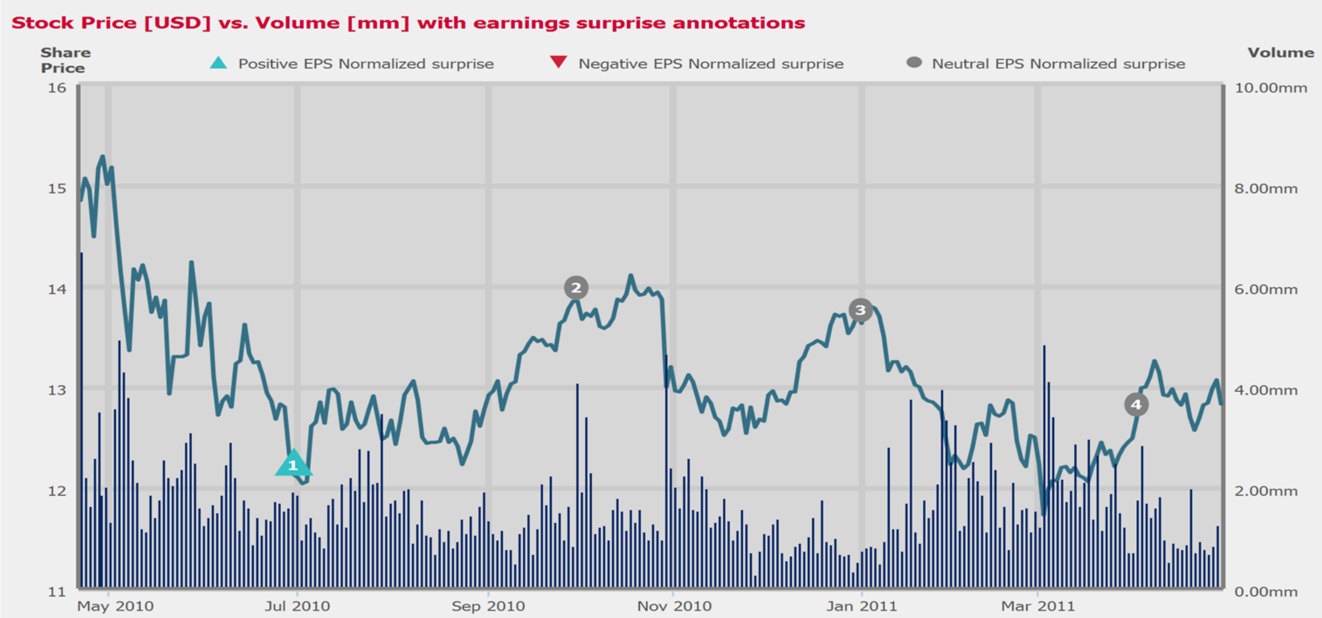
S&P Global
Market Intelligence

Old Republic International Corporation
NYSE:ORI
FQ2 2011 Earnings Call Transcripts
Thursday, July 28, 2011 7:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2011-			-FQ3 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.02	(0.25)	NM	0.00	(0.13)	0.48
Revenue (mm)	1071.30	1097.90	▲2.48	1108.72	4404.98	4524.24

Currency: USD
Consensus as of Jul-28-2011 3:34 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2010	0.03	0.05	▲66.67 %
FQ3 2010	0.08	(0.17)	NM
FQ4 2010	0.04	(0.12)	NM
FQ1 2011	(0.04)	(0.07)	NM

Table of Contents

Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman & CEO

Chris Nard

Leslie Loyet

ANALYSTS

Beth Malone
Wunderlich Securities

Bill Clark
KBW

David
Loomis Sayles

Michael Ting
Goffe Capital

Stephen Mead
Anchor Capital Advisors

Will Clark

Presentation

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by and welcome to the Old Republic International's second quarter 2011 earnings conference call. At this time all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session instructions will be provided at that time. I would like to remind everyone that this conference is being recorded.

I would now like to turn the conference over to Ms. Leslie Loyet of the Financial Relations Board. Please go ahead ma'am.

Leslie Loyet

Thank you. Good afternoon. And thank you all for joining us today for Old Republic's conference call to discuss second quarter 2011 results. This morning we distributed a copy of the press release. If there is anyone online who did not receive a copy, you may access it at Old Republic's website, which is www.oldrepublic.com.

Please be advised that this call may involve forward-looking statements as discussed in the press release dated July 28, 2011. Risks associated with these statements can be found in the company's latest SEC filings.

Joining us today from management are Al Zucaro, Chairman and Chief Executive Officer; and Chris Nard, President.

At this time, I'd like to turn the call over to Al Zucaro for his opening remarks. Please go ahead.

Aldo Charles Zucaro
Chairman & CEO

Thank you and good afternoon and welcome again to everyone. As we've done for some time now we will make a few comments just like Leslie said about our major segments and then we will respond to your questions.

