Report

of the

Examination of

Commercial Loan Insurance Corporation

Madison, Wisconsin

As of December 31, 2007

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, *Governor*
Sean Dilweg, *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

January 28, 2009

Honorable Sean Dilweg
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Honorable James J. Donelon
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
State of Louisiana
1702 North 3rd Street
Baton Rouge, Louisiana 70802

Honorable Morris J. Chavez
Secretary, Western Zone, NAIC
Superintendent of Insurance
State of New Mexico
1120 Paseo de Paralta
Santa Fe, New Mexico 87504

Commissioners:

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

COMMERCIAL LOAN INSURANCE CORPORATION
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Commercial Loan Insurance Corporation (hereinafter also the company or CLIC) was conducted in 2003 as of December 31, 2002. The current examination covered the intervening period ending December 31, 2007, and included a review of such 2008 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

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.

II. HISTORY AND PLAN OF OPERATION

The company was organized on December 21, 1966. The company wrote commercial mortgage guaranty and insurance guarantying commercial leases. The company has not written any new insurance risks since February 28, 1985. Prior to August 2001, the company was a wholly owned subsidiary of WMAC Investment Corporation, then an affiliate of Leucadia National Corporation. On August 6, 2001, PMI Mortgage Insurance Co. (hereinafter also PMI) acquired a 100% ownership interest of the company.

The company is licensed in 47 states, the District of Columbia and Guam to write first mortgage guaranty insurance on commercial properties. The company is also licensed to write insurance to indemnify against defaults on lease payments on commercial and industrial real estate. However, there are currently no lease guaranty risks in force.

In 2007, the company wrote direct premium in the following states:

Tennessee	$33,324	64.5%
Idaho	16,618	32.2
Nebraska	1,705	3.3
Total	$51,647	100.0%

The following table is a summary of the net insurance premiums written by the company in 2007. 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	$51,647	$0	$0	$51,647
Total All Lines	$51,647	$0	$0	$51,647

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 13 members who are elected annually, each of whom is an officer of PMI. Officers are elected at the annual board meetings and are to hold those positions until the earlier of their resignation or removal by the board of directors. As inside directors, they receive no specific compensation for serving on the board.

The board of directors serving at the time of this examination consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Victor J. Bacigalupi Pleasant Hill, California	PMI Senior Executive Vice President, General Counsel and Secretary	2008
Charles F. Broom Fremont, California	PMI Director, Senior Vice President of Human Resources and Development	2008
Walter G. Campion Danville, California	PMI Senior Vice President of Claims and Policy Servicing	2008
Glen S. Corso Lafayette, California	PMI Senior Vice President of Investor and Corporate Relations	2008
David H. Katkov Alamo, California	PMI President and Chief Operating Officer	2008
Donald P. Lofe, Jr. Danville, California	PMI Executive Vice President and Chief Financial Officer	2008
Mark F. Milner Moraga, California	PMI Senior Vice President and Chief Risk Officer	2008
Peter C. Pannes San Anselmo, California	PMI Senior Vice President of Sales	2008
Janet W. Parker Oakland, California	PMI Executive Vice President of Risk Management	2008
Daniel L. Roberts El Dorado Hills, California	PMI Executive Vice President and Chief Information Officer	2008
Rhonda R. Rossman Albany, California	PMI Vice President and Treasurer	2008
Anthony D. Shore Elkin Park, Pennsylvania	PMI Vice President, Assistant General Counsel	2008
Larry S. Smith Alamo, California	PMI Chairman of the Board of Directors and Chief Executive Officer	2008

Officers of the Company

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

Name	Office	2007* Compensation
Larry S. Smith	Chairman of the Board of Directors and Chief Executive Officer	$5,314,973
David H. Katkov	President & Chief Operating Officer	1,039,139
Thomas H. Jeter	Senior Vice President, Chief Accounting Officer & Corporate Controller	389,988
Anthony D. Shore	Vice President and Secretary	414,586
Donald P. Lofe, Jr.	Executive Vice President & Chief Financial Officer	822,650
Victor J. Bacigalupi	Executive Vice President	2,334,944
Andrew D. Cameron	Senior Vice President	436,041
Ray D. Chang	Senior Vice President & Treasurer	343,851
Kenneth S. Dailey	Actuary	255,233

* Compensation reported above was the total amount received by the individual in 2007 for their performance as an officer in The PMI Group, Inc.

