortgage Insurance Company (IMIC) and wrote mortgage guaranty insurance policies on first mortgages in California. In 1974, IMIC obtained mortgage guaranty insurance authority in California, and the company subsequently ceased writing new business and reinsured all of its then existing insurance risks with IMIC.

The company's articles of incorporation were amended on September 23, 1980, changing the name of the company to Investors Equity Insurance Company, Inc. (IEIC). In connection with the change of name, the company changed its line of business authorization from mortgage guaranty insurance to credit insurance. The company remained a dormant corporation until May 12, 1981, at which time it commenced writing mortgage guaranty insurance on second mortgages.

Ownership of 100% of the capital stock of IEIC was acquired by Investors Mortgage Insurance Holding Company (IMIHC) effective December 31, 1981, when the company's parent merged into IMIHC. IEIC continued writing new business through 1986, at which time it again suspended issuance of new insurance policies. Effective April 14, 1994, CUNA Mutual Investment Corporation (CMIC), a subsidiary of CUNA Mutual Insurance Society (CMIS), acquired all of the capital stock of IMIHC and thereby indirectly acquired control of the company. On June 1, 1994, IMIHC paid to CMIC an extraordinary dividend consisting of 100% of the capital stock of the company. In 1999, the name of the company was changed to CMG Mortgage Assurance Company (CMGA). CMGA redomiciled from California to Wisconsin effective June 1, 2000, as a mortgage guaranty insurer.

Effective October 1, 2000, PMI Mortgage Insurance Co. (PMI), a subsidiary of The PMI Group, Inc., purchased 50% of the capital stock of CMGA and its affiliate, CMG Mortgage Insurance Company (CMG MI), from CMIC, and CMGA became a jointly owned subsidiary of CMIC and PMI.

CMIC and PMI entered into a joint venture agreement to own and operate CMGA as an insurer to write insurance coverage on junior lien second mortgage loans originated by credit unions.

The company began writing second-lien mortgage business in the third quarter of 2001. The company's board of directors resolved to discontinue writing new business effective in March of 2008 due to concerns over the profitability of this line of business.

The objective of the CMG MI joint venture between CMIS and PMI was to establish a strategic alliance to offer mortgage guaranty insurance products and services to credit unions that originate residential mortgage loans. The strategic alliance was undertaken to combine and employ the expertise of the two parent organizations, with PMI contributing its specialized knowledge and business systems for mortgage guaranty insurance operations, and with CMIS having close business association with and specialized knowledge of the credit union industry.

CMIS obtained 50% ownership of CMGA through a stock dividend from CMIC on June 30, 2009. Concurrently CMG Mortgage Reinsurance Company (CMG Re) became a wholly owned subsidiary of CMGA through a stock ownership transfer via capital contributions from CMIS and PMI.

In June 2011, the board of directors of CMIS, one of 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).

The company was acquired on January 30, 2014, by Arch U.S. MI Holdings Inc. (Arch MI Holdings), an indirect subsidiary of Arch Capital Group Ltd. (ACGL), from its previous owners PMI and CMFG Life Insurance Company (previously known as CMIS). Upon the acquisition, the company changed its name from CMG Mortgage Assurance Company to Arch Mortgage Assurance Company. Under the new ownership the company has not resumed writing new business.

The company is currently licensed to write premiums in the District of Columbia and in the following states:

Alabama	Alaska	Arizona	Arkansas
California	Colorado	Delaware	Georgia
Hawaii	Idaho	Illinois	Indiana
Iowa	Kansas	Kentucky	Louisiana
Maine	Maryland	Massachusetts	Michigan
Mississippi	Missouri	Montana	Nebraska
Nevada	New Jersey	New York	North Dakota
Ohio	Oklahoma	Pennsylvania	Rhode Island
South Carolina	South Dakota	Texas	Utah
Vermont	Washington	West Virginia	Wisconsin
Wyoming			

In 2015, the company wrote direct premium of $67,195 from its run-off business in the following states:

Ohio	$15,647	23.3%
Wisconsin	12,229	18.2
New Jersey	9,082	13.5
All others	30,237	45.0
Total	$67,195	100.0%

The following table is a summary of the net insurance premiums written by the company in 2015. 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	$67,195	$0	$0	$67,195
Total All Lines	$67,195	$0	$0	$67,195

III. MANAGEMENT AND CONTROL

Board of Directors

The company's board of directors consists of six members. At each annual meeting the shareholders elect directors to serve until the next annual shareholders meeting. Officers are elected at the board of directors meeting following each annual shareholders 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 Expiry
Andrew T. Rippert Hamilton, Bermuda	Chief Executive Officer, Global Mortgage Group Arch Capital Group Ltd.	2017
Dennis R. Brand Jersey City, New Jersey	Senior Executive Vice President, Chief Administrative Officer Arch Insurance Group, Inc.	2017
Cheryl A. Feltgen Danville, California	Executive Vice President, Chief Risk Officer Arch Mortgage Insurance Company	2017
David E Gansberg Danville, California	President and Chief Executive Officer Arch Mortgage Insurance Company	2017
Thomas H. Jeter Mill Valley, California	Executive Vice President, Chief Financial Officer Arch Mortgage Insurance Company	2017
Mark D. Lyons Hamilton, Bermuda	Executive Vice President, Chief Financial Officer Arch Capital Group Ltd.	2017