As you've seen in this morning's release the big news of course about Old Republic continues to relate to our housing and mortgage lending related insurance businesses. These insurance products are of course underwritten primarily in our Mortgage and Title Insurance segments and to a smaller degree in our General Insurance segment with respect to the home warranty and consumer credit indemnity lines.

In the aggregate when you put all together, these lines all together they account for some 45% to 47% of our top line. The remaining or roughly 55% say is mostly made up of our commercial property and liability insurance coverage's. And our financial reports obviously show the revenues and the bottom line results of these lines in our three major segments.

So, as we usually do we will start with saying a few words about our larger segment and then we will proceed with comments about Mortgage Guaranty and Title that Chris will handle. And then we will conclude with a few comments on our overall corporate results and financial condition.

When you look at the Old Republic General Insurance story it is beginning to turn increasingly more positive the all important underwriting ratio has been below 100% for the second consecutive quarter. And this is of course a good (Inaudible) for this business. As you've seen in the release our consumer credit product has been increasingly less taxing and so far as the overall loss ratio of General Insurance is concerned and it has now taken place for three consecutive quarters.

In the second quarter of this year, as we indicate in the release the CCI, which is our again our Consumer Credit Indemnity product accounted for 1.7 points of loss ratios and that compares to about 11 points in the same second quarter of 2010. And for the first half of the year again as you can see the impact was 3 percentage points this year versus 7.4 percentage points in the same period of last year.

So if we exclude this product form the overall General Insurance results the underwriting ratio has ranged between a low to mid 90s for the past 10 years. As well as for this year and last year and so forth and so on. So well it may yet be perhaps too early to call it a day on the adverse impact that the CCI line has had on our General Insurance results. The current trends in the claim emergence patterns that we've been observing in that product for the last several quarters is very much declining.

As in the release we've also shown the positive impact that last year's acquisition of the PMA organization has had on our General Insurance operating revenues as well pretax income. So far in 2011, as you may recall we merged with PMA in the effective at the beginning of the fourth quarter last year. So that this year the first three quarters will not be comparable to the first three quarters of last year and that's why we are pointing out to the impact, which has been beneficial of PMA on our General Insurance line when we compare the results between the first quarter and first half of this year with last year.

On the pretax, now if you eliminate the PMA revenues from what we've posted on General Insurance, you would see that revenue line is very, is pretty much flattish in comparison with 2Q of 2010 as well as first half this year versus last year first half. But that the pretax operating earnings without PMA would still be up by 122% in the second quarter this year and up about 24% in the year-to-date period. Again as indicated before a lot of the benefit reflected by this apples-to-apples comparison emanates [ph] from the less negative impact of the CCI line. But the rest of the business is proceeding ahead very well in what is still a relatively weak economic recovery for the U.S.

In the final analysis, we still think that the U.S. economic malice [ph] has a lot to do with the dirt [ph] of progress we are experiencing on the revenue side in General Insurance. And while we are getting some relief from a modicum of premium rate increases here and there we don't think that any real progress will take place in General Insurance particularly from a top line standpoint, until the U.S. economy starts to percolate and it specifically that means of course as everyone knows that we need to just get more people back to work, more consumers spending money on goods and services and with Corporate America as well as the public sector getting more things done, more things and ways of doing business that go to increasing the need for insurance.

For what is worth, our current view at least the basis upon, which we are managing our business is that all this necessary required activity in the economy at large is likely to take place in relatively slow motion over the next couple of years at the least. With respect to investment income in our General Insurance business, we are still struggling there as well as in the rest of our segments. With employing the relatively small amount of the operating cash flow as well as the more significant amounts of reinvestment of maturity investments, of maturing investments I should say at reasonable yields. And this of course means that investment income is also unlikely to contribute much to this segments top or bottom line growth for the foreseeable future.

Let's say though that in all other regards our General Insurance segment is in very good shape. We sure have enough capital on prior years reserves are continued to play out very favorably and thus as you know when you have favorable developments it does not impact adversely the current year's results. And the asset base is as clean as it comes and therefore very much supportive of the obligations that are posted on the right side of the balance sheet.

It bears repeating, I think that this part of our business is the main source of dividends up streamed to our holding company. This has been so for the past over 35 years or so many years General Insurance has been the source of much cash flow up streamed to the parent holding company. And today and in the recent past given the relatively slow premium growth we have been experiencing and therefore the lack of addition to the risk profile of the General Insurance business or the amount of the risk that needs to be posted on the balance sheet. The combination of this, of a strong capital base and reasonably consistent earnings have enabled this segment to continue the role of being the main provider of dividend up streaming to Old Republic International Corporation.

As such therefore, it's recurring dividends have in large measure allowed us to also at the holding company level, at once honor our debt and related interest cost obligations as well as to pay a cash dividends to our common shareholders in continuation of many years of record of having done so at a increasing rate, albeit nowadays a much smaller percentage increase and that's been the case before.