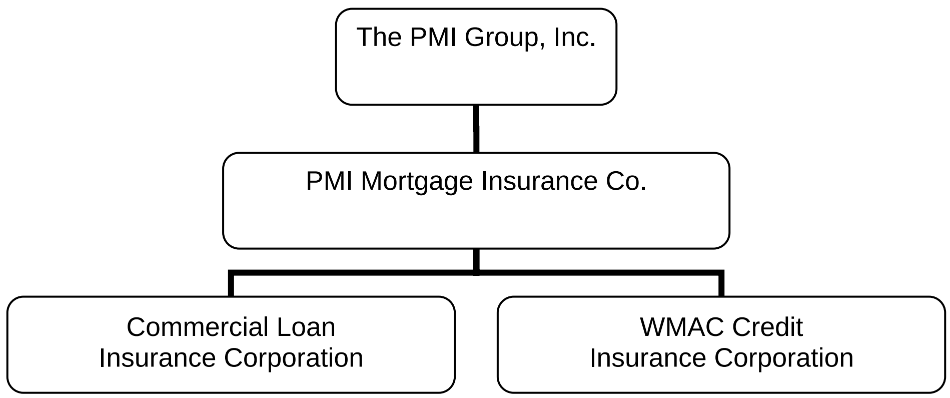
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. At the time of the examination there were no committees established by the board.

IV. AFFILIATED COMPANIES

Commercial Loan Insurance Corporation is a member of a holding company system referred to as "The PMI Group, Inc." The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2007



The PMI Group, Inc.

The PMI Group, Inc. (hereinafter also TPG), is an insurance holding company organized in December 1993 pursuant to the laws of the state of Delaware. TPG was originally a wholly owned subsidiary of Allstate Insurance Company (Allstate), an insurance subsidiary of The Allstate Corporation. In an April 18, 1995, initial public offering, Allstate sold 36.75 million shares of TPG common stock, representing a 70% ownership interest of TPG. Subsequent to the 1995 public offering of TPG, Allstate divested all of its remaining 30% ownership interest in TPG through an exchange of 12.9 million shares of TPG common stock to redeem outstanding Allstate exchangeable notes, and through the sale of 2.8 million shares of TPG common stock that remained in Allstate's ownership following the Allstate exchange note redemptions.

Through its subsidiary, PMI Mortgage Insurance Co., TPG provides private mortgage guaranty insurance to mortgage lenders in the United States. Other TPG subsidiaries provide mortgage guaranty reinsurance, private mortgage guaranty insurance in Australia, New Zealand, the European Union, Hong Kong and Canada, home finance industry risk management products and services, and title insurance.

As of December 31, 2007, TPG's audited financial statements reported total assets of $5.07 billion, total liabilities of $2.56 billion, and shareholders' equity of $2.51 billion. Operations for 2007 produced a net loss of $915.3 million on revenues of $1.19 billion.

PMI Mortgage Insurance Co.

PMI Mortgage Insurance Co. was incorporated November 10, 1972, as an Arizona stock mortgage guaranty insurance company. From 1973 until 1994, PMI was a wholly owned subsidiary of Allstate Insurance Company. Effective November 28, 1994, Allstate contributed all of the outstanding capital stock of PMI to TPG.

PMI writes residential mortgage guaranty insurance, providing primary insurance coverage on first-lien mortgage loans and, beginning in 1997, providing a government-sponsored mortgage pool insurance product that is used as an element of credit enhancement for secondary market mortgage loan securities transactions. PMI is licensed to engage in mortgage guaranty insurance in all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.

As of December 31, 2007, PMI's audited statutory financial statements reported total admitted assets of $3,682,586,137, total liabilities of $3,187,128,826, and policyholders' capital and surplus of $495,457,311. Operations for 2007 produced a net loss of $258,776,991 on premium revenues of $670,457,946.