Officers of the Company

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

Officer	Office	2015 Compensation*
David E. Gansberg	President and Chief Executive Officer	$1,504,230
Thomas H. Jeter	Executive Vice President, Chief Financial Officer and Treasurer	577,663
Christopher A. Hovey	Executive Vice President, Chief Operating Officer	639,196
Andrew D. Cameron	Executive Vice President, General Counsel and Secretary	607,814
Cheryl A. Feltgen	Executive Vice President, Chief Risk Officer	695,229
Kenneth S. Dailey	Vice President, Actuarial Services	320,200
Angela A. Karanas	Senior Vice President, National Underwriting Operations	466,481

* The 2015 compensation does not include employer's paid health insurance premiums, cell phone and car use allowance and moving expenses.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company's board has not appointed any committees.

Management and Operating Committees

The company has established the following management and operating committees:

Enterprise Risk Management Committee
Cheryl Feltgen, Executive Vice President, Chief Risk Officer, Chair
David Gansberg, President and Chief Executive Officer
Christopher Hovey, Executive Vice President, Chief Operating Officer
Thomas Jeter, Executive Vice President, Chief Financial Officer and Treasurer
Andrew Cameron, Executive Vice President, General Counsel and Secretary
Angela Karanas, Senior Vice President, National Underwriting Operations
Janet Parker, Senior Vice President, Risk Management

Pricing Committee
Cheryl Feltgen, Executive Vice President, Chief Risk Officer, Chair
John Hanken, Vice President, Risk Analytics and Pricing
David Gansberg, President and Chief Executive Officer
Thomas Jeter, Executive Vice President, Chief Financial Officer and Treasurer
Janet Parker, Senior Vice President, Risk Management

IT Governance Committee
Prashant Nema, Senior Vice President, Chief Information Officer, Chair
Christopher Hovey, Executive Vice President, Chief Operating Officer
Brenda Eastham, Vice President, Digital Products Management
Todd Berman, Vice President, Chief Compliance and Information Systems Officer
Scott Kelly, Vice President, Director of Information Technology
Joseph Vaithara, Director of Software Engineering
Cindy Yuan, Vice President, Software Development
Scott Remesburg, Vice President, Program Management Operations

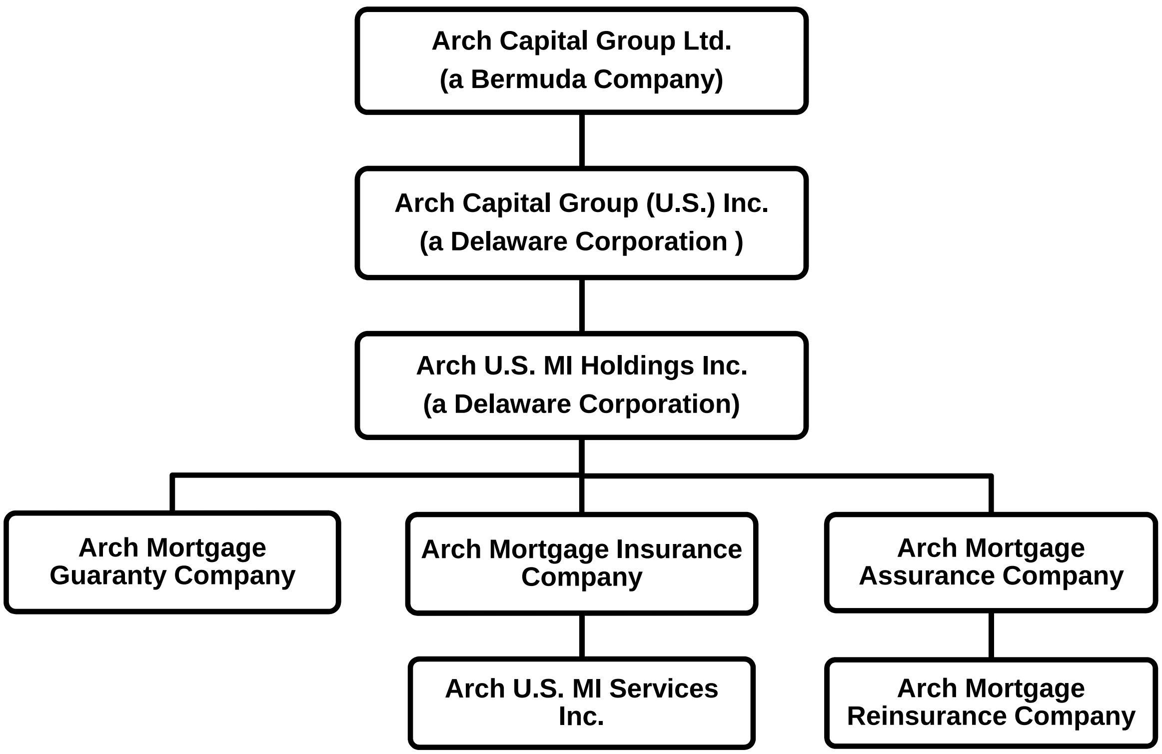
IT Steering Committee
Prashant Nema, Senior Vice President, Chief Information Officer, Chair
David Gansberg, President and Chief Executive Officer
Christopher Hovey, Executive Vice President, Chief Operating Officer
Thomas Jeter, Executive Vice President, Chief Financial Officer and Treasurer