I think this is a good time that the extent of the comments we think we need to make about General Insurance. It's a good time to therefore turn it over to my colleague here Chris Nard to speak about our Title and Mortgage Guarantee business.

Chris Nard

Good afternoon, everybody. When you look at the release you can see that Old Republic's MI results in the second quarter deteriorated from the same period a year ago, as a year ago as well as did the year-to-date results. When you set aside the effects of the captive terminations, captive commutation and Pool Insurance terminations that occurred in the period comparisons last year, you can see that the weakness in the quarterly results were driven largely by increases in the paid claims trends, change in the reserve provisions it's worth noting that the change in the reserve provisions were largely related to a more conservative assumptions about our recession expectations at this point in the market, slight uptick in severity and then a general decline in the operating revenue environment.

With regards to the delinquent loan portfolio what we saw in the quarter was that total delinquencies had declined 25% in the period and traditional primary delinquencies had declined 26% in the second quarter when compared to the second quarter of last year. These declines continued to be largely related to a reduction in newly reported delinquency in each period, but also due to a reduction in delinquency related to the elevated paid claim activity that we have been seeing in the last several quarters.

Long-term trends on the production side of the business including the new insurance written and the net earned premiums continue to be challenged obviously by the macro trends that we've seen present in the MI industry over the last five years. You see in those generally related to changes in guidelines and pricing on the part of Old Republic's Mortgage Guarantee business. And a general decline in the MI penetration rate since the bursting of the real estate bubbles in 2007.

Net risk enforced obviously is subjected to the same macro environmental trends as the new production activities are. And what you will see there is that the relatively insignificant levels of new production that we are experiencing have been in sufficient to offset the reduction in risk enforced that we are seeing in the portfolio due to refinancing and obviously due to the elevated level of claim terminations in the book.

The larger news item in the release obviously was our discussion around our flagship Mortgage Guarantee business Republic Mortgage Insurance, Republic Mortgage Insurance Company, which is domiciled in the State of North Carolina. As we have talked about in the past that business has been operating under a risk-to-capital ratio waver from the State of North Carolina for about a two year period, that waver was set to expire at the end of June 2011 and since then we've negotiated with the department two separate 30 day extensions leading to the August 31st waver termination at this point in time.

Based on the current position of the North Carolina Department of Insurance at this point, they are not willing to extend the waver beyond on August 31st of this year. But during this period we've also been discussing with Fannie Mae and Freddie Mac a proposal whereby we would utilize a separately capitalized and separately held Mortgage Guarantee subsidiary mid operates under the name of Republic Mortgage Insurance Company of North Carolina as our primary direct writer in all 50 states.

But as of this point we have not been able to reach any agreement with regards to the usage of Republic Mortgage Insurance Company of North Carolina as a direct writer on the nationwide basis. Therefore, as we stated in the release given these events it's likely that we will stop writing business at least temporarily in the flagship company prior to August 31st of this year. During this period, however we will continue to work with the agencies and the North Carolina Insurance Department for the purpose of attempting to reach an agreement whereby we can write business in all 50 states in the Republic Mortgage Insurance Company of North Carolina subsidiary although at this point there is certainly no assurance that we will be able to do that in this period of time.

At this point when we think about the run off of the risk enforced at Republic Mortgage Insurance Company all of our internal analytics at this point and the outside analytics that we've had run on the portfolio show that this clock will run off at the end of its life with a positive balance. Now certainly, as you go through this period you can have timing discrepancies with this premium deficiency type analytics.

Because in the MI business you can run into a phenomenon where your claims as we are seeing today are obviously front loaded into the life of the policy, in the premiums particularly now extend well out into the tail. Obviously what you see in the marketplace today is a very high persistency rate in the MI business where the loans stay around for a long time because they were originated generally at very low rates and also they haven't had significant equity build up so if even the rate was in the money it's difficult to refinance due to the LTV of the product.

With that let me (Inaudible) on a more positive note to our Title Insurance business. The Title Insurance business continues to build on a lot of positive momentum that we've seen over the last four to six quarters now. And in the second quarter of 2011 we posted a pretax profit of about $5.6 million in comparison to a profit of about $4 million in the same period last year. The year-to-date comparison also improved significantly 2011 showing a year-to-date profit of $8.2 million versus a loss of $4.6 million in the first half of 2010.

When we look at the premiums and fees comparisons for the Title group we are looking at about a 14% improvement over last year's second quarter. And in the slow residential real estate market most of that growth we would have described to market share gains. And that we've seen over the last several years as the real estate markets and the Title market in particular has had some dislocation in its ranks. The market share for our Title business, I think it's at the end of the first quarter, which is the most recent period for which we have available share data. It was about 13.5%, which was up almost 30% from the same period in 2010.

On the expense side we've seen a little bit of reduction in the expense ratio in the period to 92.3 versus the same quarter in 2010 when it was in the vicinity of the 93.5%. And the claim ratio has been fundamentally flat for the comparative periods of about 7.5%. So I would say we continue to be very pleased with the progress the Title group is making particularly in what continues to be a tough real estate market and it seems to be that this line of business is stabilized and will continue to stabilize through this period.

