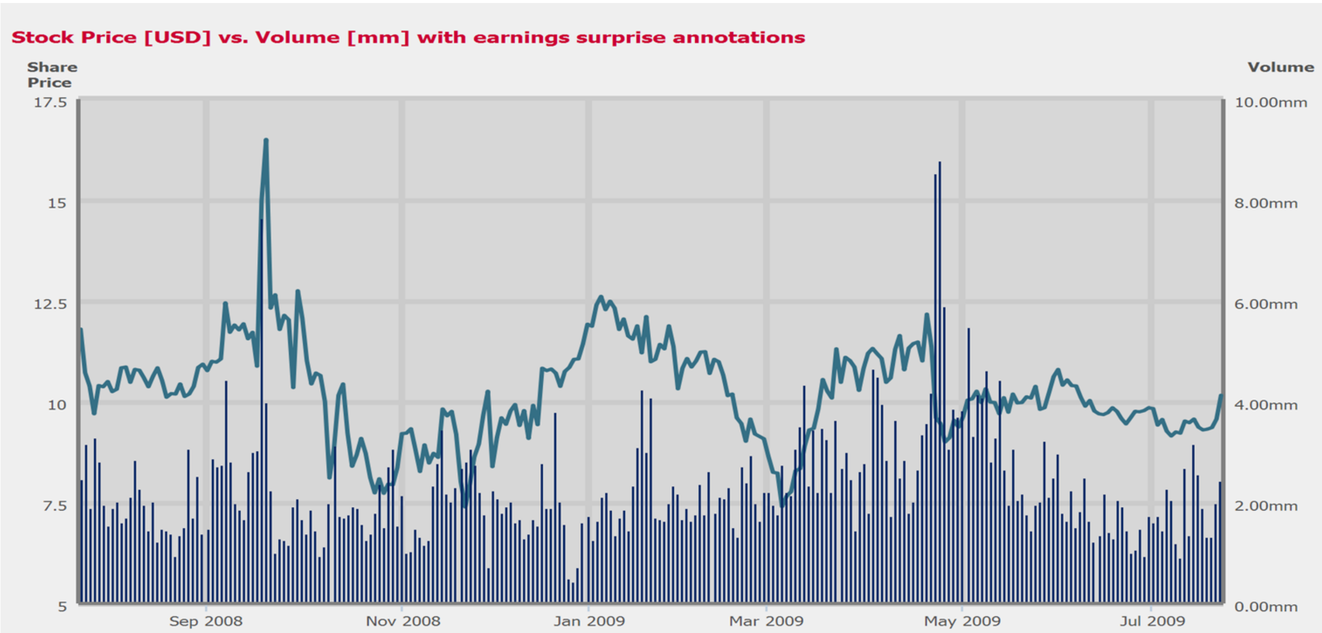
S&P Global
Market Intelligence

Old Republic International Corporation
NYSE:ORI
FQ3 2009 Earnings Call Transcripts
Thursday, October 22, 2009 7:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ3 2009-			-FQ4 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.17)	(0.28)	NM	(0.07)	(0.68)	0.65
Revenue	-	-	▲6.18	-	-	-
Revenue (mm)	902.80	958.60	-	863.00	3556.90	3508.40

Currency: USD
Consensus as of Oct-08-2009 1:18 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2008	(0.16)	(0.20)	NM
FQ4 2008	(0.25)	(0.31)	NM
FQ1 2009	(0.34)	(0.23)	NM
FQ2 2009	(0.27)	(0.21)	NM

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Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman & CEO

Chris Nard

Leslie Loyet

ANALYSTS

Beth Malone
Wunderlich Securities

Bill Clark
KBW

Mathew Goetzinger
Fiduciary

Mike Grondahl
Northland Securities

Richard Lane
Broadview Advisors

Presentation

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Old Republic International third quarter 2009 earnings conference call. One note that today's call is being recorded. 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 for you to queue up for questions.

I would like to remind everyone that once again today's call is being recorded, and now I would like to turn the conference over to Leslie Loyet of the Financial Relations Board. Please go ahead.

Leslie Loyet

Thank you. Good afternoon and thank you all for joining us today for Old Republic's conference call to discuss third quarter 2009 results. This morning we distributed a copy of the press release and hopefully you've all had a chance to review the results. If there is anyone online who did not receive a copy, you may access it at Old Republic's website at www.oldrepublic.com or you call Liz Dolezal at 312-640-6771 and she will send you a copy immediately.