Privacy Committee
Todd Berman, Vice President, Chief Compliance and Information Systems Officer, Chair
Angela Karanas, Senior Vice President, National Underwriting Operations
Kevin Frank, Vice President, Policy Administration and Claims
Prashant Nema, Senior Vice President, Chief Information Officer
Scott Kelly, Vice President, Director of Information Technology
Cindy Yuan, Vice President, Software Development
Scott Remesburg, Vice President, Program Management Operations
Brenda Eastham, Vice President, Digital Products Management
Jerry Brannon, Manager, Administrative Services
Jesse Gantry, Vice President, Assistant Corporate Controller and Chief Accounting Officer
Greg Donovan, Senior Director, Treasury Operations
David Gorbach, Senior Director, Financial Planning and Analysis
Julia Gosnell, Director, Corporate Procurement
William Horning, Vice President, Corporate Communication and Capital Planning
Babusha Goel, Director, Accounting Expense Management and Accounts Payable
William Levinthal, Senior Vice President, Deputy General Counsel and General Legal
Monica Kamio, Vice President, Human Resources
Cheryl Feltgen, Executive Vice President, Chief Risk Officer
Janet Parker, Senior Vice President, Risk Management
Brian Roesch, Vice President, Sales Operations
Kevin Jensen, Vice President, Internal Audit

IV. AFFILIATED COMPANIES

Arch MA is a member of the Arch MI Holdings 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

Organizational Chart
As of December 31, 2015



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, Australia and South Africa. ACGL indirectly acquired 100% ownership of the companies now known as Arch MA, Arch Mortgage Insurance Company (Arch MI) (formerly CMG MI), and Arch Mortgage Reinsurance Company (Arch MI Re) (formerly CMG Re) on January 30, 2014, from their joint venture owners, PMI and CUNA Mutual. The company now known as Arch Mortgage Guaranty Company (AMG) (formerly PMI Mortgage Assurance Co.) was also acquired from PMI on January 30, 2014. As of December 31, 2015, the audited consolidated financial statements of ACGL reported assets of

$23.1 billion, liabilities of $16.0 billion and shareholders' equity attributable to ACGL's direct or indirect controlling financial interest of $7.1 billion. Operations for 2015 produced net income of $526.6 million.

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, 2015, the unaudited consolidated statutory financial statements of ACG US reported assets of $4.7 billion, liabilities of $3.5 billion and policyholders' surplus of $1.2 billion. Operations for 2015 produced net income of $110 million.

Arch U.S. MI Holdings Inc.

Arch MI Holdings is a wholly owned subsidiary of ACG US, which is a wholly owned, indirect subsidiary of ACGL. Arch MI Holdings owns 100% of the shares of Arch MI, AMG and Arch MA. As of December 31, 2015, the non-audited financial statements of Arch MI Holdings reported assets of $374.1 million, liabilities of $95.1 million and shareholders' equity of $279 million. Operations for 2015 produced a GAAP net loss of $41 million.

Arch U.S. MI Services Inc.

Arch U.S. MI Services Inc. (Arch MI Services) is a wholly owned, non-insurer subsidiary of Arch MI and was established to provide operational and technological support to the other companies within the Arch MI Holdings consolidated group. The vast majority of employees that provide operational, financial and legal services to this group are employed by Arch MI Services. Arch MI Services entered into a services agreement with Arch MA on January 30, 2014. The subject matter of the agreement is described further in the "Agreements with Affiliates" section of this report. As of December 31, 2015, the non-audited financial statements of Arch MI Services reported assets of $87 million, liabilities of $21 million and shareholders' equity of $66 million. Operations for 2015 produced net income of $1 million.

