



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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DATE: December 6, 2013
TO: Rebecca Easland
Steve Junior
FROM: Kristin Forsberg
SUBJECT: Form A – Acquisition of Control of a Domestic Insurer [Case No. 13-C35677]
CMG Mortgage Insurance Company (NAIC # 40266)
CMG Mortgage Assurance Company (NAIC # 29114)
CMG Mortgage Reinsurance Company (NAIC # 10992)

Form A filing contacts:

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Parties to the transaction:

The Acquirer/Applicant:

- Arch U.S. MI Holdings Inc. ("Applicant"): The Applicant is a Delaware corporation and a wholly-owned indirect subsidiary of Arch Capital Group Ltd. ("Arch Capital").

Ultimate Parent: Arch Capital is organized under the laws of Bermuda, and is listed on the NASDAQ Stock Exchange (ticker symbol: ACGL). Arch Capital is the ultimate controlling person in an insurance holding company system, collectively referred to as the "Arch Group". The Arch Group writes a broad range of property/casualty insurance and reinsurance on a worldwide basis, with a focus on specialty lines, and is currently rated "A+" (Superior) by A.M. Best.

1 The Arch Group's insurance operations are conducted in Bermuda, the U.S., Europe and Canada. In Bermuda, business is conducted through Arch Insurance (Bermuda). In the U.S., the Arch Group's principal insurance subsidiaries are Arch Insurance, Arch E&S, Arch Specialty, and Arch Indemnity. European operations are conducted through Arch Insurance Europe, based in London, which also has branches in Germany, Italy, Spain and Sweden.

The Sellers<sup>2</sup>:

- CMFG Life Insurance Company ("CMFG Life"): CMFG Life (formerly known as CUNA Mutual Insurance Society) is an Iowa-domiciled insurance company, and owner of 50% of the issued and outstanding shares of CMG MI and CMG MA. Since its inception, CMFG Life has been the primary provider of a wide range of financial-based products for credit unions, their employees and members. CMFG Life currently has an "A" (Excellent) rating from A.M. Best.

CMFG Life is the primary operating company in the insurance holding company system (**collectively referred to as the "CUNA Mutual Group"**), with operations in approximately 30 countries and/or territories. The ultimate parent company in the group is CUNA Mutual Holding Company, whose directors are elected by the policyholders of CMFG Life, and are drawn primarily from the credit union industry.

- PMI Mortgage Insurance Co., in Rehabilitation ("PMI"): PMI is an Arizona-domiciled insurance company, and owner of 50% of the issued and outstanding shares of CMG MI and CMG MA. PMI's operations are currently in run-off<sup>3</sup>. Prior to entering into run-off, PMI wrote residential mortgage guaranty insurance (including primary mortgage and mortgage pool insurance).<sup>4</sup> PMI currently has an "E" (Under Regulatory Supervision) rating from A.M. Best.

PMI is a member of the PMI Mortgage Group insurance holding company system (**collectively, the "PMI Group"**).<sup>5</sup> The ultimate controlling person is The PMI Group, Inc. ("TPG")<sup>6</sup>, a Delaware holding company, and the ultimate parent of eleven mortgage guaranty insurers, as well as several other subsidiaries that provide support to PMI's mortgage guaranty operations.

The WI Insurers to be Acquired:

- CMG Mortgage Insurance Group: The CMG mortgage insurance group is comprised of three Wisconsin-domiciled mortgage guaranty insurers, including CMG Mortgage Insurance Company ("CMG MI"), CMG Mortgage Reinsurance Company ("CMG Re") and CMG Mortgage Assurance Company ("CMG MA") (**collectively, the "CMG Companies"**). Each CMG mortgage guaranty insurer is operated as an independently organized joint venture enterprise, with the capital stock of each respective company jointly owned directly or indirectly by CMFG Life and PMI (50% each). Below is a high-level description of the individual companies within the group:

<sup>2</sup> The Sellers, per letter from John Chosy (CUNA Mutual Associate General Counsel) dated September 25, 2013, have requested that OCI, as part of its response to the Form A filing, and in lieu of separate Form D requests by the Sellers, permit the Sellers to: (1) Terminate certain existing Joint Venture Agreements (in accordance with s. 7.12 of the Stock Purchase Agreement); and (2) Exchange the existing Surplus Notes for equity in the form of Paid-in-Capital (in accordance with s. 7.15 of the Stock Purchase Agreement).

<sup>3</sup> PMI directly owns 100% of the following companies: PMI Mortgage Assurance Company ("PMAC"), and PMI Insurance Company ("PIC").

<sup>4</sup> Mortgage guaranty insurance provides protection to mortgage lenders and investors against losses in the event of borrower default. Primary mortgage insurance enhances the ability of lenders to sell mortgage loans in the secondary market. Mortgage pool insurance is generally used as an additional credit enhancement for secondary mortgage market transactions.

<sup>5</sup> In 2010, the PMI Mortgage Group was the fourth largest writer of mortgage guaranty insurance in the U.S., with a 17.2% market share.

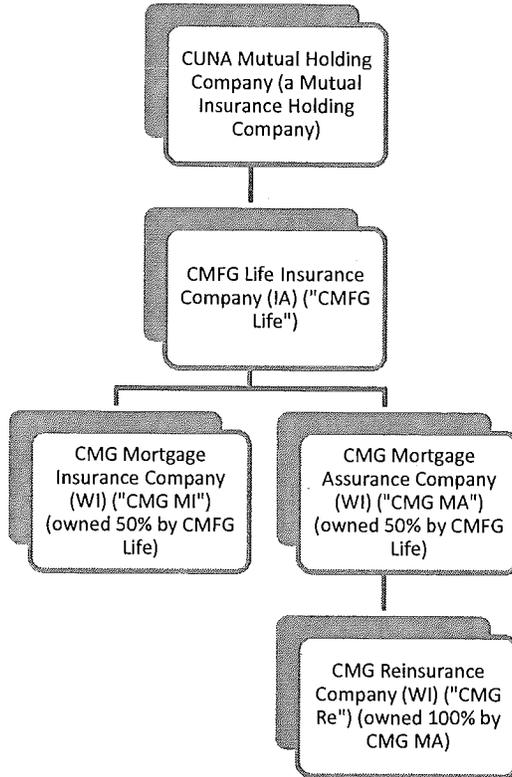
<sup>6</sup> On November 3, 2011, TPG filed a voluntary petition for relief under chapter 11 of the United States Code in the U.S. Bankruptcy Court for the District of Delaware.