Please be advised that this call may involve forward-looking statements as discussed in the press release dated October 22, 2009. Risks associated with these statements can be found in the company's latest SEC filings.

At this time, I'd like to turn the call over to Mr. Al Zucaro, Chairman and Chief Executive Officer for his opening comments. Please go ahead.

Aldo Charles Zucaro
Chairman & CEO

Thank you and thank you everyone for joining us as usual. We're not going to - I'm not going to bother repeating what's already said in the press release this morning. So we'll just as usually do embroider a bit on what we think are the important issues or trends that affect our business and then turn the meeting to the questions you may still have.

As we've done in quite a number of quarters now, we've got Chris Nard, who is the CEO of Mortgage Guaranty companies and he will participate with me in the Q&A portion of the call.

Let's see, we'll start with the largest segment at Old Republic which is our general insurance business. And the best way to characterize what's happening here is that we're just about holding our own and that the premiums and the claims and the capital retention trends are generally continuing as we have expected them since the beginning of the year.

New business is still very hard to come by in most of the markets in which we operate. Competition is fierce I would say pretty much across the board. As we see it there are still some competitors out there who seem to be held bent on gaining market share at a time when commercial insurance rates remain under quite a bit of pressure, and recessionary conditions are driving down the employment as well as the sales basis on which many prudent charges are predicated. So from a new business standpoint we continue to have a tough time.

From a renewable standpoint, however, we're still retaining very much north of the 80% of what we want to renew, but volume here also is nonetheless down for the same rate and economy driven reasons that I just mentioned relative to new business. So, in total, we're not optimistic about growing our general insurance top line to a significant degree in the foreseeable future. The best way to characterize our market perspective, I would say as well as our underwriting stance at this point is that we are in fact playing defense.

As we've been pointing out for a number of quarters now, the consumer credit indemnity or CCI in short is inline of business which we write in our general insurance business. It is the only a significant piece of general insurance that's running a fever from a claim ratio standpoint. At the same time, the CCI premium volume is declining as we're not writing any new business to speak of since lenders are not making new home improvement or equity loans that would require or lend themselves to the type of coverage that we currently be willing to provide.

As we said in prior quarters, underwriting trends for the CCI coverage and the loss ratios trends in particular are affected by the same cyclical and recessionary conditions that have afflicted our Mortgage Guaranty line. So our current expectations continue to be that both coverages whether it's CCI or Mortgage Guaranty will not begin to get any kind of retrieve before say, mid year 2010 at the earliest.

Expense wise, as you can see in the stats or in the press release, the general insurance segment is currently operating within the range of 25% to 26%. Expense ratio, that's measured against earned premiums, and this is about 10% more and I look at these number, 20% more than the 23% to 24% we should at and generally achieve fairly regularly when the business is firing on all cylinders. Nonetheless, we do think that the current range of expenses to run our general insurance business is quite acceptable to us at this stage of the cycle, but certainly does not have the makings for any expense reductions that we can see.

As we have pointed out in the earnings release, again if the impact of the CCI coverage is taken out of the overall general insurance line, the remaining 95% or their balance of the business is registering about 95% to 96% composite ratio this year versus about 91% or thereabouts for the same periods of 2008 without the CCI coverage.

And while the ratio is higher by roughly 500 basis points as you can see this year, we are comfortable with this kind of performance at this late stage of the down cycle for commercial lines insurance. And I think this is particularly so since prior year's reserves continue to hold up well, and are therefore not entrenching to any degree on the current years underwriting account.

Even though and I might say here by the way that our general insurance reserves through nine months are penciling out about a 2% or so positive reserve development. So that's about inline with what we typically have been experiencing for a quite a number of years now.

Even though general insurance premium volume is down by almost 11% so far this year. The operating cash flow of the business is still running very positively through nine months and compares reasonably well what we would expect at this time of the year. Looking ahead a bit ahead, we are not expecting a quick fix in commercial lines we have not expected one for quite a while now, pricing remains under pressure. That seems to be a perception that there is enough capital in this part of the industry and as in past cycles there appears to be the usual pressure on some companies to put that capital to work.

Even though doing so is that prices that are below desirable rates. So at least that's the way we see it. Our own general insurance business capital structure, capital account is up about 4% year to date and we think this is more than enough to accommodate the existing balance sheet leverage as well as to provide sufficient firepower if you will for future underwriting undertakings.

Let's see let me say a few words about Mortgage Guaranty business. In the latest quarter the results are we think pretty much in sync with the production and bottom-line trends of the past 24 months or so.