With that I will turn it back over to Al.

Aldo Charles Zucaro
Chairman & CEO

Okay, so when we put all the pieces together obviously we've got ourselves a much poor situation than we anticipated just a few months ago. There is no question but that the Mortgage Guarantee business is not looking to get well for quite a while in our opinion. We just don't believe that the, that housing is going to come back strongly because there are just too many uncertainties in the larger economy to warrant great optimism at this juncture.

But longer term as we've said in the earnings release and on many prior occasions however, we still see Mortgage Guarantee as a very necessary business in the overall context of this country's housing and related mortgage lending industries. But given the reversal of claims trends that we've experienced and that Chris that spoke to couple of minutes ago given what we've seen now for three consecutive quarters i.e., starting in the fourth quarter of last year and continuing the first quarters of this year we've simply reached to the pause key so to speak to suggest that our flagship Mortgage Guarantee company is likely to evolve into a runoff situation in the foreseeable future.

I might say that in a runoff situation an insurance company just stops taking on more new business and simply collects all the premiums that are due on that business that remains enforced. And it also obviously continues to pay the legitimist claims that are presented to it and it does that from the funds that are at its disposal meaning again the premiums it collects the capital and the other assets that it has placed most of which as you know are placed in reserves and goes on with the business on a so called runoff basis.

A runoff situation however in the case of a Mortgage Guarantee company or for that matter I might add a professional casualty reinsurance company could extend for a long time. Some mortgages stay on the books for you know 20, 30 years and it is not inconceivable that therefore that a runoff situation could last that long. But there are enough precedence both in the Mortgage Guarantee business and more specifically and to a larger degree in the property and casualty or the life business there are enough precedence in the long history of our industry to make the management of a runoff situation fairly straight forward overtime.

Well this runoff mode takes place as Chris indicated well we will just continue working with our state regulator namely the Insurance Department in the State of North Carolina and the case of our Mortgage Guarantee companies as well and just as importantly if not more so Fannie Mae and Freddie Mac as well as the conservator of those two institutions namely the Federal Housing Finance Agency to evaluate and to study various means through which we can maintain an active presence in the business for Old Republic. So having said this, I guess it’s time to turn it over to you all for any questions. That way we may be able to answer.

Question and Answer

Operator

(Operator Instructions) and we will take our first question from Beth Malone with Wunderlich Securities.

Beth Malone
Wunderlich Securities

Okay, thank you. Good afternoon. I have a number of questions actually I will try to make them short. On the runoff if that is the process you have begun does that show us that you will be reporting your Mortgage Insurance operations below the line?

Aldo Charles Zucaro
Chairman & CEO

No, the runoff Beth does not imply I think you are alluding to a discontinued operation or a terminated operation of some sort. It does not imply that at all. As Chris said, we have I think he said we have three Mortgage Insurance companies in our fleet of that segment and the company that the only one of the companies namely Republic Mortgage Insurance Company, which we refer to as our flagship MI company is likely to be in runoff before the end of August. The other two company and more specifically as Chris indicated Republic Mortgage Insurance Company of North Carolina is very much qualified and that is the company that we aim to continue to keep in business and as he said and as I just reiterated it is the company that we are going to be talking with Fannie and Freddie and FHFA about being enabled to stay in the business on a new production basis while the other one potentially and possibly goes into runoff. So the business will still be active as we expect it to remain, for it to remain an active part of our business for a while at least.

Beth Malone
Wunderlich Securities

And is there sufficient capital in the other ongoing business to take up whatever business would have been written in the one that's in runoff?

Chris Nard

Yeah, well there are two things first of all that company the answer to the first question to the question is yes it's so called risk to capital ratio is below 25 to 1. And secondly you may recall Beth we have been very public for a couple of years about the fact that we are still were inclined to add up to $100 million of additional capital to the MI business. Our staffs has been and is that additional capital would be committed to the second company since it is intended to be the company that would in fact write new business exclusively.

That capital should that level of capital together with what's there now should enable that company to write business for quite a while particularly in the current situation where production in the Mortgage Insurance industry not just with us but for our competitors as well is at a very low level? No, the business we think, all of us think is a very good quality and so therefore additive to the bottom line of the business and therefore additive to capital for the foreseeable future if and when it gets to right exclusively new production.

Beth Malone
Wunderlich Securities

Okay. And then a question on the General Insurance, the loss ratio and the combine ratio, if you accept the consumer product was really stable, does it include any weather related losses?

Aldo Charles Zucaro
Chairman & CEO

No, as you know Beth we've got very little exposure to Property Insurance whether it's standalone or otherwise. And therefore we really get affected by property losses from just about any type of natural disaster.