- CMG Mortgage Insurance Company ("CMG MI"): CMG MI operates as a direct writer of mortgage guaranty insurance, providing coverage for first lien residential mortgage loans originated by credit unions. For the year ended 12-31-12, CMG MI was licensed in all 50 states, plus the District of Columbia and Puerto Rico, and reported the following financial results:
  - Premiums Earned: \$ 80,616,368
  - Net Income: \$ 8,147,601
  - Surplus: \$109,520,859
  
- CMG Mortgage Assurance Company ("CMG MA"): CMG MA is authorized to insure loans on junior liens and second mortgages. For the year ended 12-31-12, CMG MA was licensed in 43 states, plus the District of Columbia, and reported the following financial results:
  - Premiums Earned: \$ 212,574
  - Net Income: (\$ 8,665,087)
  - Surplus: \$ 4,908,259
  
- CMG Mortgage Reinsurance Company ("CMG Re"): CMG Re assumes quota share reinsurance coverage of risks written by CMG MI, to enable CMG MI to comply with statutory restrictions on the amount of mortgage guaranty risks that an individual insurer is permitted to retain. CMG Re is a wholly-owned direct subsidiary of CMG MA. For the year ended 12-31-12, CMG Re was licensed only in the State of Wisconsin, and reported the following financial results:
  - Premiums Earned: \$ 10,257,080
  - Net Income: (\$ 1,108,172)
  - Surplus: \$ 14,478,333

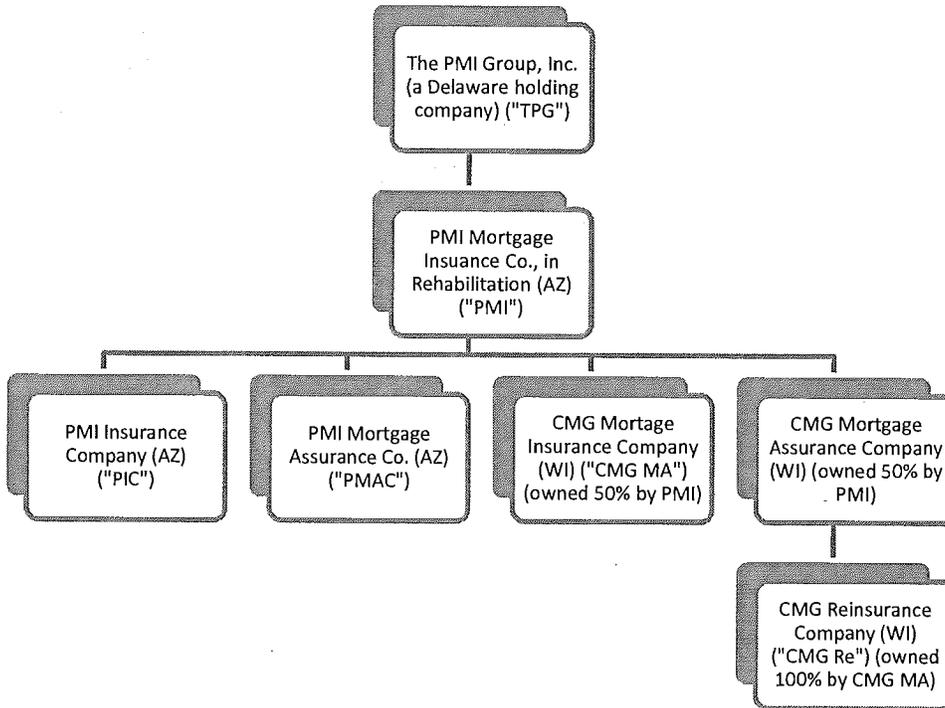
Organizational Charts – Pre- and Post-Acquisition

Below are abbreviated pre-acquisition organizational charts showing where the CMG mortgage insurance companies currently fit into the CUNA Mutual and PMI holding company structures, and the abbreviated post-acquisition organizational chart showing where the CMG mortgage insurance companies will fit into the Arch holding company structure:

