

In the Matter of the Acquisition of Control of

FINAL DECISION

CMG Mortgage Insurance Company,
CMG Mortgage Assurance Company, and
CMG Mortgage Reinsurance Company

by

Arch U.S. MI Holdings Inc.

Case No. 13-C35677

Petitioner.

FINAL DECISION

I adopt the Hearing Examiner's Proposed Decision, including the findings of fact and conclusions of law, which is attached to this Final Decision and which was served on the Petitioners with an opportunity for submitting written objections.

Based upon these findings of fact and conclusions of law, I order that:

(18) The Petitioner's request for approval of the plan for the acquisition of control is approved, subject to the following conditions subsequent:

- a) Consent to Jurisdiction (Form E): Arch Capital Group (U.S.) Inc. will file a Consent to Jurisdiction Statement on Form E within ten (10) business days following the date on which the acquisition of control occurs.
- b) Consent to Jurisdiction (Form E): Arch Capital Group Ltd. (Bermuda) will file a Consent to Jurisdiction Statement on Form E within ten business days following the date on which the acquisition of control occurs.
- c) Form D Filings: Any management or service agreement whereby Arch U.S. MI Holdings Inc. would provide services to the CMG Companies is to be filed with the OCI on Form D as provided by s. Ins 40.04 (d), Wis. Adm. Code.
- d) Funding Mechanism: Arch Capital Group (U.S.) Inc. or Arch U.S. MI Holdings Inc. will file a description of any debt financing used in connection with the acquisition of the CMG Companies within ten business days following the date on which the acquisition of control occurs.

(19) The Sellers request to terminate certain existing Joint Venture Agreements, and the exchange of the existing Surplus Notes for equity in the form of paid in capital (as discussed in Section (4) of the Proposed Decision) is approved.

(20) The Petitioners request to enter into certain affiliated agreements after the closing of the acquisition (as discussed in Section (5) of the Proposed Decision) is approved.

NOTICE OF APPEAL INFORMATION

(Notice of rights for rehearing and judicial review,
the times allowed for each, and the identification
of the party to be named as respondent)

The following notice is served on you as part of the Final Decision:

1. Rehearing.

Any person aggrieved by this Final Decision may petition for a rehearing within 20 days after the service of this Final Decision, as provided in s. 227.49, Wis. Stat. A petition for rehearing is not a prerequisite for appeal directly to circuit court through a petition for judicial review.

A petition for rehearing must be filed with the Commissioner at the address below.

2. Judicial Review.

Any person aggrieved by this Final Decision has a right to petition for judicial review of this Final Decision as provided in s. 227.53, Wis. Stat. The petition must be filed in circuit court within 30 days after service of this Final Decision if there has been no petition for rehearing, or within 30 days after service of the order finally disposing of the petition for rehearing, or within 30 days after the final disposition by operation of law of any petition for rehearing.

A petition for judicial review must be served on, and name as the Respondent:

Commissioner of Insurance, Respondent
Office of the Commissioner of Insurance
P. O. Box 7873
Madison, Wisconsin 53707-7873

A copy of the relevant statutory provisions is attached.

Dated at Madison, Wisconsin, this 10th day of December, 2013.



Theodore K. Nickel
Commissioner of Insurance

WISCONSIN STATUTES

At all times material, the relevant parts of s. 227.49, Wis. Stat., read as follows:

227.49 PETITIONS FOR REHEARING IN CONTESTED CASES

(1) A petition for rehearing shall not be a prerequisite for appeal or review. Any person aggrieved by a final order may, within 20 days after service of the order, file a written petition for rehearing which shall specify in detail the grounds for the relief sought and supporting authorities. An agency may order a rehearing on its own motion within 20 days after service of a final order. . . .

(2) The filing of a petition for rehearing shall not suspend or delay the effective date of the order, and the order shall take effect on the date fixed by the agency and shall continue in effect unless the petition is granted or until the order is superseded, modified, or set aside as provided by law.

(3) Rehearing will be granted only on the basis of:

(a) Some material error of law.

(b) Some material error of fact.

(c) The discovery of new evidence sufficiently strong to reverse or modify the order, and which could not have been previously discovered by due diligence.

(4) Copies of petitions for rehearing shall be served on all parties of record. Parties may file replies to the petition.

(5) The agency may order a rehearing or enter an order with reference to the petition without a hearing, and shall dispose of the petition within 30 days after it is filed. If the agency does not enter an order disposing of the petition within the 30-day period, the petition shall be deemed to have been denied as of the expiration of the 30-day period.

(6) Upon granting a rehearing, the agency shall set the matter for further proceedings as soon as practicable. . . .

At all times material, the relevant part of s. 227.52, Wis. Stat., read as follows:

227.52 JUDICIAL REVIEW; DECISIONS REVIEWABLE.

Administrative decisions which adversely affect the substantial interests of any person, whether by action or inaction, whether affirmative or negative in form, are subject to review as provided in this chapter. . . .