Arch Mortgage Insurance Company

Arch Mortgage Insurance Company was incorporated on December 30, 1980, as an Illinois-domiciled residential mortgage guaranty insurer under the name TIMIC Mortgage Insurance Company. On April 14, 1994, CUNA Mutual Investment Corporation purchased 100%

of the capital stock of Arch MI. Concurrent with CMIC's acquisition, the name of the insurer was changed to CMG Mortgage Insurance Company. On June 23, 1994, PMI Mortgage Insurance Co. purchased from CUNA Mutual Investment Corporation 45% of the issued and outstanding stock of CMG Mortgage Insurance Company, and on September 8, 1994, CMIC and PMI executed a CMG MI Shareholders Agreement that established a joint venture agreement and joint management of CMG MI under a strategic alliance between CMIC and PMI.

CMG Mortgage Insurance Company resumed writing new business in 1994 and redomiciled to Wisconsin effective November 30, 1994. PMI's ownership interest in CMG MI increased to 50% in 1998 through PMI's purchase of 200,000 additional shares of CMG MI capital stock and, after that transaction, CMIC and PMI each held equal 50% ownership interests in the capital stock of CMG MI. CMIC transferred its 50% ownership in CMG MI to CUNA Mutual Insurance Society through a stock dividend on June 30, 2009.

As it was previously mentioned, effective January 31, 2012, CMIS was reorganized into a mutual holding company and it was renamed CMFG Life insurance Company.

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 Arizona Department of Insurance's determination of a hazardous financial condition under Arizona insurance laws and regulations relating to PMI's June 30, 2011, financial condition. Although PMI was suspended as an approved mortgage insurer by Fannie Mae and Freddie Mac effective August 22, 2011, these actions did not impact the stand-alone operations of CMG MI, CMGA or CMG Re despite PMI being a 50% owner.

On January 30, 2014, Arch MI Holdings, a subsidiary of ACGL, completed the acquisition of CMG MI from its owners, PMI and CMFG Life Insurance Company, and acquired PMI's mortgage insurance platform and related assets. Following the acquisition, CMG MI's name was changed to Arch Mortgage Insurance Company.

As of December 31, 2015, the audited statutory financial statements of Arch MI reported assets of $436,418,566, liabilities of $301,933,826 and policyholders' surplus of $134,484,740. Operations for 2015 produced a statutory net loss of $34,843,210.

Arch Mortgage Guaranty Company

Arch Mortgage Guaranty Company was organized on December 21, 1966, under the name Commercial Loan Insurance Corporation (CLIC) as a mortgage guaranty insurer domiciled in the state of Wisconsin. CLIC began transacting business on May 1, 1967. Prior to August 2001, CLIC was a wholly owned subsidiary of WMAC Investment Corporation, which was then an affiliate of Leucadia National Corporation.

On August 6, 2001, PMI, an Arizona-domiciled insurance company and a wholly owned subsidiary of The PMI Group, Inc., itself a publicly owned holding company incorporated in Delaware, acquired a 100% ownership of CLIC. CLIC’s legacy business insured lending institutions and investors against financial loss resulting from the default of mortgage loans on various types of industrial and commercial real estate.

Effective November 11, 2009, AMG redomiciled to the state of Arizona and changed its name to PMI Mortgage Assurance Co. (PMAC). During the first quarter of 2010, PMAC received regulatory approvals for its merger with WMAC Credit Insurance Corporation (WMAC), a former affiliate of the company and former subsidiary of PMI.

On August 19, 2011, PMI and its wholly owned subsidiary, PIC, were placed under a supervisory order by the Arizona Director of Insurance as a result of the Arizona Department of Insurance’s determination of a hazardous financial condition under Arizona insurance laws and regulations relating to PMI’s June 30, 2011, financial condition.

Effective August 22, 2011, Fannie Mae and Freddie Mac each suspended PMI, PIC and PMAC from their respective lists of approved mortgage insurers for new mortgage loans. These suspensions remain in effect.

On January 30, 2014, Arch MI Holdings, on behalf of ACGL, completed the acquisition of PMAC from its owner, PMI, as well as acquiring PMI’s mortgage insurance platform and related assets. Following the acquisition, PMAC’s name was changed to Arch Mortgage Guaranty Company.

As of December 31, 2015, the audited statutory financial statements of AMG reported assets of $50,918,255, liabilities of $1,341,200 and policyholders' surplus of $49,577,055. Operations for 2015 produced net income of $28,226.