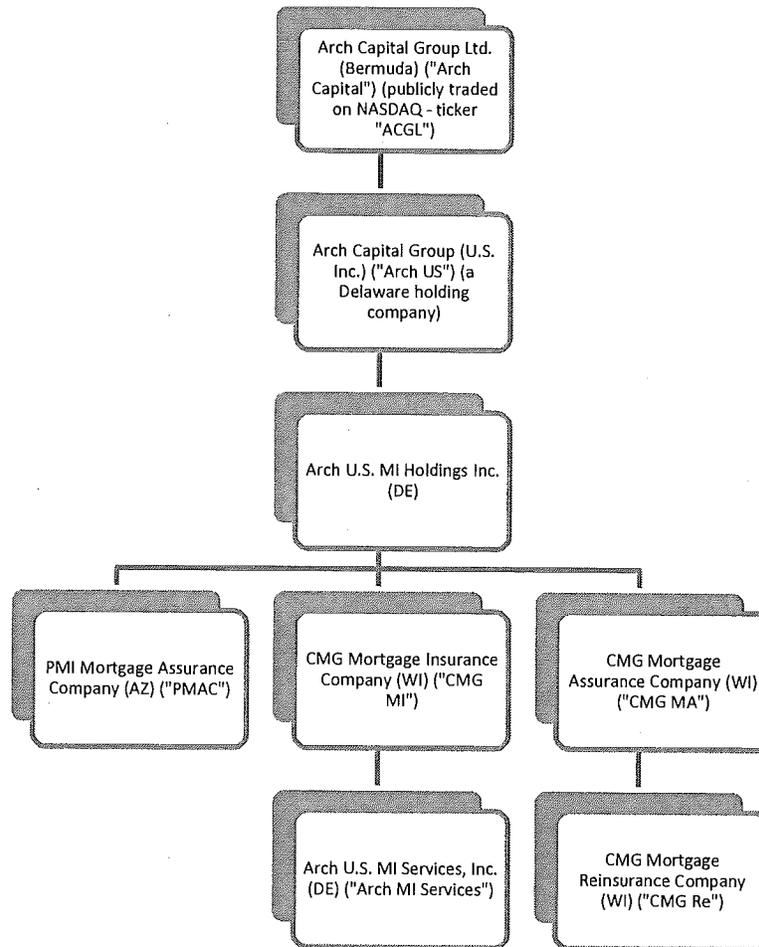
**Pre-Acquisition: CUNA Mutual Group (Abbreviated)**



**Pre-Acquisition: PMI Group (Abbreviated)**



## Post-Acquisition: Arch Group (Abbreviated)



At closing, PMI Mortgage Assurance Company will be acquired by Arch U.S. MI Services, Inc. pursuant to the Asset Purchase Agreement (which was entered into concurrently with the Stock Purchase Agreement). Immediately following closing, it is intended that Arch U.S. MI Services Inc. will distribute 100% of the capital stock of PMI Mortgage Assurance Company to Arch U.S. MI Holdings Inc. In addition, the Applicant plans to contribute the stock of Arch U.S. MI Services Inc. to CMG Mortgage Insurance Company immediately following the closing.

Below is a summary of the role the Applicant and its insurance subsidiaries will play post-acquisition:

- Arch U.S. MI Holdings, Inc. ("Applicant"): The Applicant will be the holding company for Arch's U.S. mortgage insurance operations. It will own either directly or indirectly all of the insurance operating entities and a service company that will, in turn, own the IT and other aspects of the operating platform for the U.S. mortgage insurance business of the Arch Group.
- Arch U.S. MI Services Inc. ("Arch MI Services"): Arch MI Services will own the IT and other aspects of the operating platform for the U.S. mortgage insurance business of the Arch Group and enter into service agreements with the other entities to provide the use of the technology for the Arch US MI business.

- **CMG MI:** CMG MI will be the flagship mortgage insurer of the Arch Group and will wholly-own Arch U.S. MI Services Inc.
- **CMG MA:** CMG MA will be reserved for future use. The Applicant is continuing to assess such future use of CMG MA.
- **CMG Re:** CMG Re will provide reinsurance to CMG MI for those policies with coverage greater than 25%. [Although this is not contemplated by the current business plan, as the quota share with Arch Reinsurance Ltd. ("ARL"), will make net coverage amounts greater than 25% unlikely.]
- **PMAC:** PMAC will be used for bulk, non-agency and private label transactions if the Arch Group chooses to pursue any of these opportunities.

**The Proposed Transaction:**

On February 7, 2013, the Receiver of PMI (on behalf of PMI), CMFG Life and CMG MI entered into a Stock Purchase Agreement (**the "Stock Purchase Agreement"**) with Arch U.S. MI Holdings, Inc. ("Arch U.S. MI") and Arch Capital Group (US) Inc., pursuant to which, and subject to the conditions in the Agreement, Arch U.S. MI agreed to purchase from PMI and CMFG Life all of the issued and outstanding shares of capital stock of CMG MI and CMG MA (the "Acquisition"). Upon closing of the Acquisition, Arch U.S. MI will be the 100% direct owner of CMG MI and CMG MA, and 100% indirect owner of CMG Re. ***In conjunction with the Stock Purchase Agreement, the following separate agreements will be executed (subject to all required regulatory approvals):***

- **Asset Purchase Agreement:** Pursuant to the terms of this separate agreement (also dated February 7, 2013), Arch MI Services will purchase the mortgage insurance operating platform and certain related assets of PMI, as well as all of the issued and outstanding shares of PMI Mortgage Assurance Co. (an Arizona-domiciled insurer, and a wholly-owned subsidiary of PMI) (**the "Asset Purchase Agreement"**).
- **CUNA Mutual Distribution Agreement:** Effective with the close of the transaction under the Stock Purchase Agreement, CMG MI will enter into a distribution agreement with the CMFG Life (**the "Distribution Agreement"**). Pursuant to the distribution arrangement, CMFG Life will provide certain services related to marketing and sale of certain CMG MI mortgage insurance products to credit union organizations.

***In addition, the following Reinsurance Agreements will become effective on the Closing Date:***

- **CUNA Mutual Quota Share Reinsurance Agreement:** CMG MI will reinsure via quota share to a CUNA Mutual Group entity 2.5% of credit union only new insurance written in 2014, 5.0% in 2015, and 7.5% in 2016 and thereafter. The ceding commission is 35%. [This agreement includes a Parental Guarantee, whereby CUNA Mutual Financial Group, Inc. (the "Parent" of the reinsurer) shall guarantee the payment obligations of the reinsurer at all times during the term of this agreement.]
- **PIC Quota Share Reinsurance Agreement:** CMG MI will reinsure via quota share 20% of new insurance written ("NIW") for both bank and credit union customers to PMI Insurance Co. ("PIC") with up to a maximum of \$25 billion of new insurance written. The term of this agreement is seven (7) years. The ceding commission is 35%.
- **ARL Quota Share Reinsurance Agreement:** CMG MI will reinsure via quota share 50% of all existing non-delinquent in force and 50% of new insurance written to Arch Re after consideration of new insurance written to PIC and CUNA Mutual. The ceding commission is 37.5%.