At all times material, the relevant parts of s. 227.53, Wis. Stat., read as follows:

227.53 PARTIES AND PROCEEDINGS FOR REVIEW. (1)

Except as otherwise specifically provided by law, any person aggrieved by a decision specified in s. 227.52 shall be entitled to judicial review thereof as provided in this chapter.

(a) 1. Proceedings for review shall be instituted by serving a petition therefor personally or by certified mail upon the agency or one of its officials, and filing the petition in the office of the clerk of the circuit court for the county where the judicial review proceedings are to be held. . . .

2. Unless a rehearing is requested under s. 227.49, petitions for review under this paragraph shall be served and filed within 30 days after the service of the decision of the agency upon all parties under s. 227.48. If a rehearing is requested under s. 227.49, any party desiring judicial review shall serve and file a petition for review within 30 days after service of the order finally disposing of the application for rehearing, or within 30 days after the final disposition by operation of law of any such application for rehearing. The 30-day period for serving and filing a petition under this paragraph commences on the day after personal service or mailing of the decision by the agency.

. . .

(b) The petition shall state the nature of the petitioner's interest, the facts showing that petitioner is a person aggrieved by the decision, and the grounds specified in s. 227.57 upon which petitioner contends that the decision should be reversed or modified. . . .

. . .

(c) A copy of the petition shall be served personally or by certified mail or, when service is timely admitted in writing, by first class mail, not later than 30 days after the institution of the proceeding, upon each party who appeared before the agency in the proceeding in which the decision sought to be reviewed was made or upon the party's attorney of record. . . .

(d) The agency . . . and all parties to the proceeding before it, shall have the right to participate in the proceedings for review. . .

. . .

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PROPOSED DECISION

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CMG Mortgage Assurance Company, and
CMG Mortgage Reinsurance Company

by

Arch U.S. MI Holdings Inc.

Case No. 13-C35677

Petitioner.

Rebecca L. Easland, Hearing Examiner, Presiding

APPEARANCES

For the Office of the
Commissioner of Insurance:

Present in person

Kristin Forsberg (Licensing Specialist)
Steve Junior (Financial Examiner Supervisor)
Richard Wicka (Attorney Supervisor)
125 South Webster Street
Madison, Wisconsin 53703

For the Petitioner:

Present in Person

William J. Toman (External Legal Counsel)
Donald K. Schott (External Legal Counsel)
Quarles & Brady LLP
33 East Main Street, Suite 900
Madison, WI 53703

Present by telephone

David Gansberg (President and CEO)
Louis Petrillo (President and General Counsel, Arch
Capital Services, Inc.)
Jennifer Mangino (General Counsel Reinsurance,
Arch Capital Services, Inc.)

Representing:

Arch U.S. MI Holdings Inc.
3003 Oak Road
Walnut Creek, CA 94597

For the Wisconsin Insurers:

Present in person

Michael B. Van Sicklen (External Legal Counsel)
Foley & Lardner LLP
150 East Gilman Street
Madison, WI 53703

For the Sellers:

Present in person

Brian Kaas (Vice President, Associate General Counsel)
John A. Chosy (Associate General Counsel)

Representing:

CUNA Mutual Group
5910 Mineral Point Road
Madison, WI 53705

Present by Telephone

Sean Dilweg (Vice President, Product Executive)
CUNA Mutual Group
5910 Mineral Point Road
Madison, WI 53705

PRELIMINARY

Pursuant to a Notice of Hearing dated November 25, 2013, a hearing was held at 11:05 a.m. on December 10, 2013, to determine whether the Petitioner's application for approval of the plan for acquisition of control should be granted. Based on the record, the Hearing Examiner makes the following:

PROPOSED FINDINGS OF FACT

(1) Arch U.S. MI Holdings Inc., located at 3003 Oak Road, Walnut Creek, CA 94597, is a stock corporation domiciled in the State of Delaware (the Petitioner).

(2) CMG Mortgage Insurance Company, CMG Mortgage Assurance Company, and CMG Mortgage Reinsurance Company (collectively, the "CMG Companies"), located at 5910 Mineral Point Road, Madison, Wisconsin 53705, are Wisconsin domestic stock insurance companies.

(3) The Petitioner filed with the Office of the Commissioner of Insurance ("Commissioner") an application for approval of the acquisition of control of CMG Mortgage Insurance Company, CMG Mortgage Assurance Company and CMG Mortgage Reinsurance Company (the "Form A").

(4) The Sellers named in the Stock Purchase Agreement submitted with the Form A (CMFG Life Insurance Company, and the Receiver of PMI Mortgage Insurance Co. in Rehabilitation (on behalf of PMI Mortgage Insurance Company)) are required to effectuate the following transactions in accordance with the Stock Purchase Agreement:

(a) The termination of certain existing Joint Venture Agreements (per Section 7.12 of the Stock Purchase Agreement), and

- (b) The exchange of the existing Surplus Notes for equity in the form of paid in capital (per Section 7.15 of the Stock Purchase Agreement).