Beth Malone
Wunderlich Securities

Okay. And then, one other question on the mortgage business, that the Dodd-Frank proposal with limit, potentially limit the amount of Mortgage Insurance at the market place would demand. And I know that the Mortgage Insurance lobby is trying to get this resolved. What do you see as the outlook for that?

Chris Nard

Well, I think, it's obviously too early to tell, but I think if you look at the analytics, that we produce in the industry, we can clearly show, I think that the MI product does what in fact the Dodd-Frank bill essentially charges it with, which is reducing the faults, I think we can show that the Mortgage Guarantee product in essence selects a better quality of risk in the marketplace and I think that, that should be well received on the hill [ph].

But it's a long way to go between what we think are very solid analytics and actually getting the qualified residential mortgage language in Dodd-Frank to a point where it treats the Mortgage Guarantee product on an equal footing with the FHA. Well long answer two, I think we have good data; the question is whether politically we'll be able to be successful.

Beth Malone
Wunderlich Securities

Okay. Would that change your decision making on how you proceed with this, with the Mortgage Insurance operation?

Chris Nard

I think we're proceeding as the way we described throughout the call and trying to get the relevant regulatory parties in Fannie and Freddie, supportive of what we think is the right long-term decision and that is to right business in the Republic Mortgage Insurance Company of North Carolina.

Beth Malone
Wunderlich Securities

Okay. Thank you.

Operator

(Operator Instructions) And we'll now take Bill Clark with KBW.

Bill Clark
KBW

Hi guys. I just got a couple of questions too. Just wondering if you could expand on the reasoning that North Carolina Insurance Department wasn't willing to grant another waiver to the flagship, so and in particular if that, if you think that the reasoning would have an impact on whether or not they are likely to approve the new sub [ph].

Chris Nard

Yeah, Bill, this is Chris. That really wouldn't be my place to hypothesis on what, North Carolina was thinking in that respect. So and I really it was a risk to, in our instance it was a risk-to-capital ratio waiver, we're running a high combined risk-to-capital ratio, so I couldn't tell you really anymore that they were uncomfortable with the one that we presented them.

Bill Clark
KBW

Okay. And, you can correct me if I'm wrong. But I believe that when an MI company goes into runoff, the GSEs retain some type of ability to transfer, the Mortgage Insurance over to a different MI company if have you verified that?

Chris Nard

Yeah, I think actually the way that works is, throughout history the GSEs have been very concerned about taking the risk from one MI and moving it to another. And really in all respects, I think property and casually are in the life business that's actually called twisting and is prohibited, what it ends up happening is taking one counter party, essentially gutting him because nobody takes the bad risk if you might imagine, takes the good risk and laves them on and solve in an essence on the bad risk.

So that's always been prohibited in the GSE model, I think you would have build the same phenomenon if there were to be a runoff scenario where nobody would want to take the suspect risk. So if you move the good risk to another insurer, you would simply exacerbate at different situations.

Bill Clark
KBW

So you don't see anything like that, as like this?

Chris Nard

At this point, I would not anticipate anything like that.

Will Clark

Okay. And then one more if I may. Could you just go over your capital available at the holding company?

Aldo Charles Zucaro
Chairman & CEO

Capital available at the holding. Well as you may, first of all I'm going for memory, but I believe we had something on the order. And you're addressing liquidity, right Bill?

Bill Clark
KBW

Yes, yes, exactly.

Aldo Charles Zucaro
Chairman & CEO

At the end of last year in 2010, I think we had $80 million, $90 million. And then as you know, we are up streaming every quarter dividends primarily from the General Insurance companies, as I mentioned before. And then thirdly, as you know, earlier this year we raised $550 million in a public offering of a convertible debt. And we used about $105 million, $110 million of that liquidity to refinance some of the debt we had acquired from the PMA companies.

So that today, after all the shots are fired, with respect to that amount of money we raised. We are sitting on some $400 million, which we are holding at the parent holding company, just in case that we're not able to convert or that the debt we issued back in 2009, $316 million as I recall, a convertible debt as well at that time. In the event that, that does not convert, that we would use these funds to pay off that debt.

So bottom line right now, we have no liquidity issue to deal with at the holding company level, whether that liquidity is needed to honor our debt obligations and then keep the interest payments current. Number two, take care of any, relatively minor amounts of capital that we need in the system. And number three, in the event that it is appropriate to add some capital to the Republic of North Carolina Company as Chris and I've talked about to write new business.

Bill Clark
KBW

That last one was the $100 million.

Aldo Charles Zucaro
Chairman & CEO

Yeah, we had, Bill, we had added $25 million in the first quarter, so we have at least another, we have $75 million to go.

Bill Clark
KBW

Okay. Great, thank you.

Operator

We'll take our next question from Stephen Mead with Anchor Capital Advisors.

Stephen Mead
Anchor Capital Advisors

Yeah, hi.

Aldo Charles Zucaro
Chairman & CEO

Hi, Steve.