All above-referenced transactions are subject to approvals of the Arizona receivership court for any transactions involving PMI or PMAC, applicable regulators and government-sponsored enterprises ("GSEs"), including Fannie Mae and Freddie Mac, and the satisfaction of customary closing conditions.<sup>7</sup>

The Stock Purchase Agreement may be terminated under certain circumstances, including (i) the parties' mutual agreement, (ii) the non-terminating party's material uncured breach of the Agreement, (iii) the failure of the closing to occur within twelve months following the execution of the Agreement, or (iv) if PMI and CMFG Life enter into an agreement for a "superior proposal", as defined in the Agreement. In the event that the Agreement is terminated in connection with PMI and CMFG Life entering into an agreement to effect a "superior proposal", CMG MI will be required to pay Arch U.S. MI a break-up fee equal to \$4.9 million within two business days of such termination.

Assuming the proposed transaction is consummated, Arch U.S. MI will be the U.S. holding company for the U.S. mortgage insurance business of the Arch Group. The Arch Group is seeking to acquire the CMG mortgage insurance companies to establish the Arch Group's mortgage insurance business in the U.S., for which CMG MI will be the Arch Group's primary U.S. mortgage insurance company.

## Form A Filing - Analysis

### Item 1: Method of Acquisition: Stock Purchase Agreement [Form A - Exhibit A]

Material terms of the Stock Purchase Agreement are summarized as follows:

#### Prelude

This agreement is dated February 7, 2013 between the following parties<sup>8</sup>:

- The Sellers: The Receiver of PMI Mortgage Insurance Company in Rehabilitation (on behalf of PMI), PMI, and CMFG Life.
- The Purchaser: Arch U.S. MI Holdings Inc.

Purpose: Pursuant to this Agreement, PMI and CMFG Life each intend to sell their 50% respective ownership (combined 100% ownership) of the common stock of CMG MI and CMG MA to Arch U.S. MI Holdings Inc. in accordance with the terms set forth in this agreement. [Note: The purchase and sale of the Shares and other transactions contemplated by this Agreement are collectively referred to herein as the "**Transaction**", and all agreements pertaining to the transaction are collectively referred to as the "**Transaction Documents**".]

#### Article II: Sale and Purchase of Shares

Closing Date Payment: On the Closing Date, as aggregate consideration for the Shares purchased, the Purchaser will pay to the Sellers an amount ("Closing Date Payment") equal to 80% of the greater of (1) The estimated closing date book value (calculated in accordance with Schedule 2.7(c) to the Stock Purchase Agreement), and (2) \$185,000,000. [This figure shall be adjusted up or down for any Seller

<sup>7</sup> The Arizona receivership court approved the Stock Purchase Agreement, Asset Purchase Agreement, and the related transaction documents on June 20, 2013 (**see Exhibit L to the Form A**).

<sup>8</sup> The Stock Purchase Agreement was first amended on May 31, 2013. The primary revision was the addition of the PIC Quota Share Reinsurance Agreement to the Transaction Documents referenced in the original agreement. The Stock Purchase Agreement was amended a second time on November 15, 2013. The primary revision was to amend the form of the post-closing CUNA Mutual Quota Share Reinsurance Agreement, to provide that the reinsurer would be a subsidiary of CUNA Mutual Group's primary property and casualty operating company, and the parent guarantee would be provided by CUNA Mutual Group's intermediate holding company.

Capital Contributions and Estimated Current Affiliate Obligations, as well as certain post-closing adjustments in accordance with Section 2.6]

Deferred Consideration: The Closing Date Payment shall be adjusted upward on the third, fifth and sixth anniversary of the closing date based on an applicable % of earned premiums for the Pre-Closing Portfolio (with certain specified adjustments). [However, in no event shall the amount of any Deferred Consideration Payment, when combined with the Final Closing Payment and all prior Deferred Consideration Payments exceed 150% of the of the Closing Date Book Value (with certain specified adjustments).]

#### **Article VII: Covenants**

Termination of Joint Venture Agreements and Affiliate Transactions: At or prior to the Closing, the Sellers shall terminate the Joint Venture Agreements and all Affiliate Transactions, ***except as set forth in Section 7.12 of the Seller Disclosure Schedule***, and each Seller and the CMG companies shall execute, and the Sellers will cause their applicable Affiliates to execute, a ***termination and release agreement, which shall be in the form and substance attached as Exh. I.***

Termination of Surplus Notes: At or prior to the Closing, the Sellers shall cause the Surplus Notes to be exchanged for equity in the form of paid-in capital.

#### **Article XI: Termination**

Break-up Fee: In the event that the Agreement is terminated in connection with PMI and CMFG Life entering into an agreement to effect a "superior proposal", CMG MI will be required to pay Arch U.S. MI a break-up fee equal to \$4.9 million within two business days of such termination.

#### **Article XIII: Purchaser Parent Guaranty**

Guaranty: Arch Capital Group (U.S.) Inc. unconditionally guarantees to the Sellers the due and punctual payment and performance of the Purchaser's obligations.

#### **Asset Purchase Agreement – Exhibit A to the Stock Purchase Agreement**

This agreement is dated February 7, 2013 between the following parties:

- The Sellers: The Receiver of PMI Mortgage Insurance Company in Rehabilitation (on behalf of PMI).
- The Purchaser(s): Arch U.S. MI Services Inc. (the "Purchaser") and Arch Capital Group (US) Inc. (the "Purchaser Parent").

Purpose: Pursuant to this agreement, Arch MI Services intends to purchase the mortgage insurance operating platform and certain related assets of PMI, as well as all of the issued and outstanding shares of PMI Mortgage Assurance Co. (an Arizona-domiciled insurer, and a wholly-owned subsidiary of PMI).