Per the Commissioner's letter dated December 5, 2013 to John Chosy, Associate General Counsel, CUNA Mutual Group, the Commissioner will incorporate its decision on these transactions into the Order on this Form A.

(5) In the cover letter to the Form A filing, the Applicant requested that the submission of certain affiliated agreements with the Form A substitute for any Form D filings that might otherwise be required by the CMG companies after the closing of the acquisition, and that the Commissioner incorporate its decision on these affiliated agreements into the Order on this Form A. The proposed affiliated agreements are the:

- (a) Services Agreement between the CMG Companies and Arch U.S. MI Services Inc. (attached as Exhibit G1 to the Form A)
- (b) Administrative Support Services Agreement between the CMG Companies and Arch Capital Services Inc. (attached as Exhibit G2 to the Form A)
- (c) Investment Management Agreement between the CMG Companies and Arch Investment Management Ltd. (attached as Exhibit G3 to the Form A)
- (d) Tax Sharing Agreement between the CMG Companies and other Arch Group U.S. subsidiaries (attached as Exhibit G4 to the Form A)
- (e) Quota Share Reinsurance Agreement between CMG Mortgage Insurance Company and Arch Reinsurance Ltd. (attached as Exhibit G5 to the Form A)

(6) The Petitioner was served with a Notice of Hearing.

(7) The Petitioner fulfilled the filing requirements of s. Ins 40.02, Wis. Adm.

Code.

(8) The Plan will not violate the law or be contrary to the interest of the insureds of CMG Mortgage Insurance Company, CMG Mortgage Assurance Company, CMG Mortgage Reinsurance Company, or of the Wisconsin insureds of any participating nondomestic corporation.

(9) After the acquisition of control, CMG Mortgage Insurance Company, CMG Mortgage Assurance Company, and CMG Mortgage Reinsurance Company will be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which they are presently licensed.

(10) The effect of the acquisition of control will not be to create a monopoly or to substantially lessen competition in any type or line of insurance in Wisconsin.

(11) The financial condition of Arch U.S. MI Holdings Inc. is not likely to jeopardize the financial stability of CMG Mortgage Insurance Company, CMG Mortgage

Assurance Company, and CMG Mortgage Reinsurance Company, or to prejudice the interests of their Wisconsin policyholders.

(12) There are no plans or proposals to make significant changes to senior management or the employees of CMG Mortgage Insurance Company, CMG Mortgage Assurance Company, and CMG Mortgage Reinsurance Company, or to request an extraordinary dividend, to liquidate, to sell its assets, or to consolidate or merge with any person, or to materially change the current operations. The Petitioner's plans, after acquiring the voting shares, as described by the Petitioner, are fair and reasonable to the policyholders of CMG Mortgage Insurance Company, CMG Mortgage Assurance Company and CMG Mortgage Reinsurance Company, and in the public interest.

(13) The competence and integrity of the persons who will control the operation of CMG Mortgage Insurance Company, CMG Mortgage Assurance Company, and CMG Mortgage Reinsurance Company, are such that it will be in the interest of the policyholders and the public to permit the acquisition of control.

PROPOSED CONCLUSION OF LAW

(14) The proposed findings of fact set forth above establish that the requirements of s. 611.72 and chs. 227 and 617, Wis. Stat., and ch. Ins 40, Wis. Adm. Code, have been satisfied and approval of the plan should be granted.

PROPOSED ORDER

NOW, THEREFORE, based upon the findings of fact and conclusion of law, I hereby recommend that:

(15) The Petitioners' request for approval of the plan for acquisition of control should be approved, subject to the following conditions subsequent:

- a) Consent to Jurisdiction (Form E): Arch Capital Group (U.S.) Inc. will file a Consent to Jurisdiction Statement on Form E within ten business days following the date on which the acquisition of control occurs.
- b) Consent to Jurisdiction (Form E): Arch Capital Group Ltd. (Bermuda) will file a Consent to Jurisdiction Statement on Form E within ten business days following the date on which the acquisition of control occurs.
- c) Form D Filings: Any management or service agreement whereby Arch U.S. MI Holdings Inc. would provide services to the CMG Companies is to be filed with the OCI on Form D as provided by s. Ins 40.04 (d), Wis. Adm. Code.
- d) Funding Mechanism: Arch Capital Group (U.S.) Inc. or Arch U.S. MI Holdings Inc. will file a description of any debt financing used in connection with the acquisition of the CMG Companies within ten business days following the date on which the acquisition of control occurs.

(16) The Sellers request to terminate certain existing Joint Venture Agreements, and exchange the existing Surplus Notes for equity in the form of paid in capital be approved (as discussed in Section (4) of the Proposed Findings of Fact).

(17) The Petitioners request to enter into certain affiliated agreements after the closing of the acquisition be approved (as discussed in Section (5) of the Proposed Findings of Fact).

Dated at Madison, Wisconsin, this 10th day of December, 2013.



Rebecca L. Easland
Hearing Examiner