Arch Mortgage Reinsurance Company

Arch Mortgage Reinsurance Company was incorporated on May 27, 1999, under the name CMG Mortgage Reinsurance Company, as a jointly owned subsidiary of CMIC and PMI. CMIC and PMI each contributed initial capital of $1.5 million to CMG Re in 1999, and CMG Re commenced business on August 26, 1999. On June 30, 2009, it became a wholly owned subsidiary of CMGA and received $5.5 million in capital contributions from CMGA in 2009, after the ownership transfer. On January 30, 2014, CMG Re was indirectly acquired by ACGL and, following the acquisition, the name was changed to Arch Mortgage Reinsurance Company. Arch MI Re is authorized as a mortgage guaranty insurer, licensed solely in the state of Wisconsin. Prior to its acquisition by ACGL, Arch MI Re provided excess of loss reinsurance to Arch MI under the terms of an affiliated reinsurance agreement. Per this agreement, Arch MI Re assumed from Arch MI mortgage loan coverage in excess of 25% of the original principal balance for individual mortgage loans written on a direct basis by Arch MI, covering up to 25% of each insured mortgage loan written by Arch MI. However, effective January 30, 2014, Arch Ml Re amended its reinsurance agreement with Arch Ml to specify that all cessions under the agreement will be determined net of the quota share reinsurance agreements between Arch Ml and an indirect affiliate, Arch Reinsurance Ltd., and between Arch MI and CUMIS Reinsurance Company. This amendment had the effect of discontinuing all reinsurance by Arch MI Re on non-delinquent loans as of January 30, 2104. As of December 31, 2015, Arch MI Re is no longer assuming new risk.

As of December 31, 2015, the audited statutory financial statements of Arch MI Re reported assets of $21,843,171, liabilities of $8,268,612 and policyholders' surplus of $13,574,559. Operations for 2015 produced net income of $1,325,377.

Agreements with Affiliates

Service Agreement

Effective January 30, 2014, Arch MA entered into a service agreement with Arch MI Services, a wholly owned subsidiary of Arch MI. Under the agreement, Arch MI Services provides various services to Arch MA, including accounting, data processing, systems work, records information technology, employee administration, legal services, financial reporting, tax returns and other services such as office space, general overhead items, allocation of expenses, arranging of separate insurance coverage and collection and handling of insurance premiums. Arch MA is contractually required to compensate Arch MI Services for the cost of the provided services, as billed by the service provider. Arch MA reimburses Arch 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 approved by the boards of directors of the company, Arch MI Services and Arch 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, and amended effective January 20, 2015, for investment management services to be provided to Arch MA and affiliates. 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 from time to time. 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 either party at any time upon 45 days' prior written notice.

Tax Sharing Agreement

Effective January 30, 2014, Arch MA was made a party to the Amended and Restated Tax Sharing Agreement between ACG US and its subsidiaries. As of that date, Arch MA became a member of the "Parent Group" addressed in this agreement, which includes ACG US and its subsidiaries. Under this agreement, ACG US files a consolidated U.S. Federal Income Tax Return that includes Arch MA and other affiliates of the ACG US holding company group, whereby 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 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 with respect to the U.S. Federal Income Tax Return.

V. REINSURANCE

The company does not presently cede or assume insurance risks and is not party to any reinsurance treaties.

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, 2015, 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 compulsory and security surplus calculation.

Arch Mortgage Assurance Company
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 1,726,558	$0	$ 1,726,558
Stocks:			
Common stocks	11,860,039	0	11,860,039
Cash, cash equivalents, and short-term investments	518,722	0	518,722
Investment income due and accrued	1,181	0	1,181
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	7,572	0	7,572
Receivable from parent, subsidiaries, and affiliates	1,594	0	1,594
Total Assets	$14,115,666	$0	$14,115,666

Arch Mortgage Assurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2015

Losses		$ 78,491
Loss adjustment expenses		3,240
Other expenses (excluding taxes, licenses, and fees)		23,580
Current federal and foreign income taxes		39,693
Unearned premiums		1,936
Payable to parent, subsidiaries, and affiliates		25,134
Write-ins for liabilities:		
Contingency reserve		66,228
Total liabilities		238,302
Common capital stock	$ 2,000,000	
Gross paid in and contributed surplus	20,796,933	
Unassigned funds (surplus)	(8,919,569)	
Surplus as regards policyholders		13,877,364
Total Liabilities and Surplus		$14,115,666

Arch Mortgage Assurance Company
Summary of Operations
For the Year 2015

Underwriting Income		
Premiums earned		$ 68,920
Deductions:		
Losses incurred	$ 72,909	
Loss adjustment expenses incurred	3,494	
Other underwriting expenses incurred	169,316	
Write-ins for underwriting deductions:		
Aggregate write-ins for underwriting deductions	(17,821)	
Total underwriting deductions		227,898
Net underwriting gain (loss)		(158,978)
Investment Income		
Net investment income earned	6,275	
Net investment gain (loss)		6,275
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(152,703)
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(152,703)
Federal and foreign income taxes incurred		(86,398)
Net Loss		$ (66,305)