#### Contemporaneous Agreements (attached as Exhibits to the Asset Purchase Agreement):

In addition to the Stock Purchase Agreement, the following transaction documents will be entered into contemporaneously with the execution of the Asset Purchase Agreement:

- Services Agreement: Pursuant to this agreement, the Purchaser (or an affiliate) agrees to provide certain support services to PMI for the runoff of PMI's legacy insurance portfolio.
- Quota Share Reinsurance Agreement: Pursuant to this agreement, PMI and an affiliate of the Purchaser shall enter into a quota share reinsurance agreement, pursuant to which such affiliate of the Purchaser, as reinsurer, will agree to provide 100% quota share indemnity reinsurance to PMI for all certificates of insurance that were issued between and including January 1, 2009 and

December 31, 2011 by PMI, that are not in default as of the Closing Date, and that are not subject to lender captive reinsurance arrangements.

- New Walnut Creek Lease: Pursuant to this agreement, the Purchaser and the Seller's affiliate, PMI Plaza LLC, shall enter into a lease pursuant to which the Purchaser will lease a portion of the Walnut Creek Property.

## **Item 2: Identity and Background of the Applicant**

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The name and address of the Applicant seeking to acquire control of the CMG companies is:

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

*and the ultimate controlling person:*

Arch Capital Group Ltd.  
Waterloo House, Ground Floor  
100 Pitts Bay Road  
Pembroke HM 08  
Bermuda

Arch U.S. MI Holdings Inc. was incorporated in Delaware on February 4, 2013. Arch Capital was incorporated in Bermuda on September 20, 2000. An abbreviated holding company organizational chart (post-acquisition) is depicted on page 5.

Artisan Partners Limited Partnership ("Artisan"), a U.S. registered investment advisor that provides investment management services to institutional investors, currently owns approximately 17.8% of the outstanding voting securities of Arch Capital through discretionary client accounts of Artisan's clients. These shares are held for investment purposes only. Artisan filed a disclaimer of Control with OCI on September 30, 2013. OCI is not contesting the disclaimer of control at this time. To the knowledge of the Applicant, there are no persons other than Artisan who own securities representing 10% or more of the voting power of the outstanding voting securities of Arch Capital.

## **Item 3: Identify and Background of Individuals Associated with the Applicant**

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A list of the directors and officers of the Applicant, and the individuals who will serve as the directors and officers of the CMG Companies post-closing, are listed below:

### Arch MI Holdings and Arch Services

#### *Directors:*

- Constantine Iordanou
- Mark Lyons
- Marc Grandisson

#### *Executive Officers:*

- David Gansberg (President/CEO)
- Jennifer Mangino (Executive V.P.)

### CMG Companies (Post-Closing)

#### *Directors:*

- Marc Grandisson (Chairman)
- David McElroy
- Dennis Brand
- Mark Lyons

- David Gansberg
- Preston Hutchings

*Executive Officers:*

- David Gansberg (President/CEO)
- Andrew Cameron (EVP/General Counsel)
- Chris Hovey (EVP/COO)
- Tom Jeter (EVP/CFO)
- Richard Izen (EVP, Sales & Marketing)

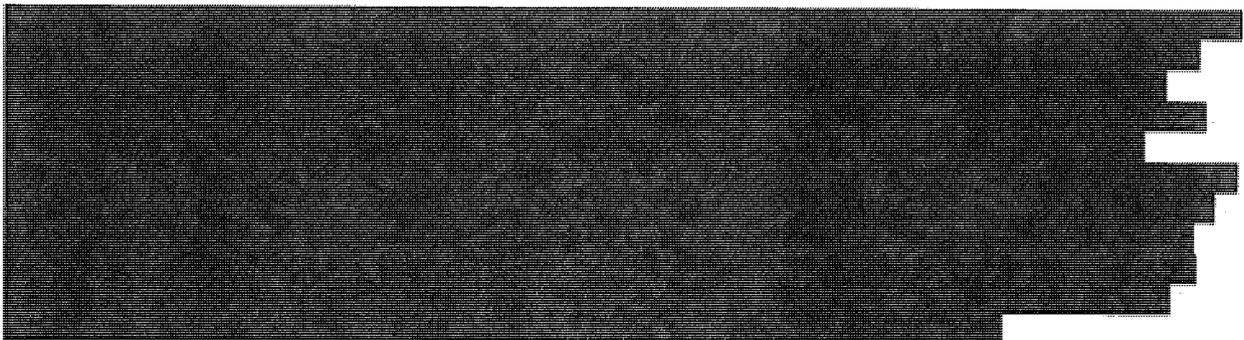
Biographical Affidavits for all directors/officers were reviewed. Exceptional responses were examined and the Applicant's response was accepted into the record of this review.

**Item 4: Nature, Source and Amount of Consideration**

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The aggregate consideration for the Shares will be payable in cash, and will consist of two components: (i) the "Closing Date Payment", payable by Arch U.S. MI on the Closing Date of the Acquisition, and (ii) the "Deferred Consideration Payment", payable by Arch U.S. MI within ninety (90) days following each of the third anniversary, fifth anniversary and sixth anniversary (and subject to further extension as set forth in the Purchase Agreement) of the Closing Date. The calculations of both the Closing Date Payment and the Deferred Compensation Payment are discussed in detail in the Stock Purchase Agreement.

Arch Capital is a party to the Purchase Agreement for the sole purpose of guaranteeing the payment by Arch U.S. MI of the Closing Date Payment and any Deferred Consideration Payments.



The consideration for the Shares was determined through arm's length private negotiations between the representatives of the Arch Group, on the one hand, and the representatives of CUNA Mutual and the Receiver of PMI, on the other hand. The Applicant based the amount of consideration on an analysis of the value of the CMG Companies including the CMG Companies' operations, using information in the data room provided by the Sellers and discussion with the Sellers' management. For valuation purposes, the Applicant employed a number of customary valuation methodologies. The Applicant also factored into the consideration an estimate of the potential value of the CMG Companies once they will be integrated into the Arch Group organization.

