Report

of the

Examination of

Arch Mortgage Insurance Company

Walnut Creek, California

As of December 31, 2015

TABLE OF CONTENTS

		Page
I.	INTRODUCTION	1
II.	HISTORY AND PLAN OF OPERATION	3
III.	MANAGEMENT AND CONTROL	9
IV.	AFFILIATED COMPANIES	12
V.	REINSURANCE	20
VI.	FINANCIAL DATA	22
VII.	SUMMARY OF EXAMINATION RESULTS	33
VIII.	CONCLUSION	37
IX.	SUMMARY OF COMMENTS AND RECOMMENDATIONS	39
X.	SUBSEQUENT EVENTS	40
XI.	ACKNOWLEDGMENT	41

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 INSURANCE COMPANY
Walnut Creek, California

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Arch Mortgage Insurance Company (Arch MI or the company), formerly known as CMG Mortgage Insurance 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.

Investment Review

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a review of the company's invested assets portfolio as of December 31, 2015. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

Arch Mortgage Insurance Company is a monoline provider of residential mortgage guaranty insurance. Arch MI 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 run-off 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).

CUNA Mutual and PMI each owned a 50% interest in the capital stock of the company and its affiliate, CMG Mortgage Assurance Company (CMGA). CMGA owned 100% of a subsidiary reinsurer, CMG Mortgage Reinsurance Company (CMG Re). The objective of the joint venture between CUNA Mutual 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 CUNA Mutual having close business association with and specialized knowledge of the credit union industry.

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 (Arizona Director), as a result of the determination by the Arizona Department of Insurance (AZ 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, PIC and affiliate, PMI Mortgage Assurance Co. from their respective lists of approved mortgage insurers. These suspensions remain in effect. In the case of PMI Mortgage Assurance Co., which has since been renamed Arch Mortgage Guaranty Company, the company was reactivated in 2015 to conduct non-GSE business. CMG MI was not included in either the Arizona Director's supervisory order or the GSEs' suspensions and continued writing mortgage insurance business for credit unions on a stand-alone basis.

On October 20, 2011, the Arizona Director requested and received an order (the Possession Order) from the Superior Court of Maricopa County, Arizona (the Arizona Court) to take full and exclusive possession and control of PMI. Concurrent with the granting of the Possession Order, the Arizona Director filed a Complaint for the Appointment of Receiver and Injunction to place PMI into rehabilitation.

The Arizona Director also issued a Notice of Determination, Order of Supervision and Notice of Appeal Rights to the principal regulated reinsurance subsidiaries of TPG, PMI Reinsurance Co., PMI Mortgage Guaranty Co. and Residential Insurance Co.

The Arizona Court upheld the Possession Order on November 22, 2011. On November 23, 2011, TPG filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware.

On February 6, 2012, TPG and the AZ DOI filed with the Arizona Court a joint stipulation, where TPG withdrew its opposition to the AZ DOI's request for the appointment of a receiver.

On March 14, 2012, the Arizona Court issued an Order for Appointment of Receiver and Injunction placing PMI into rehabilitation. PMI continued to service CMG Mortgage Insurance Company's policyholders and existing insurance certificates, as well as its own. The legal actions against PMI did not impact the stand-alone operations of the company, CMGA or CMG Re.

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. and Arch Capital Group (U.S.) Inc. pursuant to which Arch U.S. MI Holdings Inc. (Arch MI Holdings), an indirect subsidiary of the Arch Capital Group Ltd. (ACGL), a publicly traded Bermuda-domiciled stock corporation, for purchase of all the capital stock of CMG Mortgage Insurance Company and CMGA, 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 this office and the AZ DOI approved the transaction and, effective January 30, 2014, the company became a wholly owned subsidiary of Arch U.S. MI Holdings Inc. The company changed its name from CMG Mortgage Insurance Company to Arch Mortgage Insurance Company.

Arch MI is licensed to transact residential mortgage guaranty insurance business in all 50 U.S. states, the District of Columbia, Puerto Rico and Guam. In 2015, the company wrote direct premium in the following states:

Michigan	$ 17,129,233	12.7%
California	10,930,792	8.2
Wisconsin	10,918,546	8.1
Texas	7,029,151	5.2
Minnesota	5,528,210	4.1
All others	82,957,914	61.7
Total	$134,493,846	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 nonowner-occupied 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, Arch MI 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, 2015, the company marketed its products on a nationwide basis to traditional lenders through 46 staff salespersons employed by the company’s subsidiary, Arch U.S. MI Services Inc. (Arch MI Services), and to credit unions through 17 salespersons employed by CUNA Mutual under a distribution and services agreement with CUNA Mutual. All salespersons are licensed agents, where required.