Stephen Mead
Anchor Capital Advisors

Sort of like a basic question and I'm not sort of sure how that I mean how you would respond to it. But as a shareholder how do I get a fix on what happens to book value overtime and the impact of the runoff of the Mortgage Insurance business and what information will be there for me to get a better feel for that?

Aldo Charles Zucaro
Chairman & CEO

Well, Steve if you refer to the fifth page, refer to it, as pad five of our press release and the very first paragraph there, the last three lines or two lines. There we speak about what happens in the event that we are not able to get back in the business or stay in the business in one fashion or another. And that our flagship company is in runoff. There we say that we would have an interest to manage that runoff because we think we can do it very efficiently and we've got very good people, good staff, we know our business in and out.

And but effectively that stands or that position at that point would indicate that our maximum exposure would be to the 445 and the $1.74, so how do you see that. You will see that by virtue of the earnings or losses as the case maybe that we publish each quarter going forward, that will stand out and we'll tell you exactly how much of that 445 absent, any addition to capital as we've just discussed, how much of that is being invaded by possible future losses.

Stephen Mead
Anchor Capital Advisors

And then what about the investment in the two mortgage insurance business what?

Aldo Charles Zucaro
Chairman & CEO

Well there we have again if you look towards the tail end of the on page ad seven. We have from the very beginning from the very start of that investment. We've indicated what our cost is, of those investments, what the current market value is of those investments, what the aggregate amounts of those investments and that have been written down because, those amounts were deemed to be other than temporary losses in value.

And we also show as the last line in that little table, our so called equity interest toward the book value of those investments. So when you look at it today, we had an original cost of $313 million, we have written down those two investments in the aggregate to $67.5 million, that their market value at the end of June was $90 million, so the market is in excess of the written down value.

And that our equity in those companies book value, which they publish, is 117.9 and we repeat that every quarter. So I mean in a worst case situation, if you wanted to assume that all hell breaks loose and so far. Our exposure there is $67.5 million, everything that would be the remaining investment that we have recorded that would be written off. But right now we're not expecting that to occur.

Stephen Mead
Anchor Capital Advisors

That's helpful. When you go back to the PMA business, going forward, what kinds of things are you doing or what does PMA offer you in terms of upside from this point?

Aldo Charles Zucaro
Chairman & CEO

Well, the company is in process of being more focused on things that it does particularly well, I mean one of the great interest we have in the company is that it's got a long history of being a very good insurance provider to certain key industries of our economy it's got a big interest in the educational field, it's got a big interest in the healthcare field, which has appeal to us given the macro aspects of our population.

So and we think that we can expand gradually that company's platform to western, move it from its East Coast base on which it has been for many years. So we think the combination of expanding that foot print on the one hand and therefore expanding some parts of its, some key parts of its business that it is particularly good at. And then finally that company came to us with a good size service oriented business it does a lot of claims handling claims management for both assureds and non-assureds.

And that service business is a great appeal to us from this stand point and welding it with other things that we do at Old Republic. And it is also great appeal because it does not have the same kind of risk attached to it as an insurance underwriting business. So those are the, and then of course it always starts with people and we think we've got in ourselves a bunch of new colleagues that are, that we look forward to working with and that are very much, that are going to be very apart of Old Republic's future.

Stephen Mead
Anchor Capital Advisors

Is there any trigger that would get you back into the Mortgage Insurance business? I know that there were things on the table in terms of certain things that Congress was looking at and seem to just gotten tables because of the debt ceiling issue. But, are there something that could happen in terms of policy that would cost you to want to get back into this business?

Chris Nard

Yeah, as we said, for this, we're not out of the business, right? We have one company that we think a little likely, stop writing business at the end of the month. We have two other that are separately held in capitalize that are largely the licensed in all states. I'm sure; I would by now me say we were out of the business.

At the same time you mentioned individual regulatory things, I don't our interest is opportunistic and so much as we are waiting for some regulatory pop. Well we have said repeatedly in what we strongly believe is Mortgage Guarantee product is important to housing in this country. The last five years of, that show nothing if they haven't shown that low down payment residential mortgages are volatile assets, okay?

We believe strongly that there is a place in the economy for low down payment mortgages, simply if you look at savings rates and household formations in this country, you need that product and I don't think in the long run that government wants to supply all that credit particularly on a first dollar basis. So as you think about the reworking of Fannie and Freddie in the future. Our thinking would be regardless of how that plays out, the government will have a position in the catastrophic guarantee of mortgage-backed securities. And I think they will continue to look for private capital, private capital will be the shock absorber in front of that guarantee. So with respective of what happens in any kind of shorter intermediate term regulatory outlook, we think it's an important product in the economy. And that's kind of our orientation towards that business.

Stephen Mead
Anchor Capital Advisors

Promises on the private side we are eating up any capital that we might have, correct?