**Item 5: Future Plans of Insurer**

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The Applicant's proposed plan of operations describing the anticipated future operations of the CMG Companies, including financial projections, is set-forth in **Exhibit H**. The Arch Group expects that the Acquisition will enable it to enter the rapidly improving U.S. mortgage insurance marketplace and will broaden its existing mortgage and reinsurance capabilities. Arch U.S. MI will be the future U.S. holding company for the U.S. mortgage insurance business of the Arch Group, and CMG MI will be the Arch Group's primary U.S. mortgage insurance company. Although the CMG Companies currently focus solely on providing mortgage insurance to the credit union segment, the Arch Group plans to expand the scope

of business of the CMG Companies, particularly CMG MI, to cover non-credit union business. However, the CMG Companies will continue to serve credit union members.

The Applicant's current intention is to maintain the CMG Companies' operations as separate and distinct with respect to the business of marketing and selling mortgage insurance. ***The Applicant has no current plans to seek to redomesticate any CMG Company out of Wisconsin.*** The process to determine the specifics of where and how to achieve potential operational efficiencies, and under what time frames, is currently underway.

***The Applicant has no plans or proposals to have any of the CMG Companies declare an extraordinary dividend, liquidate any CMG Company, sell the assets of any CMG Company, or consolidate or merge any CMG Company with any person or make any other material change in its business or corporate structure or management unless any such plans or proposals are fair and reasonable to policyholders of such CMG Company or in the public interest.***

The business of the CMG Companies will continue to be serviced by current employees of PMI (who will be hired by Arch U.S. MI Services, Inc.) using the PMI operating platform, which will be purchased pursuant to the Asset Purchase Agreement (executed concurrently with the Stock Purchase Agreement). Immediately after the closing of the Acquisition, ***the CMG Companies will enter into the following agreements with affiliates (there are no other proposed employment, consultation, advisory or management contracts concerning any CMG Company):***

- **Service Agreement (Exhibit G-1)**: Arch MI Services will provide mortgage insurance business administration services to the CMG Companies.
- **Administrative Support Services Agreement (Exhibit G-2)**: Employees of Arch Capital Services, Inc. ("ASCI") will provide services to the CMG Companies indirectly through Arch U.S. MI and Arch MI Services. The scope of services provided will include certain legal, accounting, financial, tax, regulatory and human resources and employee benefits services, such as administration of employee stock purchase plans. The services are not duplicative of services to be provided by Arch MI Services employees, but rather directed towards supporting Arch Group-wide initiatives and standards.
- **Arch Investment Management Agreement (Exhibit G-3)**: The CMG Companies' assets will be managed by Arch Investment Management Ltd. ("Arch Investment"), which is headed by the Chief Investment Officer of Arch Capital. The Investment Management Agreement is based on commercial terms and priced as an arms-length agreement. The Finance and Investment Committee of the Arch Capital Board will establish the investment policies and create the guidelines for all internal and external investment managers. The Arch MI and CMG Companies' Boards will adopt the Arch Group policies modified as appropriate for local circumstances. Any changes made by the Arch Capital Finance and Investment Committee will be submitted to the Arch MI and CMG Companies' Boards for their review and consideration.
- **Arch Capital Group (U.S.) Tax Sharing Agreement (Exhibit G-4)**: The CMG Companies will become parties to the Amended and Restated Tax Sharing Agreement between Arch Capital Group (U.S.) Inc. and all of its direct and indirect U.S. Subsidiaries. Pursuant to this agreement, the CMG Companies will participate in the consolidated or combined tax returns with other U.S. affiliates within the Arch Group, and the allocation of the tax liabilities among the affiliates.

**Management Structure**: At the closing, the existing directors and officers of the CMG Companies will resign, and the Applicant anticipates electing the director for each CMG Company, who will then appoint the officers. All of the CMG Companies will have the same directors and officers. In addition, the Applicant intends to appoint a Chief Risk Officer for CMG MI soon after the closing. Operational expertise will also be supplemented by resources from the Arch Group.

**Systems**: The Arch Group will use the systems developed by PMI, which are generally recognized as one of the best in the MI industry, and which will be acquired into Arch MI Services pursuant to the Asset

Purchase Agreement. Although PMI is not actively issuing new policies, CMG MI has continuously used this system and full functionality has been maintained. In addition, PMI continues to use the system to service its runoff business and handle HARP refinances. The system is ready to use in its current form, and will not require significant development work prior to implementation. It is also currently connected to Fannie Mae and Freddie Mac and many lenders.

Effect on Competition: Because the Arch Group currently writes no mortgage insurance, there will be no change in the combined market share of the involved insurers in any line of business as an immediate result of the proposed acquisition of the CMG Companies by the Applicant.

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**Item 6: Voting Securities to be Acquired**

On the Closing Date of the Acquisition, pursuant to the Stock Purchase Agreement, Arch U.S. MI will acquire all of the issued and outstanding Shares, and, as a result of the Acquisition, Arch U.S. MI will hold directly 100% of the voting securities of each of CMG MI and CMG MA and indirectly 100% of the voting securities of CMG Re.

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**Item 7: Ownership of Voting Securities**

Except as discussed in the Form A, and pursuant to the terms of the Stock Purchase Agreement, neither the Applicant nor its affiliates or, to the Applicant's knowledge, any person listed in Item 3 beneficially owns or has the right to acquire beneficial ownership of any voting security of the CMG Companies.

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**Item 8: Contracts, Arrangements, or Understandings with Respect to Voting Securities of the Insurer**

Other than the Stock Purchase Agreement, neither the Applicant nor its affiliates or, to the Applicant's knowledge, any person listed in Item 3 is involved in any contracts, arrangements or understandings with respect to any voting security of any CMG Company, including but not limited to transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies.