Arch Mortgage Assurance Company
Cash Flow
For the Year 2015

Premiums collected net of reinsurance			$ 68,062
Net investment income			7,645
Total			75,707
Benefit- and loss-related payments		$ 34,418	
Commissions, expenses paid, and aggregate write-ins for deductions		243,557	
Federal and foreign income taxes paid (recovered)		(211,747)	
Total deductions			66,228
Net cash from operations			9,479
Proceeds from investments sold, matured, or repaid:			
Bonds	$860,000		
Total investment proceeds		860,000	
Cost of investments acquired (long-term only):			
Bonds	852,012		
Total investments acquired		852,012	
Net cash from investments			7,988
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		(12,804)	
Net cash from financing and miscellaneous sources			(12,804)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			4,663
Cash, cash equivalents, and short-term investments:			
Beginning of year			514,059
End of Year			$518,722

Arch Mortgage Assurance Company
Policyholders' Position Calculation
December 31, 2015

Surplus as regards policyholders		$13,877,364	
Contingency reserve		66,228	
Total policyholders' position			$13,943,592
Net minimum policyholders' position:			
Junior liens—individual loans:			
Loan-to-value more than 75%	$106,811		
Total individual loans		106,811	
Deduct aggregate minimum policyholder position for certain loans with established reserves		3,608	
Total minimum policyholders' position			103,203
Excess of Total Policyholders' Position over Minimum Policyholders' Position			$13,840,389

Arch Mortgage Assurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2015

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

	2015	2014	2013	2012	2011
Surplus, beginning of year	$12,618,293	$ 6,756,381	$4,908,259	$ 5,838,584	$13,234,263
Net income	(66,305)	(121,073)	(139,742)	(8,665,087)	(573,656)
Change in net unrealized capital gains/losses	1,325,376	(3,217,015)	987,864	5,739,665	(6,860,001)
Change in net deferred income tax				(2,483,698)	1,715,873
Change in nonadmitted assets				2,478,795	(1,677,895)
Surplus adjustments: Paid in		10,000,000	1,000,000	2,000,000	
Write-ins for gains and (losses) in surplus: Prior year audit adjustment		(800,000)			
Surplus, End of Year	$13,877,364	$12,618,293	$6,756,381	$ 4,908,259	$ 5,838,584

Arch Mortgage Assurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2015

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	2015	2014	2013	2012	2011
#1	Gross Premium to Surplus	0.0%	1.0%	2.0%	4.0%	5.0%
#2	Net Premium to Surplus	0.0	1.0	2.0	4.0	5.0
#3	Change in Net Premiums Written	-29.0	-36.0*	-28.0	-22.0	-15.0
#4	Surplus Aid to Surplus	0.0	0.0	0.0	0.0	0.0
#5	Two-Year Overall Operating Ratio	319.0*	240.0*	112.0*	200.0*	248.0*
#6	Investment Yield	0.0	0.1*	0.3*	0.4*	0.3*
#7	Gross Change in Surplus	10.0	87.0*	38.0	-16.0*	-56.0*
#8	Change in Adjusted Surplus	10.0	-61.0*	17.0	-50.0*	-56.0*
#9	Liabilities to Liquid Assets	11.0	12.0	15.0	95.0	27.0
#10	Agents' Balances to Surplus	0.0	0.0	0.0	1.0	0.0
#11	One-Year Reserve Development to Surplus	0.0	0.0	-1.0	-5.0	0.0
#12	Two-Year Reserve Development to Surplus	-1.0	-2.0	-6.0	-2.0	1.0
#13	Estimated Current Reserve Deficiency to Surplus	0.0	0.0	0.0	0.0	0.0

Ratio No. 3 measures the change in net premium written from the prior year. Net premium written decreased by 36% in 2014 compared to 2013 primarily due to the company's continued run-off of its legacy business.

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results in the last five-year period were due to an increase in other underwriting expenses incurred, the decrease in premium as a result of the existing business being in run-off and low investment portfolio returns. The company reported net losses from operations in each of the years under examination.

Ratio No. 6 measures the average return on the company's investments. A large portion of the company's portfolio is allocated to U.S. government and tax-exempt municipal bonds which earn lower investment yields compared to the equity securities. The low interest rate environment also contributed to the exceptional results.

Ratio No.7 represents the change in policyholders' surplus from prior year. The decrease in policyholders' surplus in 2011 and 2012 was due to the unfavorable operating results. The substantial increase in surplus in 2014 was primarily due to the $10 million increase in paid in capital from PMI and CMFG Life Insurance Company related to the acquisition of the company by Arch U.S. MI Holdings, Inc.

Ratio No. 8 measures the improvement or deterioration in the insurer's financial condition during the year and concentrates on the effect of operational results by eliminating the impact of capital contribution on the policyholders' surplus. The exceptional results in 2011 and 2014 were mostly due to the increase in net unrealized capital loss from the company's investment in its direct subsidiary, Arch MI Re. The substantial net loss from operations contributed to the exceptional results in 2012.