WMAC Credit Insurance Corporation

WMAC Credit Insurance Corporation (hereinafter also WCIC) was organized on November 10, 1980, as MGIC Credit Insurance Corporation, for the purpose of assuming second mortgage guaranty risks that were written on a direct basis by MGIC Indemnity Corporation. WCIC entered into rehabilitation proceedings effective February 28, 1985, at its own request, due to the liquidation of its parent, Wisconsin Mortgage Assurance Corporation. Under the plan of rehabilitation, WCIC was allowed to run off its present book of business. On January 13, 1995, WCIC was removed from rehabilitation and effective December 31, 1995, control of WCIC was transferred to WMAC Investment Corporation. On August 6, 2001, PMI purchased WCIC.

WCIC completed the run off of its book of 1985 and prior mortgage guaranty business in 2005 and presently does not write any business. As of December 31, 2007, WCIC's statutory financial statement reported assets of $5,980,243, liabilities of $36,638, and policyholder surplus of $5,943,605. Operations for 2007 produced net income of $238,730.

Agreements with Affiliates

CLIC has no employees of its own and all of its operations are conducted by employees of PMI in accordance with the business practices and internal controls of that organization. In addition to ongoing common management and control by this upstream affiliate, various written agreements and undertakings affect the company's relationship to its affiliates. A brief summary of these agreements follows:

Commercial Loan Insurance Corporation and PMI Mortgage Insurance Co. entered into a cost allocation agreement effective January 1, 2002, with an initial term of five years ending January 1, 2007. Subsequent renewals can be made for terms up to three years at a time. Pursuant to the agreement, PMI is to provide services essential to the day-to-day operation of CLIC, which include: financial, accounting and reporting services; legal services; banking and investment services; other administrative services and management services. In consideration of the services provided to CLIC under this agreement, CLIC agrees to pay to PMI $12,000 annually in equal quarterly payments. Payments are to be made within 30 days of the end of each calendar quarter. This agreement may be terminated by either party by giving 90-day written notice, if the other party becomes dissolved, merged into another company (relating to CLIC), placed into conservation or liquidation proceedings (relating to PMI), or if the other party has materially breached the terms and conditions of the agreement and such breach has not been cured within 30 days of receipt of written notice.

It was discovered during the examination that the agreement had not been renewed by both parties for an additional three-year period after it expired on January 1, 2007. This was brought to the company's attention and on April 23, 2009, the two parties agreed to renew and extend the Cost Allocation Agreement for a three-year period beginning January 1, 2007, through December 31, 2009.

Effective April 10, 1995, as amended March 22, 1999, and December 10, 2003, Commercial Loan Insurance Corporation entered into a tax-sharing agreement with The PMI Group, Inc., and certain affiliates of the PMI Group. Under this agreement, TPG files a consolidated U.S. Federal Income Tax Return that includes CLIC and other affiliates of the holding company group. The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of PMI Group's consolidated U.S federal income tax liability in accordance with a rational, systematic formula. The agreement provides for computation of tax, settlement of balances between affiliates, tax-sharing, filing the return, audits and other adjustments, dispute resolution and other administrative requirements. The agreement calls for the settling of estimated U.S. federal tax payments within 30 days of filing of those payments. Final settlement is due within 30 days of the filing of the consolidated U.S. federal tax return.

V. REINSURANCE

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

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2007, annual statement. 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. 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."

Commercial Loan Insurance Corporation
Assets
As of December 31, 2007

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 9,240,345	$ 0	$ 9,240,345
Cash, cash equivalents, and short-term investments	1,898,515	0	1,898,515
Investment income due and accrued	135,120	0	135,120
Net deferred tax asset	1,297,073	1,163,582	133,491
Receivable from parent, subsidiaries, and affiliates	18,510	0	18,510
Write-ins for other than invested assets:			
Statutory deposit in Guam	60,000	0	60,000
Total Assets	$12,649,563	$1,163,582	$11,485,981

Commercial Loan Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2007

Current federal and foreign income taxes		$ (93,218)
Unearned premiums		28,661
Payable to parent, subsidiaries, and affiliates		9,674
Write-ins for liabilities:		
Contingency reserve		486,438
Total liabilities		431,555
Common capital stock	$ 2,000,000	
Gross paid in and contributed surplus	13,613,876	
Unassigned funds (surplus)	(4,559,450)	
Surplus as regards policyholders		11,054,426
Total Liabilities and Surplus		$11,485,981