Claim costs are still rising but we think they are in-line with industry wide foreclosure trends and they continue to reflect in our case and we suspect on a Mortgage Guaranty industry wide basis. They continue to reflect greater levels of policy cancellations or rescissions as we call them in the industry. And these rescissions relate to both previously and newly reported claims and they are having a positive impact on our quarterly claim reserve provisions as well as the development of prior year's reserves for this line.

As most everyone knows there are a number of government and private sector efforts that play, which involve various types of partial loan forgiveness or loan modification initiatives. And these areas of modifications as I was saying are taking the form of various initiatives such as the so called home affordable modification program, and the refinancing of loans through the FHA which has been taking place now for a good 18 months as I recall. And all of this is intended to reduce and ultimately reverse the impact of foreclosures on the housing and mortgage lending industries.

Form our perspective, it's always difficult to assess the direct benefit of these strategies on our claim costs to-date, though we're quite confident they have been a very positive factor. Nevertheless, we are also reasonably sure that is going to take much longer than anyone would like to get out of the mess that took some twelve years or so in the making. So we continue to think and believe that our Mortgage Guaranty business is likely to produce underwriting losses well into 2010 before the proverbial light appears at the end of the tunnel.

In the meantime, new premium production in this segment is likely to be lethargic for the foreseeable future, since we expect underwriting standards to remain pretty tight among Mortgage Guaranty participants as well as the lending and credit enhancement institutions that deal in these markets.

Capital wise in the Mortgage Guaranty business, we think we're in pretty good shape for the three company group of mortgage insurers that we have at Old Republic and well as you can see particularly, if you have access to some of our prior earnings releases well the regulatory risk to capital ratio which we report each quarter has been rising fairly steadily over the last 20-27 months.

As you see in this morning's release it remains under the 25 to 1 watermark that some of the states mandate. I think there are 16 states if I'm not mistaken that have an actual mandate relative to the maximum risk to capital ratio that a Mortgage Guaranty insured must have.

But when we take these particular factors in our case into account, we're managing the line with what we think is a reasonably well founded expectation that individual states including our key domiciliary State of North Carolina will permute us as well as other Mortgage Guaranty companies to cross that order mark and thus leverage the balance sheet to a greater extent than is usually the case in more normal times.

I might also note that Mortgage Guaranty organizational structure it will be public has got quite a bit of flexibility built into it to at once enable some reallocation of underwriting exposures within the system, and still enable us to be complaint with regulatory requirements if capital constraints should arise in the future.

So the long and short of this is that we continue to manage the segment with an eye peeled primarily on having enough money in reserves and in our capital account to meet both the obligations we've already accumulated and those we're adding quarter-to-quarter as we move through this cycle.

The last time we saw fit to raise the capital commitment to Mortgage Guaranty was as of year end 2008 and so far as I say with the risk to capital ratio remaining well below the watermark as I mentioned before of 25 to 1 we've not seen fit or nor have we seen a necessity of adding to that capital base.

Looking quickly to our title business, as you can see it finally seems to be reemerging into a positive bottom line territory. As we've pointed out in the release this morning, the engine that's driving this change is the top line which was initially at least at the beginning of the year first couple of quarters of the year, driven mostly by our direct distribution system. But now, in the third quarter and going forward will be driven by both direct and the much larger independent agency production facilities we have in place.

Those of you that follow this insurance you should know that there has been a significant amount of market dislocation in the past 18 months or so. What with some companies going out of business and others engaging in further industry consolidation, all of which usually creates pockets of market share opportunities for the non-consolidators.

In this atmosphere we have found ourselves perfectly positioned with the combination of sufficient capital with what we honestly believe is a very good Old Republic brand-name in the business and with more than our share of intellectual capital to take advantage of these opportunities. That's not to say that the segment is going to draw a straight line up the revenue and earnings scale from this point forward. But we do mean to propose that we probably reached the bottom of the title cycle sometimes around the midyear this year.

Let's see, big picture wise on the Old Republic consolidated shareholders account broke out, you might say of a two-year downtrend in the second quarter, and it continued to do so and to appreciate in a nice way in the most recent quarter. As you can see in the equity account reconciliation on page five of our press release, substantially all of the increase has been generated by much higher market valuations for our securities portfolio, as well as from the residual deferred income tax benefits we have been finally able to book in the second quarter and now third quarter of this year, and those are tax benefits that we had not been permitted to take earlier because of the implication of various accounting regulations.