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**Item 9: Recent Purchases of Voting Securities**

Neither the Applicant nor its affiliates, or to the Applicant's knowledge, any person listed in Item 3, has acquired any voting securities of any CMG Company during the twelve calendar months preceding the filing of this Statement, other than that Arch U.S. MI and Arch Capital have entered into the Stock Purchase Agreement attached as Exhibit A to this Form A.

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**Item 10: Recent Recommendations to Purchase**

Neither the Applicant nor its affiliates, or to the Applicant's knowledge, any person listed in Item 3 has made any recommendations to purchase any voting security of any CMG Company during the twelve calendar months preceding the filing of this Statement, nor has any person, to the Applicant's knowledge, made any such recommendations based upon interviews or at the suggestion of the Applicant, its affiliates or any person listed in Item 3.

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**Item 11: Agreements with Broker-Dealers**

The Applicant does not have any agreement, contract or understanding with any broker-dealer as to the solicitation of voting securities of any CMG Company for tender, and no fees, commissions or other compensation is to be paid to broker-dealers with regard thereto. There are agreements between CMFG Life and Lazard Ltd. ("Lazard") and PMI and Lazard, pursuant to which Lazard will receive a fee upon the closing of the Acquisition.

**Item 12: Financial Statements**

Arch Capital's consolidated audited financial statements for the periods ended March 31, 2013, December 31, 2012, and December 31, 2011 were obtained and reviewed (**Exhibits I, J, and K**). [Note: Neither the CMG Companies nor the Applicant prepares annual reports to stockholders.] There was nothing noted in the financial statements that would raise any concerns that the financial condition of the acquiring party (or the holding company) is likely to jeopardize the financial stability of the CMG Companies, or prejudice the interests of their policyholders.

Other than as described in the Form A, there are no tender offers for, requests or invitations for, tenders of, exchange offers for or agreements to acquire or exchange any voting securities of any CMG Company, or additional soliciting material relating thereto.

**Business Plan**

The Business Plan and Financial Projections filed in connection with the Applicant's proposed acquisition of the CMG companies were reviewed. The Arch Group will have a two-pronged business strategy following the Acquisition. First, the Arch Group will strive to transition and maintain the existing credit union business of CMG MI in as seamless a manner to the credit unions as possible. Customer facing employees will not be changed. However, CMG MI employees from San Francisco will be moved to Walnut Creek, and CMG MI will gradually be rebranded over time to "Arch MI".

The second part of the business plan will be to develop and grow the insurance policies emanating from the traditional/lender channel using CMG MI as the issuing carrier, with the goal of beginning production as soon as possible after the closing of the Acquisition.

**5-Year Financial Projections**

The Applicant submitted 5-Year financial projections for the CMG Companies. The projections were based upon the following methodology/assumptions:

Methodology:

- All figures are on a combined basis (CMG MI, CMG Re and CMG MA)
- Upon closing, CMG Re will effectively be in run-off, as no new insurance is forecasted (due to the quota share reinsurance agreements which will become effective on the Closing Date.
- CMG MA will continue to be in run-off.
- Changes in the contingency reserve will flow through the income statement (per Wisconsin statute).

Assumptions:

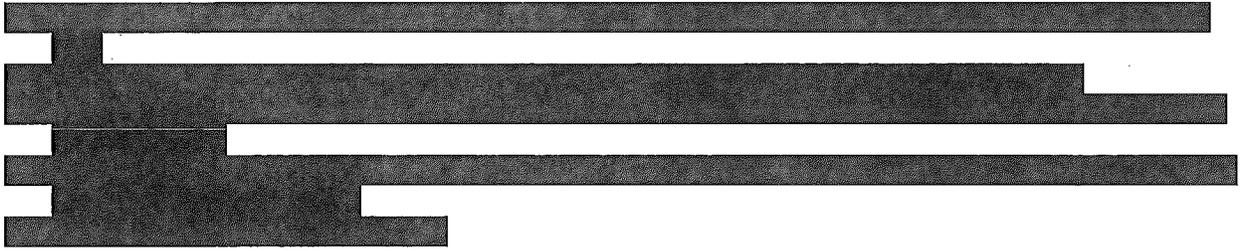
1. The transaction is expected to close 12/31/13.

■ The IT platform (cost: \$82M), will be owned by the Arch U.S. MI Services, Inc., which in turn will be a wholly-owned subsidiary of CMG MI.