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	$134,493,846	$0	$73,790,270	$60,703,476
Total All Lines	$134,493,846	$0	$73,790,270	$60,703,476

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-paid health insurance premiums, cell phone and car use allowances, 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

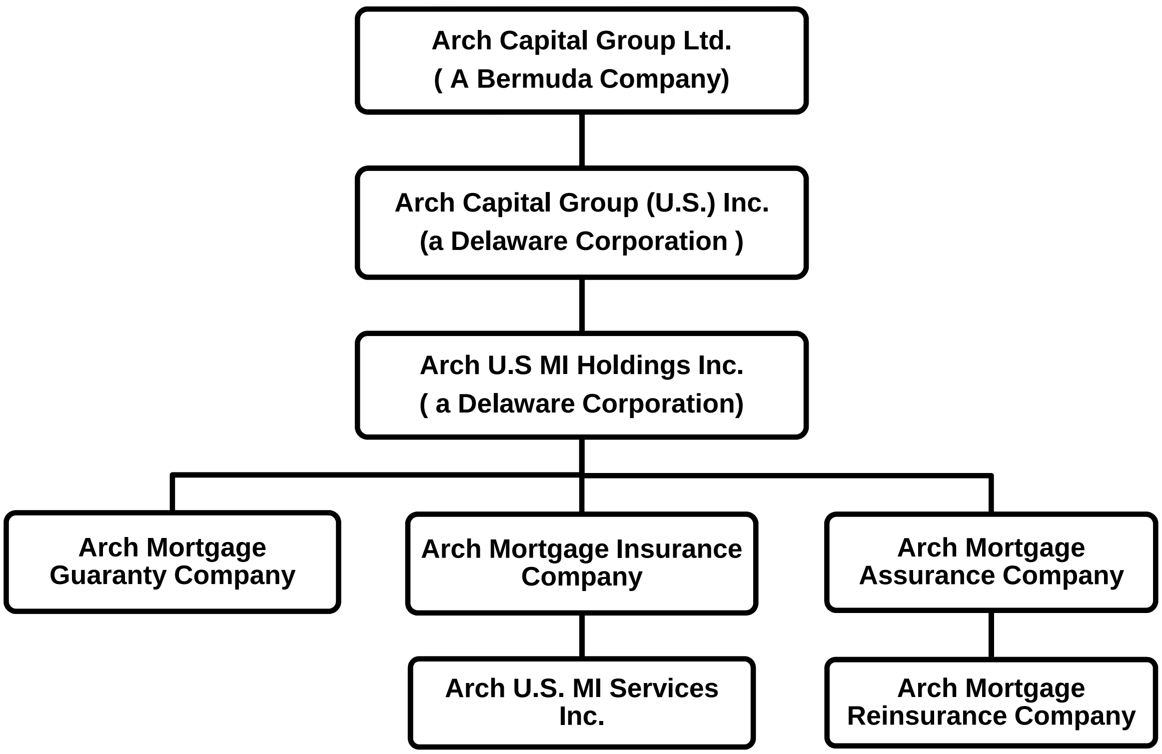
IT Steering Committee
Prashant Nema, Senior Vice President, Chief Information Officer, Chair
David Gansberg, President and Chief Executive Officer
Christopher Hovey, Executive Vice President, Chief Operating Officer
Thomas Jeter, Executive Vice President, Chief Financial Officer and Treasurer

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 MI is a member of the Arch MI Holdings holding company system and a member of the ACGL enterprise group. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of 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 Mortgage Insurance Company, Arch Mortgage Assurance Company (Arch MA) (formerly CMGA) 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 interests 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, a Bermuda company. 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 Mortgage Guaranty Company

AMG 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. The company began transacting business on May 1, 1967. Prior to August 2001, the company was a wholly owned subsidiary of WMAC Investment Corporation, which was then an affiliate of Leucadia National Corporation.