Commercial Loan Insurance Corporation
Summary of Operations
For the Year 2007

Underwriting Income		
Premiums earned		$ 56,921
Deductions:		
Other underwriting expenses incurred	$ 83,852	
Write-ins for underwriting deductions:		
Increase of contingency reserve	28,461	
Release of contingency reserve	(91,709)	
Total underwriting deductions		20,604
Net underwriting gain (loss)		36,317
Investment Income		
Net investment income earned	508,401	
Net investment gain (loss)		508,401
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		544,718
Federal and foreign income taxes incurred		(92,372)
Net Income		$637,090

Commercial Loan Insurance Corporation
Cash Flow
For the Year 2007

Premiums collected net of reinsurance			$ 51,647
Net investment income			520,458
Total			572,105
Commissions, expenses paid, and aggregate write-ins for deductions		$ 83,367	
Federal and foreign income taxes paid (recovered)		(84,428)	
Total deductions			(1,061)
Net cash from operations			573,166
Proceeds from investments sold, matured, or repaid:			
Bonds	$721,619		
Miscellaneous proceeds	13		
Total investment proceeds		721,632	
Cost of investments acquired (long-term only):			
Bonds	577,663		
Total investments acquired		577,663	
Net cash from investments			143,969
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		(5,472)	
Net cash from financing and miscellaneous sources			(5,472)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			711,663
Cash, cash equivalents, and short-term investments:			
Beginning of year			1,186,852
End of Year			$1,898,515

Commercial Loan Insurance Corporation
Policyholders' Position Calculation
December 31, 2007

Surplus as regards policyholders		$11,054,426	
Contingency reserve		486,438	
Total policyholders' position			$11,540,864
Net minimum policyholders' position			
First Liens:			
Individual loans:			
Loan-to-value more than 75%	$76,700		
Total individual loans		76,700	
Minimum policyholders' position			76,700
Excess of total policyholders' position over minimum policyholders' position			$11,464,164

Commercial Loan Insurance Corporation
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2007

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2007	2006	2005	2004	2003
Surplus, beginning of year	$10,417,207	$ 9,801,394	$9,148,740	$8,656,348	$7,347,201
Net income	637,090	631,939	682,110	500,643	1,256,045
Change in net deferred income tax	(157,200)	(179,752)	(212,294)	(220,853)	(324,152)
Change in nonadmitted assets	157,329	163,626	182,838	212,602	377,254
Surplus, End of Year	$11,054,426	$10,417,207	$9,801,394	$9,148,740	$8,656,348

Commercial Loan Insurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2007

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There were no unusual results.

	Ratio	2007	2006	2005	2004	2003
#1	Gross Premium to Surplus	0%	1%	1%	1%	1%
#2	Net Premium to Surplus	0	1	1	1	1
#3	Change in Net Premiums Written	(8)	(27)	18	(17)	(12)
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0	0
#6	Investment Yield	4.7	4.7	4.9	5.2	7.0
#7	Gross Change in Surplus	6	6	7	6	18
#8	Net Change in Adjusted Surplus (established in 2005)	6	6	7	NA	NA
#9	Liabilities to Liquid Assets	4	5	6	8	11
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	0	0	0	0	0
#12	Two-Year Reserve Development to Surplus	0	0	0	0	0
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Growth of Commercial Loan Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2007	$11,485,981	$ 431,555	$11,054,426	$ 637,090
2006	10,919,819	502,612	10,417,207	631,939
2005	10,427,766	626,371	9,801,394	682,110
2004	9,931,604	782,864	9,148,740	500,642
2003	9,695,248	1,038,900	8,656,348	1,256,045
2002	9,209,756	1,862,554	7,347,202	8,698

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2007	$51,647	$51,647	$56,921	0.0%	39.9%	0.0%
2006	56,367	56,384	65,005	0.0	4.7	4.7
2005	76,999	76,999	73,096	0.0	(60.8)	(60.8)
2004	65,045	65,045	73,634	0.0	(227.4)	(227.4)
2003	78,470	78,450	84,974	0.0	(844.8)	(844.8)
2002	89,687	89,565	94,027	0.0	133.8	133.8