Financial Experience of Arch Mortgage Assurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2015	$14,115,666	$ 238,302	$13,877,364	$ (66,305)
2014	12,881,021	262,728	12,618,293	(121,073)
2013	7,147,703	391,322	6,756,381	(139,742)
2012	7,222,860	2,314,601	4,908,259	(8,665,087)
2011	6,577,597	739,013	5,838,584	(573,656)
2010	15,113,564	1,879,300	13,234,264	(294,714)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2015	$ 67,195	$ 67,195	$ 68,920	110.9%	225.5%	336.3%
2014	95,229	95,229	99,507	4.0	314.3	318.3
2013	149,599	149,599	149,292	112.9	93.5	206.4
2012	209,141	209,141	212,574	-47.3	110.9	63.6
2011	268,612	268,612	271,356	241.9	86.6	328.5
2010	316,001	316,001	319,043	344.1	-138.2	205.9

Gross and net premium volume continued to decrease during the period under examination primarily due to management’s decision to discontinue writing new business effective March 2008 over concerns about the profitability of insuring junior lien mortgage loans. Loss and loss adjustment expense ratios varied during the ensuing years, reaching 241.9% in 2011 and (47.3)% in 2012. The company experienced a high volume of losses in 2011 as housing prices fell and defaults rose. The exceptionally low loss ratios in 2012 and 2014 were due to substantial changes in loss reserves from the prior years. The company reported a large expense ratio increase in 2011 due to the significantly reduced change in contingency reserves. During the past five years, the average expense ratio remained relatively high due to lower premiums written and higher underwriting expenses than in prior years. High loss and LAE and expense ratios contributed to combined ratios above 100% in four out of five years, reaching 336.3% in 2015. During the years under examination, the company reported losses each year. Surplus decreased considerably in 2011 and continued to decline in 2012 mostly due to substantial unrealized capital losses and losses from operations, respectively. The large increase in surplus in 2014 was primarily due to the $10 million increase in paid in capital from PMI and

CMFG Life Insurance Company related to the acquisition of the company by Arch U.S. MI Holdings, Inc.

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, 2015, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Schedule P—It is again recommended that the company report loss payments based on the actual year of loss in Schedule P - Part 1 - Summary in accordance with the NAIC Annual Statement Instructions - Property and Casualty.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Executive Compensation

The state of Wisconsin requires each Wisconsin-domiciled insurer to file a supplement to the annual statement entitled “Report of Executive Compensation” pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, the chief executive officer, and the four most highly compensated officers or employees other than the chief executive officer. In addition, the report requires disclosure of the compensation of all executive officers whose compensation exceeds specified amounts. The company completed this form disclosing employees with compensation over $150,000. All remuneration paid or accrued for services on behalf of each reportable employee should be included in the Report on Executive Compensation.

The examiners’ review of the executive compensation revealed that the company did not include in the Report on Executive Compensation the employer-paid portion of health insurance benefits, moving expenses, and cell phone and corporate car use allowances. According to the company’s management, Arch MA included the employer-paid portion of health insurance benefits in the 2016 Report of Executive Compensation; however, the remaining items were still not included in the Report on Executive Compensation. It is recommended that the company properly complete the Report on Executive Compensation as required by s.611.63 (4), Wis. Stat.

Actuarial Report

The NAIC <u>2015 Annual Statement Instructions</u> require the following concerning the appointed actuary’s Actuarial Report: “The Actuarial Report should be consistent with the documentation and disclosure requirement of Actuarial Standard of Practice No.41. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to company management, the board of directors, the regulator, or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. The technical component must show the analysis from the basic data, e.g., loss triangles, to the conclusions."

The examination team reviewed the content and presentations of documentation in the company's Actuarial Report and found that they are not complete and are not in compliance with the NAIC requirements. Many of the figures presented in the Actuarial Report are supported by work done outside of the report. Correspondence with the company's appointed actuary confirms that, while an effort was made to include the most important factors in the Actuarial Report, other support was omitted due to concerns about the number of pages in the reports. There is no prescribed limit to the size of the reports, so the number of pages should not be a concern. Although the underlying methodology executed by the appointed actuary is very familiar to all actuaries (i.e., frequency/severity techniques), the use of an unpublished and unfamiliar methodology for determining factors and assumptions made it difficult to evaluate the work absent a detailed methodology discussion in the 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 of the methodology used including how it works and why it is appropriate for the dataset.

Actuarial Opinion Summary

The Actuarial Opinion Summary requires the appointed actuary to disclose, on a gross and net basis, the appointed actuary's point estimate, when calculated, and the appointed actuary's range, when calculated, and compare these to the carried reserves. Items 5 (A) through 5 (D) in the NAIC Actuarial Opinion Summary Instructions clarify that there is no requirement to produce both a range and a point estimate. However, the reserve estimates presented in the Actuarial Opinion Summary must follow the appointed actuary's analysis (that is, if the appointed actuary prepares both a point estimate and a range in the analysis, then both the point estimate and the range must be disclosed in the Actuarial Opinion Summary). The appointed actuary provided only a range in the Actuarial Opinion Summary and filled in "NA" for the point estimate. The company's carried reserves, however, are based solely on the appointed actuary's point estimate. The examination team finds that the company's Actuarial Opinion Summary is not in compliance with NAIC requirements. 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.