On August 6, 2001, PMI Mortgage Insurance Co., an Arizona-domiciled insurance company and a wholly owned subsidiary of TPG, 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 AZ DOI's determination of a hazardous financial condition under Arizona insurance laws and regulations relating to PMI's June 30, 2011, operational results.

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.

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. Upon 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 statutory net income of $28,226.

Arch U.S. MI Services Inc.

Arch U.S. MI Services Inc. (Arch MI Services) is a wholly owned 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 MI 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 Assurance Company

Arch MA was organized in 1969 as a California-domiciled mortgage guaranty insurer under the name Investors Mortgage Insurance Company of California. The name was changed to Investors Equity Insurance Company, Inc. (hereinafter also IEIC), effective September 23, 1980. The company remained a dormant corporation until May 12, 1981, at which time it commenced writing mortgage guaranty insurance on second mortgages. In December 1981, Investors Mortgage Insurance Holding Company (IMIHC) acquired control of 100% of the capital stock of IEIC when IEIC's parent merged into IMIHC. IEIC ceased writing new business in 1986. In 1994, following CUNA Mutual Investment Corporation's acquisition of IMIHC, IMIHC paid CMIC an extraordinary dividend consisting of 100% of the capital stock of IEIC.

On June 23, 1994, PMI purchased from CMIC 45% of the issued and outstanding stock of CMG MI, 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. In 1999, IEIC changed its name to CMG Mortgage Assurance Company and, on June 1, 2000, CMGA redomiciled from California to Wisconsin. Effective October 1, 2000, PMI purchased from CMIC 50% of the capital stock of CMGA, and CMGA became another jointly owned subsidiary of CMIC and PMI. As mentioned earlier in this section of the report, CMIC transferred its 50% ownership in CMGA to CMIS through a stock dividend on June 30, 2009. Also on June 30, 2009, CMG Re became a wholly owned subsidiary of CMGA.

CMGA is licensed as a mortgage guaranty insurer. The joint venture ownership of CMGA was established to provide insurance coverages on junior lien second-mortgage loans issued by credit unions. CMGA began writing business in the third quarter of 2001. Due to unfavorable results from this line of business, the company's board of directors agreed to discontinue writing new business effective March 31, 2008.

On January 30, 2014, CMGA was indirectly acquired by ACGL and, upon the acquisition, the name was changed to Arch MA.

As of December 31, 2015, the audited consolidated financial statements of Arch MA reported assets of $14,115,666, liabilities of $238,302 and policyholders' surplus of $13,877,364. Operations for 2015 produced net loss of $66,305.

Arch Mortgage Reinsurance Company

Arch MI Re was incorporated on May 27, 1999, 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 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, upon 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 inter-affiliate 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 MI Re amended its reinsurance agreement with Arch MI to specify that all cessions under the agreement will be determined net of the quota share reinsurance agreements between Arch MI 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, 2014. 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

Surplus Notes

On March 16, 2015, this office approved a Contribution Note in the amount of $7,500,000 issued by Arch MI to ACG US in exchange for receipt of the principal amount, with an annual interest rate of 6.5%. Interest payments in the note are deferred until December 15, 2017, and the interest rate has been adjusted to compensate ACG US for the interest deferral. Arch MI will commence paying annual interest on the principal amount on December 15, 2018, subject to the contemporaneous approval of this office. The note is redeemable on March 27, 2020.

On April 15, 2015, this office approved a Contribution Note in the amount of $32,000,000 issued by Arch MI to ACG US in exchange for receipt of the principal amount with an annual interest rate is 6.25%. Interest payments in the note are deferred until December 15, 2017, and the interest rate has been adjusted to compensate ACG US for the interest deferral. Arch MI will commence paying annual interest on the principal amount on December 15, 2018, subject to the contemporaneous approval of this office. The note is redeemable on April 17, 2020.

Service Agreement

Effective January 30, 2014, Arch MI entered into service agreement with its wholly owned subsidiary, Arch MI Services. Under the agreement, Arch MI Services provides various services to Arch MI, 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. Arch MI is liable to compensate Arch MI Services for the cost of the provided service, as billed by the service provider. Arch MI 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 of 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 MI 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 both parties at any time upon 45 days' prior written notice.