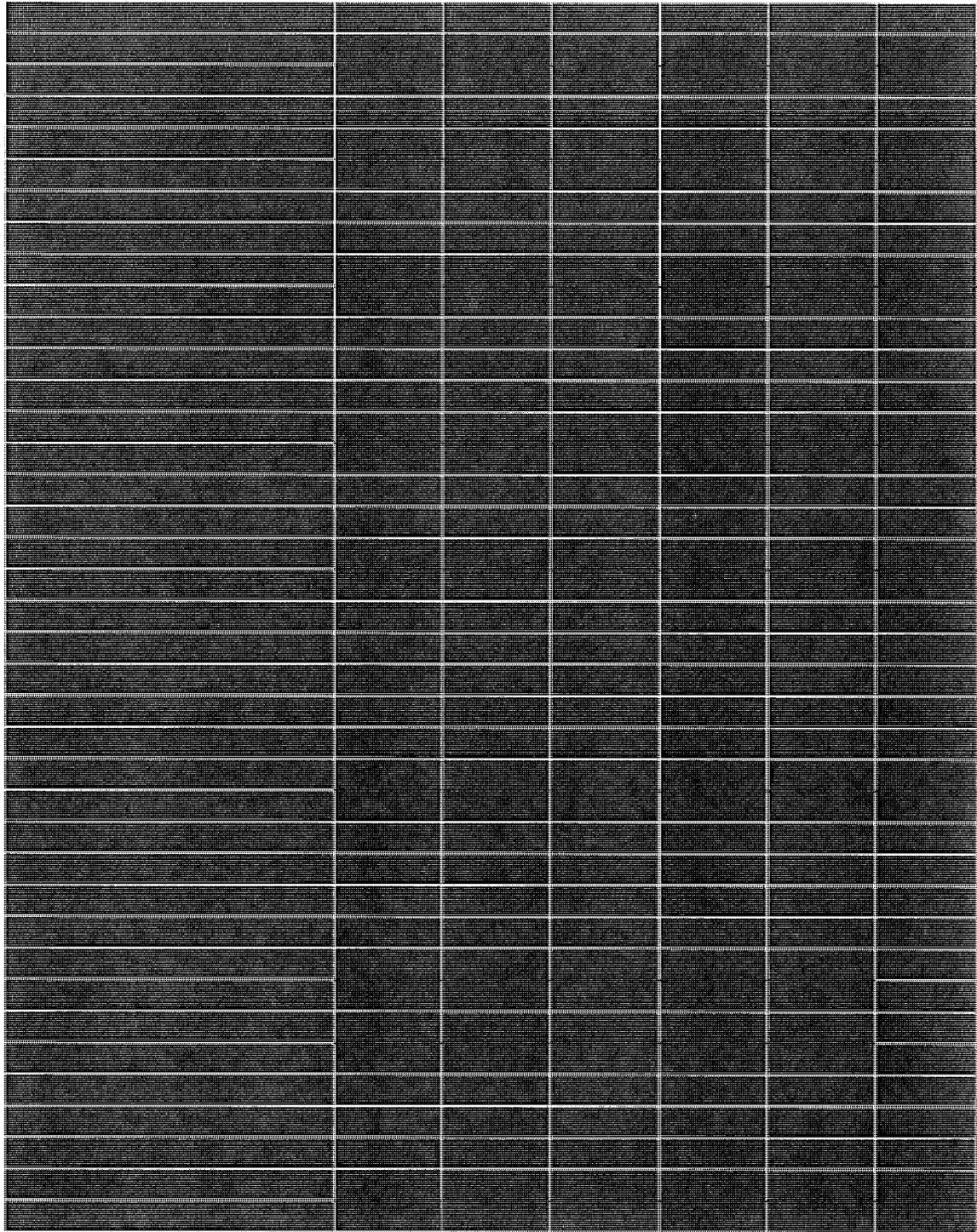
[REDACTED]

[REDACTED]

[REDACTED]



**5-Year Pro Formas:**



## Wisconsin Specific Requirements

The following checklist addresses the requirements of s. 611.72 (3), Wis. Stat. (Grounds for Disapproval):

- a) After the change of control, the domestic stock insurance corporation or any domestic stock insurance corporation controlled by the insurance holding corporation would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed?

**Did the Filing Adequately Address this Concern? Yes**

Comments: As indicated in Item 4, neither the stock of the CMG Companies nor any assets of the CMG Companies will be pledged or used as collateral for any financing of the Acquisition. Moreover, as indicated in Item 5, the Applicant has no current plans to cause any of the CMG companies to pay an extraordinary dividend, redomesticate any CMG Company out of Wisconsin, nor does it have any plans or proposals to liquidate any CMG Company, sell assets of any CMG Company, or consolidate or merge any CMG Company with any person or make any other material change in its business or corporate structure or management unless any such plans or proposals are fair and reasonable to the policyholders of the CMG Companies, or in the public interest.

- b) The effect of the merger or other acquisition of control would not be to create a monopoly or substantially lessen competition in insurance in this state?

**Did the Filing Adequately Address this Concern? Yes**

Comments: Because the Arch Group currently writes no mortgage insurance, there will be no change in the combined market share of the involved insurers in any line of business as an immediate result of the proposed acquisition of the CMG Companies by the Applicant.

- c) The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders?

**Did the Filing Adequately Address this Concern? Yes**

Comments: The Arch Group has consistently posted strong operating results since inception, and is well capitalized to execute the proposed acquisition.

- d) The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest?

**Did the Filing Adequately Address this Concern? Yes**

Comments: As indicated in Item 5, the Applicant has no current plans to redomesticate any CMG Company out of Wisconsin, nor does it have any plans or proposals to liquidate any CMG Company, sell assets of any CMG Company, or consolidate or merge any CMG Company with any person or make any other material change in its business or corporate structure or management unless any such plans or proposals are fair and reasonable to the policyholders of the CMG Companies, or in the public interest.

- e) The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of policyholders of the corporation and of the public to permit the merger or acquisition of control?

**Did the Filing Adequately Address this Concern? Yes**

Comments: Review of the Biographical Affidavits did not raise any significant concerns regarding the competence or integrity of the proposed Officers and Directors.

\*\*\*\*\*

**Hearing:** Per s. 611.72 (3m), Wis. Stat.: “A hearing is not required under sub. (3) Before approval of a proposed plan of merger or other plan for acquisition of control if the proposed merger is with, or the proposed acquirer is, an affiliate of the insurer and the proposed merger or other acquisition of control does not change the controlling person of the insurer.” Is a hearing required for this filing? (Y/N)

**Yes.** The Applicant will acquire 100% of the capital stock of the CMG Companies from CMFG Life and PMI. Therefore, a hearing will be required.

\*\*\*\*\*

**Follow-up Items**

The Applicant (per letters dated November 14, 2013 and December 3, 2013) adequately addressed the issues identified in OCI's October 23, 2013 and November 22, 2013 application follow-up letters, respectively.

**Conclusion**

It is recommended that the proposed acquisition of CMG Mortgage Insurance Company, CMG Mortgage Assurance Company and CMG Mortgage Reinsurance Company be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.