VIII. CONCLUSION

Arch Mortgage Assurance Company is a direct wholly owned subsidiary of Arch U.S. MI Holdings Inc., and an indirect wholly owned subsidiary of Arch Capital Group Ltd., its ultimate controlling person. Arch Mortgage Assurance Company provides insurance to mortgage originators and investors throughout the United States on residential mortgages secured by second liens. Since 2008, the company has written no new business and its operations have been limited to the administration of its run-off.

Policyholders' surplus has increased from $13,234,263 as of year-end 2010, to $13,877,364 as of year-end 2015. This represents an increase of 4.9% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2010, when policyholders' surplus was last verified by examination, to December 31, 2015:

Policyholders' surplus, December 31, 2010	$13,234,263
Surplus paid-in	13,000,000
Net income/(loss)	(9,565,863)
Change in net unrealized capital gains/(losses)	(2,024,111)
Change in nonadmitted assets	800,900
Public accountant's 2014 audit adjustment	(800,000)
Change in net deferred income tax	(767,825)
Policyholders' Surplus, December 31, 2015	$13,877,364

Gross and net premium volume continued to decrease during the period under examination primarily due to management's decision to discontinue writing new business effective March 2008 over concerns about the profitability of insuring junior lien mortgage loans. Loss and loss adjustment expense ratios varied during the ensuing years, reaching 241.9% in 2011 and (47.3)% in 2012. The company experienced a high volume of losses in 2011 as housing prices fell and defaults rose. The exceptionally low loss ratios in 2012 and 2014 were due to substantial changes in loss reserves from the prior years. The company reported a large expense ratio increase in 2011 due to the significantly reduced change in contingency reserves. During the past five years, the average expense ratio remained relatively high due to lower premiums written and higher underwriting expenses than in prior years. High loss and LAE and expense ratios contributed to combined ratios above 100% in four out of five years, reaching

336.3% in 2015. During the years under examination, the company reported losses each year. Surplus decreased considerably in 2011 and continued to decline in 2012 mostly due to substantial unrealized capital losses and losses from operations, respectively. The large increase in surplus in 2014 was primarily due to the $10 million increase in paid in capital from PMI and CMFG Life Insurance Company related to the acquisition of the company by Arch U.S. MI Holdings, Inc.

The company was in compliance with the one prior examination recommendation, which related to Schedule P reporting. The current examination made three recommendations. Areas of improvement recommended by this examination included actuarial documentation and proper completion of the Wisconsin state-specific supplement to the annual statement entitled "Report of Executive Compensation." The examination determined that there were no material misstatements of account balances as reported by the company in its 2015 statutory financial statements and did not make any adjustments or reclassifications of reported account balances. The examination determined that as of December 31, 2015, the company had admitted assets of $14,115,666, liabilities of $238,302, and policyholders' surplus of $13,877,364.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation as required by s.611.63 (4), Wis. Stat.

2. Page 28 - 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 of the methodology used including how it works and why it is appropriate for the dataset.

3. Page 29 - 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.

X. SUBSEQUENT EVENTS

On December 31, 2016, Arch MA's parent company, Arch MI Holdings, completed the acquisition of United Guaranty Corporation (UGC, which includes ten insurance companies, including eight U.S. mortgage insurers and two U.S. credit insurers) (the UGC Acquisition) from American International Group, Inc. (AIG). The UGC Acquisition closed following the satisfaction of closing conditions as stipulated in the Stock Purchase Agreement, the receipt of regulatory approval from the North Carolina Department of Insurance, non-objection by this office, and federal approvals from the Government-Sponsored Enterprises including the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. The UGC Acquisition expanded the scale of ACGL's mortgage insurance business by combining UGC's position as market leader in the U.S. private mortgage insurance industry with ACGL's financial strength, technology platform, and market position. While the UGC Acquisition further diversified ACGL's business profile and customer base, it did not include any current plan to change the company's name, state of domicile, or basic insurance operations. The company will be headquartered in Greensboro, North Carolina, but will retain significant operations in California.

XI. 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
Yi Xu	Insurance Financial Examiner
John Pollock	Insurance Financial Examiner-Journey
Junji Nartatez	Insurance Financial Examiner
John Litweiler	Insurance Financial Examiner-Advanced, Exam Planning & Quality Control Specialist
David Jensen	Insurance Financial Examiner-Advanced, Information Systems Audit Specialist
Jerry DeArmond	Insurance Financial Examiner-Advanced, Loss Reserve Specialist

Respectfully submitted,

Ana Careaga
Examiner-in-Charge