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, Arch MI became a member of the "Parent Group" addressed in this agreement, which includes ACG US and its subsidiaries. Effective November 1, 2014, Arch MI was specifically named in the Third Amended and Restated Tax Sharing Agreement between ACG US and its subsidiaries. Under the tax sharing agreement, ACG US files a consolidated U.S. Federal Income Tax Return that includes Arch MI 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 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.

Excess Primary Mortgage Reinsurance Agreement

Originally, this agreement was between CMG MI and CMG Re. The agreement was effective May 27, 1999, and was restated as of November 2, 2004. Under this agreement, Arch MI Re assumed from Arch MI mortgage loan coverage in excess of 25% of the original principal balance for individual mortgage insurance loans insured on a direct basis by Arch MI, covering up to 25% of each insured mortgage loan in excess of the 25% insured by Arch MI. Pursuant to this agreement, CMG MI provided to CMG Re general management assistance services, including, but not limited to, the services of CMG MI's management personnel necessary for the operation of the reinsurance business conducted by CMG Re. In consideration of the services provided to CMG Re under this agreement, CMG Re agreed to pay to CMG MI a monthly service fee based on the actual cost of services. Payments were to be made within 30 days of the end of each month. The agreement could be terminated by either party providing 60 days' written notice in the event that CMG Re no longer reinsured any of CMG MI's business. This agreement could also be terminated if the other party had materially defaulted under the terms and conditions of the agreement and such default was not cured within 60 days of receipt of written notice.

Effective January 30, 2014, Arch Ml amended its reinsurance agreement with Arch Ml Re 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, 2014. Currently, Arch MI Re remains effectively in run-off and collects premium solely for reinsuring risk assumed from Arch MI for loans with existing delinquencies as of January 30, 2014.

Upon the acquisition of CMG MI and CMG Re by ACGL, effective January 30, 2014, Arch MI entered into each of three independent Quota Share Reinsurance Agreements with PIC, Arch Reinsurance Ltd. (ARL, an indirect affiliate) and CUMIS Mortgage Reinsurance Company (CUMIS, a CUNA Mutual Group member). These agreements allow the company to manage risk, maintain required capital levels and leverage the financial position of each reinsurance company.

V. REINSURANCE

Although this restriction has been changed in the majority of states, in certain jurisdictions a direct writer of mortgage guaranty insurance remains limited to a maximum retention equal to 25% of the indebtedness of the borrower on an insured loan. Various reinsurance treaties have been undertaken by Arch MI, in part for regulatory compliance purposes, to enable Arch MI to satisfy limitations established in such jurisdictions regarding the proportionate amount of risk that a direct writer of mortgage guaranty insurance is permitted to retain. The reinsurance portfolio and strategy of Arch Mortgage Insurance Company is described below.

Following the acquisition by ACGL, effective January 30, 2014, Arch MI entered into quota share reinsurance agreements with ARL, PIC, and CUMIS that established specific limitations related to new insurance written for its credit union and/or bank business.

Under the agreement with PIC, the company reinsures on a quota share basis 20% of new insurance written for both banks and credit unions, up to a maximum of $25 billion of new insurance written.

After the acquisition, Arch MI required CUNA Mutual Financial Group, Inc., to create CUMIS as a separate entity dedicated solely to reinsuring a portion of Arch MI's credit union book of business policies. Under the agreement with CUMIS, Arch MI reinsures on a quota share basis 2.5% of credit union only new insurance written in 2014, 5.0% of such business in 2015, and 7.5% of such business in 2016 and thereafter.

Under the agreement with ARL, Arch MI cedes a portion of its risk and premium to ARL after the reinsurance coverage limit under the quota share agreements with PIC and CUMIS has been reached. The agreement is supported by a Reinsurance Trust Agreement between ARL, as grantor, Arch MI, as beneficiary, and The Bank of New York Mellon, as trustee. The agreement between Arch MI and ARL was amended in 2015 to allow compliance with the Private Mortgage Insurer Eligibility Requirements (PMIERs) established by Fannie Mae and Freddie Mac.