Aldo Charles Zucaro
Chairman & CEO

Well, again to reiterate the points Steve, the capital that maybe eaten away would be the capital of the flagship company if it were to end up in Neverland [ph] after the runoff, right. But the rest of the capital that we have, we don't believe this going to be exhausted. So when we point to that 445 and the buck 74 whatever it is, that's an ultimate potential loss for us. But right now do we attach full credibility to it, no, we just felt obligated to tell this shareholder, what the heck could happen if all hell broke loose as I say?

Stephen Mead
Anchor Capital Advisors

No, no, I appreciate that…

Aldo Charles Zucaro
Chairman & CEO

And we are in the position, we are not as Chris said and I have said, we are not out of the business, we are not proposing to get out of the business. It is just a matter of all sitting down with the powers (Inaudible) in our case those are primarily Fannie Mae and Freddie Mac and their conservator the FHFA. And reason to gather as to how we can best achieve on mutual interests.

Stephen Mead
Anchor Capital Advisors

Good luck.

Aldo Charles Zucaro
Chairman & CEO

Thank you.

Stephen Mead
Anchor Capital Advisors

No, it's just incredible. Alright, thanks.

Operator

(Operator Instructions) And your next question comes from Michael Ting with Goffe Capital.

Michael Ting
Goffe Capital

Can you share with us any comments that you might have received from the rating agencies regarding the runoff in the Mortgage Insurance operation?

Chris Nard

We have not just yet had any conversations since we put out this release with them at least I have not.

Michael Ting
Goffe Capital

Okay. How do you think by putting one segment of your business in runoff? How do you think that might affect the ratings of the, will they have any impact on the ratings of the other parts of your business such as the General Insurance?

Aldo Charles Zucaro
Chairman & CEO

I think you raised a very good question and I think it requires a look at the nature of insurance companies, businesses and indemnities particularly companies that are organized as we are with multiple charters that are intended to achieve different objectives. And it's always been our position that when we offer a policy from any one of our insurance companies to any one insurance buyer, that buyer has got every right to expect that, that indemnity is provided by that company and that company alone. There are no guarantees by the holding company of any of its insurance subsidiaries, okay. Every insurance company in our fleet of some 24, 25 companies, okay, stands on its own.

And each of our company is also held separately, there is no permitting or cross ownership of those entities by one another. And that has been a critical part of our enterprise risk management objective and practices for many years. So it is from that standpoint that we have said to whoever asked that there is no, well, for lack of a better expression, there is no stealing from Peter to pay Paul. Okay, each company is presented to the insurance buying public as a standalone operation, which just happens to be operating in a family or fleet of companies in our case under the ages of Old Republic International Corporation, which is a general business corporation with limited liability. As you know I don't mean to lecture but all corporations have limited liability. They do not have unlimited liability, no corporation can survive with unlimited, only the U.S. government can survive with unlimited liability because of its taxing power. But not the private sectors you know, that's our answer to your question.

Michael Ting
Goffe Capital

Okay, so I guess I take it that you think it shouldn't really impact any of your subsidiaries.

Aldo Charles Zucaro
Chairman & CEO

We do not believe so.

Michael Ting
Goffe Capital

Okay, that's helpful. And then just separately earlier you mentioned having performed very detailed analytics on the Mortgage Insurance operation. What gives you the confidence that there will be positive value from a runoff? And that you wouldn't have to potentially inject even more capital than this original $100 million that you mentioned or add to the reserves of that business?

Aldo Charles Zucaro
Chairman & CEO

If the $100 million again, okay, is intended to be placed in what Chris has referred to as Republic Insurance Company of Mortgage Insurance Company of North Carolina, which is the company that we are holding out as a potential successor if you will for new business. Okay. With respect to the runoff and I believe Chris addressed that when he said that we look at different metrics and so forth and the specific metrics that we look at, are metrics that are usually looked at by all insurance companies whenever a line of insurance, produces poor underwriting results.

And we refer to that in the insurance business as a Premium Deficiency Reserve type of calculation. And in its simplest terms a Premium Deficiency Reserve or PDR basically involves modeling techniques, which attempt to estimate the amount of premiums that will be received over a period of time, as one of us indicated before the Mortgage Guarantee business policy can extend over 20, 30 years, right. So we attempt to determine how much premiums are going to be received on a closed book of business and we attempt to determine how many claims and how much claims and expenses are going to be incurred over that same period during which the premiums will be received.

Now, as in all models the assumptions that go into them involve judgment and judgments by definitions are not infallible. However, to-date the calculations we have made with respect to the Mortgage Guarantee business ever since it got into difficulty at midyear 2007, have indicated that based on our past experience and the best knowledge we have that set of assumptions as to what future premiums will be and future claims will be as played out to the point that we would be in positive capital territory at the end of the rainbow, okay.

Now, if anything happens subsequent to each of these studies, what we do that’s negative or positive for that matter, what we do is we revised our assumptions and play them out again, to determine whether the results will be more positive as positive or negative. So as I said to you so far there are never any guarantees as you know but we feel comfortable that based on what we see, absent not knowing what the future holds, nobody knows that, that we feel comfortable that the business would play out favorably in the event of a runoff.