The company ceased writing new insurance business in 1985 and has been in run-off since that time. Premiums written have steadily decreased during the years under examination as the existing book of policies expire or are terminated due to their nonrenewal by the insureds. Surplus has steadily increased during the period under examination primarily due to limited operational expenses, because of its run-off status, and a steady stream of earned income from its investment portfolio. The expense ratios for the period beginning in 2003 to 2005 appeared unusual and relates to the company’s calculation and release of its contingency reserves, which is recorded as income and exceeded expenses incurred by the company during that period. Contingency reserves are a statutory requirement and are based on 50% of earned premium for the past ten years. Currently the company does not plan to write any new business in the future. The company indicated that any changes regarding its intention to write new business would be filed with the Office of the Commissioner of Insurance.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus of $11,054,426 reported by the company as of December 31, 2007, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

1. Bylaws—It is recommended the company abide by or amend its bylaws to reflect actual practices of the company.

   Action—Compliance.

2. Executive Compensation—It is recommended that the company complete the Wisconsin Report on Executive Compensation (Form 22-060) in accordance with its instructions.

   Action—Compliance.

3. Biographical Reports—It is recommended that the company file biographical reports on its directors within 15 days of election pursuant to s. Ins 6.52, Wis. Adm. Code.

   Action—Compliance.

4. Affiliated Agreements—It is recommended the company comply with the holding company regulations of ch. Ins 40, Wis. Adm. Code, in the future.

   Action—Compliance.

5. Custodial Agreement—It is recommended that the company amend its custodial agreement to provide indemnification against the securities that may be held by a subcustodian pursuant to the language suggested by the NAIC Financial Examiner's Handbook.

   Action—Compliance.

6. Investments—It is recommended that the company complete Schedule DA, Part 1 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.

Conflict of Interest

In 1989 the Commissioner issued a directive requiring that on an annual basis, each director, officer, senior executive, or fiduciary of a Wisconsin-domiciled insurer disclose to the insurer’s board of directors any personal circumstance that could potentially give rise to a conflict of interest. However, the company was unable to provide the required signed conflict of interest disclosure forms for all required individuals for all years under examination. It is recommended that annually each director, officer, and key employee of the company complete a conflict of interest disclosure as required by the Commissioner’s directive, and that the company retains copies of each year’s disclosure forms with company records so that they may be available for review by this office.

VIII. CONCLUSION

Policyholders' surplus has increased from $8,656,348 as of year-end 2002 to $11,054,426 as of year-end 2007. This represents an increase of 27.7% during the period under examination and is mostly attributable to investment gains, CLIC's primary source of income, which adequately covers its expenses.

PMI Mortgage Insurance Co. purchased CLIC on August 6, 2001, from WMAC Investment Corporation. The company suspended accepting new business in 1985, and its current business consists entirely of renewal coverages on previously written policies. The company has no direct employees and a majority of the allocated expenses CLIC incurs relates to various administrative services and management services PMI provides to run off its business.

The examination of Commercial Loan Insurance Corporation resulted in one recommendation which was not a repeat recommendation. There were no adjustments to surplus and no reclassifications of account balances. The examination recommendation pertains to the retention of completed conflict of interest statements for review by this office.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - Conflict of Interest—It is recommended that annually each director, officer, and key employee of the company complete a conflict of interest disclosure as required by the Commissioner's directive, and that the company retains copies of each year's disclosure forms with company records so that they may be available for review by this office.

X. ACKNOWLEDGMENT

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

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

Name	Title
Ana J. Careaga	Insurance Financial Examiner
Victoria Y. Chi	Insurance Financial Examiner Advanced, Data Processing Audit Specialist
Jerry C. DeArmond	Insurance Financial Examiner Advanced, Loss Reserve Specialist
Satinderjit K. Dhillon	Insurance Financial Examiner
Amy J. Malm	Insurance Financial Examiner
Frederick H. Thornton	Insurance Financial Examiner Advanced, Exam Planning & Quality Control Specialist

Respectfully submitted,

John E. Litweiler
Examiner-in-Charge