Arch MI also continues to service an excess of loss captive reinsurance agreement with Colonial Mortgage Insurance Company which is currently in run-off, as well as its reinsurance treaty with its affiliate, Arch MI Re which is effectively currently in run-off. The company does not have reinsurance assumption agreements. The company's reinsurance contracts contain proper insolvency provisions.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of Arch MI 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 Insurance Company
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$362,547,604	$	$362,547,604
Stocks:			
Common stocks	22,266,587	22,266,587	
Cash, cash equivalents, and short-term investments	45,833,255		45,833,255
Receivables for securities	2,756		2,756
Investment income due and accrued	3,105,603		3,105,603
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	5,407,056	495	5,406,561
Reinsurance:			
Amounts recoverable from reinsurers	1,603,075		1,603,075
Current federal and foreign income tax recoverable and interest thereon	301,146		301,146
Net deferred tax asset	43,409,315	25,867,828	17,541,487
Electronic data processing equipment and software	50,520	50,520	
Write-ins for other than invested assets:			
Prepaid expense	120,692	120,692	
Licenses purchased	1,672,343	1,672,343	
Other receivables	77,079		77,079
Total Assets	$486,397,031	$49,978,465	$436,418,566

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

Losses		$ 50,794,618
Loss adjustment expenses		1,880,062
Other expenses (excluding taxes, licenses, and fees)		621,026
Taxes, licenses, and fees (excluding federal and foreign income taxes)		853,175
Unearned premiums		14,487,308
Advance premium		96,013
Ceded reinsurance premiums payable (net of ceding commissions)		10,314,834
Funds held by company under reinsurance treaties		33,895,579
Remittances and items not allocated		138,315
Payable to parent, subsidiaries, and affiliates		38,210,735
Write-ins for liabilities:		
Contingency reserve		149,274,676
Reserve for escheatable and stale checks		258,164
Premium refund reserve		1,109,321
Total Liabilities		301,933,826
Common capital stock	$ 2,750,000	
Surplus notes	39,500,000	
Gross paid in and contributed surplus	117,169,151	
Unassigned funds (surplus)	(24,934,411)	
Surplus as regards policyholders		134,484,740
Total Liabilities and Surplus		$436,418,566

Arch Mortgage Insurance Company
Summary of Operations
For the Year 2015

Underwriting Income		
Premiums earned		$ 54,568,093
Deductions:		
Losses incurred	$11,379,464	
Loss adjustment expenses incurred	1,338,616	
Other underwriting expenses incurred	56,182,924	
Aggregate write-ins for underwriting deductions – increase in reserve for contingencies	27,284,047	
Total underwriting deductions		96,185,051
Net underwriting gain (loss)		(41,616,958)
Investment Income		
Net investment income earned	5,631,350	
Net realized capital gains (losses)	406,321	
Net investment gain (loss)		6,037,671
Other Income		
Aggregate write-ins for miscellaneous income	517,288	
Total other income		517,288
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(35,061,999)
Federal and foreign income taxes incurred		(218,789)
Net Income		$(34,843,210)

Arch Mortgage Insurance Company
Cash Flow
For the Year 2015

Premiums collected net of reinsurance			$ 62,287,525
Net investment income			8,584,772
Miscellaneous income			517,288
Total			71,389,585
Benefit- and loss-related payments		$ 29,143,548	
Commissions, expenses paid, and aggregate write-ins for deductions		57,445,200	
Total deductions			86,588,748
Net cash from operations			(15,199,163)
Proceeds from investments sold, matured, or repaid:			
Bonds	$326,900,334		
Miscellaneous proceeds	271,891		
Total investment proceeds		327,172,225	
Cost of investments acquired (long-term only):			
Bonds	365,293,025		
Total investments acquired		365,293,025	
Net cash from investments			(38,120,800)
Cash from financing and miscellaneous sources:			
Surplus notes, capital notes		39,500,000	
Capital and paid in surplus less treasury stock		2,000,000	
Other cash provided (applied)		35,979,843	
Net cash from financing and miscellaneous sources			77,479,843
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			24,159,880
Cash, cash equivalents, and short-term investments:			
Beginning of year			21,673,375
End of Year			$ 45,833,255

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

Surplus as regards policyholders		$134,484,740	
Contingency reserve		149,274,676	
Total policyholders' position			$283,759,416
Net minimum policyholders' position:			
Individual loans:			
Loan-to-value more than 75%	$115,706,241		
Total individual loans		115,706,241	
Deduct aggregate minimum policyholder position for certain loans with established reserves		2,514,486	
Total minimum policyholders' position			113,191,755
Excess of Total Policyholders' Position over Minimum Policyholders' Position			$170,567,661