Michael Ting
Goffe Capital

Okay, great. Thank you for that explanation.

Operator

And we have a follow-up call with Beth Malone with Wunderlich Securities.

Beth Malone
Wunderlich Securities

Thank you. Chris you mention that there were severity in the, that contributed to the losses in the Mortgage Insurance.

Chris Nard

Just very slight it was not a driving force in there.

Beth Malone
Wunderlich Securities

So I wasn’t sure, how do you get severity in Mortgage Insurance so?

Chris Nard

If you get more payment as a percentage of the ultimate exposure than you were getting previously. So it would, an easy way to think about it is, if you got loans hung up forever in a foreclosure status and you accrue more expenses and more cost, you are likely to pay greater portion of those under your optional guarantee.

Beth Malone
Wunderlich Securities

Okay, but that trend wasn’t necessarily the big concern for you then?

Chris Nard

No, no, no, the big concerns were the other ones.

Beth Malone
Wunderlich Securities

Of which there is enough, I guess. Okay, are you seeing in terms of statistical information available to you now? Are you seeing anything, I saw on the press release you said delinquencies were declining? But what about cure rates or other indications that, this is at all stabilizing?

Chris Nard

The cure rates I would say have been of a concern, I think through 2010, I don't have the numbers in front of me but the trends are there. I think we had a fairly solid at least through the last three quarters increasing ratio of cures in relation to I think measured against beginning to delinquency, that trend turned the other way in the second quarter and I think that was something that we didn't anticipate the cures did not perform along the trend line that has been there for a while.

And again, I think if you look to cures, you got to look to the general housing market and say how many people simply who are unable to sell house that they were trying to sell that was in some delinquency status or how many people simply gave up in the payment as suppose to continuing to scrap to get by. So that would be the additional thing in there. Beth that was, a little bit discomforting in the second quarter.

Beth Malone
Wunderlich Securities

Okay, thank you.

Operator

And we will take our next question with David [ph] with Loomis Sayles.

David
Loomis Sayles

Hi, thanks for having the call. Just quickly, I think you already answered this but is there any sort of approval required from the regulators to put the flagship into runoff or that something that they don't need to approve?

Chris Nard

I think what occurred David is we had been operating under a waiver from the primary regulator which is the North Carolina Department of Insurance. The flagship company republic more as insurance company is domiciled in the state of North Carolina. It's risk-the-capital ratio for the last little over two years is been running above the regulatory maximum of 25 to 1 that being $21 of capital for every $25 of current risk. So we were operating above that level with a waiver, that waiver expired at the end of June and then it was extended till the end of the August. The department was, than of the opinion they were no longer going to grant the waiver, so that's in essence the action that leads to stop riding business. As suppose to an independent action that you would then have to return to the department (Inaudible).

Aldo Charles Zucaro
Chairman & CEO

Alright, and the moment you stop riding new business therefore you automatically go into effectively a runoff operation. And again, I think we mentioned before there were many, many impressiveness in the various states as to how runoffs are conducted in this country. And they usually are conducted by typically by the former or existing managements of a particular company. Under the supervision of insurance departments, whose function is to make sure that the assets of the company that is in runoff and all the values of that company can acquire by the way of again future premiums and so forth, are solely dedicated to the preservation of those assets and the payment of the legitimate claims posted against the company, that's what typically happens.

David
Loomis Sayles

Okay, great. Also could you just refresh my memory on the split of risk enforce between the three separate Mortgage Insurance companies?

Chris Nard

The bulk of the risk enforce, I think there's about $16.5 billion, $17 billion of risk enforce of the group and the bulk of that is all with Republic Mortgage Insurance company on the flagship upper end.

David
Loomis Sayles

Okay, okay. And do you break up the capital in the other two divisions or?

Aldo Charles Zucaro
Chairman & CEO

Yes, we do the 445, I don't have the numbers in front of us David, but the 445 I believe is roughly and that's a GAAP number incidental.

David
Loomis Sayles

Okay.

Aldo Charles Zucaro
Chairman & CEO

445, I believe it's about a third in the RMICNC [ph] and there's a little bit in that Florida Company and the rest of it rests in the flagship company, as Chris and I, have been referring to it.

David
Loomis Sayles

Okay, great. Thank you.

Aldo Charles Zucaro
Chairman & CEO

You're welcome.

Operator

At this time, we have no further questions. I would like to turn the call back to Al Zucaro for your closing comments.

Aldo Charles Zucaro
Chairman & CEO

Well, thank you. We appreciate your continued interest in our company. We wish we had better news to report. But we think that our company which has been around for over 90 years now, I guess, we will continue to do well once we overcome these, what we believe to be temporary difficulties. With that we will wish you a good afternoon. Thank you.

Operator
Ladies and gentlemen, this does conclude today's conference call. Thank you for attending.