Arch Mortgage Insurance 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	$152,482,249	$161,423,610	$109,520,859	$100,538,897	$105,470,447
Net income	(34,843,210)	(34,732,497)	(5,224,713)	8,147,601	(12,666,621)
Change in net unrealized capital gains/losses		3,629,269			
Change in net deferred income tax	12,918,154	12,416,927	2,841,737	(155,568)	9,840,622
Change in nonadmitted assets	(37,572,453)	(9,892,377)	3,560,631	989,929	(2,105,551)
Change in surplus notes	39,500,000				
Surplus adjustments:					
Paid in	2,000,000	19,637,317	52,000,000		
Write-ins for gains and (losses) in surplus:					
Prior year audit adjustment-legal statement			(1,159,000)		
Change in DTA-prior year audit adjustment legal settlement			(115,904)		
Surplus, End of Year	$134,484,740	$152,482,249	$161,423,610	$109,520,859	$100,538,897

Arch Mortgage Insurance 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	100%	73%	61%	83%	88%
#2	Net Premium to Surplus	45	34	54	73	78
#3	Change in Net Premiums Written	15	-40*	8	3	-2
#4	Surplus Aid to Surplus	2	1	0	0	0
#5	Two-Year Overall Operating Ratio	159*	128*	110*	115*	104*
#6	Investment Yield	1.4*	1.3*	1.2*	2.3*	2.5*
#7	Gross Change in Surplus	-12*	-6	47	9	-5
#8	Change in Adjusted Surplus	-39*	-18*	0	9	-5
#9	Liabilities to Liquid Assets	78	70	72	72	76
#10	Agents' Balances to Surplus	4	3	3	4	4
#11	One-Year Reserve Development to Surplus	-6	-1	4	11	3
#12	Two-Year Reserve Development to Surplus	-3	6	21*	5	13
#13	Estimated Current Reserve Deficiency to Surplus	6	3	37*	25*	9

Ratio No. 3 measures the change in net premium written from the prior year. Net premium written decreased by 39% in 2014 compared to 2013 as a result of an increase in ceded premiums under the new reinsurance contract agreements with reinsurers effective January 30, 2014, as described under the "Reinsurance" section of this report.

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 and the contingency reserve. 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. In 2015, the net change in contingency reserve increased 72% from 2014 to $27.3 million resulting in an increase in underwriting losses.

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 2015 was due to unfavorable operating results. The net increase in contingency reserves of $27.3 million was a significant driver of the net loss in 2015. Wisconsin has adopted certain prescribed accounting practices that differ from those found in the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures manual (NAIC SAP). Specifically, Wisconsin requires that changes in contingency reserves for the year are reported in the annual statement as a reduction of or addition to underwriting income.

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. The exceptional results in 2014 and 2015 were due to the increase in contingency reserve and other underwriting expenses. As it was previously mentioned, Wisconsin requires that changes in contingency reserves for the year are reported in the annual statement as a reduction of or addition to underwriting income. The increase in other underwriting expenses was due to the company's expansion of its human resources in anticipation of additional business.

Ratio No.12 measures the development of unpaid losses and loss adjustment expenses based on loss and loss adjustment expenses reported two years prior. In 2013, the company's two-year loss reserve development to surplus was adverse by $20.7 million.

Ratio No.13 provides an estimate of the adequacy of current reserves based on the reserve-to-premium ratios of the preceding two years. In 2012 and 2013, the calculation produced estimated reserve deficiencies of 25% and 37%, respectively.

Growth of Arch Mortgage Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2015	$436,418,566	$301,933,826	$134,484,740	$(34,843,210)
2014	399,604,496	247,122,247	152,482,249	(34,732,497)
2013	382,132,688	220,709,078	161,423,610	(5,224,713)
2012	344,598,681	235,077,822	109,520,859	8,147,601
2011	360,185,718	259,646,821	100,538,897	(12,666,621)
2010	392,627,164	287,156,717	105,470,447	3,368,354

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2015	$134,493,846	$60,703,476	$118,220,381	23.3%	136.6%	159.9%
2014	111,247,041	52,594,703	102,215,572	55.3	119.9	175.2
2013	98,679,142	87,095,366	97,932,251	67.8	41.6	109.4
2012	91,040,724	80,281,054	91,352,032	113.1	10.8	123.9
2011	88,502,673	78,151,174	90,845,386	114.4	11.6	126.0
2010	91,174,772	79,698,849	95,342,834	143.5	(39.4)	104.1

During the period under examination, Arch MI changed its ownership effective January 30, 2014, when the company was acquired by ACGL. Prior to the acquisition, Arch MI's direct business was to provide insurance solely for mortgage loans originated by credit unions. Compared to the other mortgage lenders, the credit unions were known to have more stringent underwriting standards for mortgage lending, resulting in a lower risk of default. With the acquisition by Arch U.S. MI Holdings Inc., the company made changes to its business plan and strategy to expand the network of lenders beyond the credit unions and to develop business relationships with national and regional mortgage banks and other private lenders, while maintaining a strong underwriting approach and implementing new tools to measure risk. In 2014 and 2015, gross premium written increased, with 2015 volume up 36% over 2013, mostly due to the expansion of the bank customer channel. Net premium written decreased by 30% over the past two years, mostly due to changes in the reinsurance program and an increase in premium ceded. The loss and LAE ratio decreased 120 percentage points since 2010, to 23.3% in 2015, due to the lower new notices of default (new NODs) and favorable loss reserve assumption changes. The expense ratio increased from 11.6% in 2011 to 136.6% in 2015 due primarily to growth in contingency reserves, additional investments in the sales workforce, and the development of the new risk-based pricing program, RateStar.

Arch MI reported statutory net underwriting losses during each of the five years subject of examination. In 2011 and 2012, the company incurred significant losses from delinquencies reported in earlier years, resulting in new claims due to the slow recovery in the housing market. Since 2013, incurred losses have significantly decreased; however, underwriting results did not improve due to increased contingency reserves as required by law.

Since 2010, policyholders' surplus has increased by 27.5%, mostly due to capital contributions provided by a parent company.

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 recommended that the company report all investigation expenses, subrogation fees and subrogation recoveries based on the years the related losses were incurred 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 MI 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 Insurance 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. The company provides mortgage insurance products and services to credit unions, banks and other mortgage originators and it is approved as an eligible mortgage insurer by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, subject to remaining in compliance with the GSEs' Primary Mortgage Insurer Eligibility Requirements.

Policyholders' surplus has increased from $105,470,447 as of year-end 2010 to $134,484,740 as of year-end 2015. This represents an increase of 27.5% 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	$105,470,447
Net income/(loss)	(79,319,440)
Surplus paid-in	73,637,317
Change in nonadmitted assets	(45,019,821)
Change in surplus notes	39,500,000
Change in net deferred income tax	37,861,872
Change in net unrealized capital gains/(losses)	3,629,269
Adjustments for 2013 legal settlement	(1,274,904)
Policyholders' Surplus, December 31, 2015	$134,484,740

During the period under examination, the company's gross and earned premium written increased by 36% and 24%, respectively. Growth in premiums was primarily attributable to the increase in insurance in force due to the expansion of the bank customer channel. Net premium written decreased by 30% over the past two years mostly due to changes in the reinsurance program and an increase in premium ceded. The company reported statutory underwriting losses during each of the five years subject of examination mostly due to significant losses incurred and the increase in contingency reserves as required by law. Wisconsin law provides that changes in the contingency reserve run through the income statement rather than as direct adjustments to surplus. In this respect, Wisconsin law differs from the provisions of the NAIC's Statement of Statutory Accounting Principles No. 58, paragraph 22.

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 $436,418,566, liabilities of $301,933,826, and policyholders' surplus of $134,484,740.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 34 - 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 35 - 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 36 - 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 MI'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.

On March 15, 2017, this office approved Arch MI's plan to repay in full the principal and final accrued interest due on the following surplus notes issued to Arch Capital Group (U.S.) Inc. dated (i) March 27, 2015, in the principal amount of $7,500,000, and (ii) April 17, 2015, in the principal amount of $32,000,000. At the time of these repayments, Arch MI issued another surplus note in the principal amount of $39,500,000 to affiliate Arch Capital Finance (Ireland) Limited. The term of the surplus note is 30 years with an annual interest rate of 6.35%. Arch MI has the right to redeem the surplus note early on the fifth anniversary of its issuance.

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