Consolidated assets are up about $1 billion as you can see between year end '08 and September of this year, and most of this increase comes from the combination of positive operating cash flow from some of it, couple of 100 million comes from the May capital raise that we did of about the $316 million. And most significantly, obviously from the increase in the market evaluation of our bond and stock portfolio that I just mentioned.

On the right side of the balance sheet, the consolidated claim reserve line continues to develop favorably and the greater rescission activity that we're being advantaged by in the Mortgage Guaranty line is having a greater impact on year-over-year development trends.

In most years, both in our general insurance business as well as into totality of all of our lives, we typically experience of 2% to 3% favorable development of the prior year-end reserves. And this year we maybe somewhat above that and again that would be due principally if the current trends continue through the year end. That would be due principally to the more favorable Mortgage Guaranty, favorable input that we're getting.

Let's see, as usual I'm looking at my notes here, and I think that's the extent of the comments I wanted to make, and as we indicated that the beginning of this discussion. We'll now turn to the questions that some of you may have.

Question and Answer

Operator

(Operator Instructions) Your first question comes from Mike Grondahl - Northland Securities.

Mike Grondahl
Northland Securities

Could you give us a sense of the growth in fraud rescissions and modifications from Q2 to Q3, just to we can get some sense of the order of magnitude?

Aldo Charles Zucaro
Chairman & CEO

Chris, why don't you take that?

Chris Nard

Sure, there are two questions in there, that was the rescissions and the modifications. The rescission activity was up quarter-to-quarter, simply as a result of the higher risk loans that are more subject of having misrepresentations and we never refer to fraud, but its misrepresentation, moving through the delinquency pipelines.

The modifications, predominantly what we are all referring to these days are the hand modifications, those have started to make some dramatic increases off this; the programs really start to get off of the ground. Now those have two pieces that I think you guys all know about, which is one, the initial modification then the borrower has to go through period where they produced the documentation to finalize the modification. Then they have to make three consecutive payments before the Mod becomes official.

So we would expect to see those continue to increase, although the ultimate performance of those really won't be seen until likely six months after the initial mod has been performed, but again that is a positive on the horizon.

Mike Grondahl
Northland Securities

Chris, could you give us some sense though of the magnitude, I mean was the increased 20% in rescissions, just more tangible than a high level comments?

Chris Nard

Yes, I don't have it right in front of me, but it was not dramatic, I mean, it was an increase that you would anticipate is the high risk books particularly in '06 and '07 kind of age through the pipeline.

Aldo Charles Zucaro
Chairman & CEO

I think we can say, Chris correct me if I'm wrong, I think we can say that we had a greater benefit if you will, from the rescissions in the first half of this year than we did the third quarter standing alone, is that right?

Chris Nard

Yes, I mean it's a small change. It was not a dramatic change either way.

Operator

Your next question comes from Mathew Goetzinger - Fiduciary.

Mathew Goetzinger

Fiduciary

I'm just looking at the 214% claims ratio in MI and I guess, I'm a little bit reluctant to kind of view it is inline with the overall trends as you said Al, and I guess I'd say that within the context of, it's the highest in the fourth quarter of last year?

Aldo Charles Zucaro
Chairman & CEO

Well, again Matt we have to repeat what we've said numerable times over the years, that we don't really pay that much attention on quarters-to-quarter, a quarter doesn't make a year. I have to say that our initial expectations of a year and half ago was that, come at the end of 2009, we should get some downtrend in the loss ratio and as I think I indicated at the beginning of this year, we have postponed that to sometimes in 2010.

So from that standpoint, the fact that it is at 214 now, it's a little higher, but we don't see that being as a humongous difference when you compare the results year-to-date with what we had through last year.

Mathew Goetzinger
Fiduciary

Maybe I asked it a little bit differently, how do you look at the overall just trend in delinquency rates relative to some of the things that depresses publishing in terms of the inventory overhang and the decline in Q rates, things like that, in terms of you know trying to get a sense of when we're going to peak here and align the claims ratio and kind of hit the magnitude of further increases?

Aldo Charles Zucaro
Chairman & CEO

Chris, we were taking this morning about this among other things, why don't you take it up?

Chris Nard

Sure, there is a bunch of information in your question. I think the one piece at the end is the delinquency or the foreclosure overhang that you mentioned; what we've seen there is we've seen good movements in the market through the last period in reducing the existing inventory. I think it's down to something like 8.5 months, which is a good move down from where we started, and obviously having its positive impact on home price depreciation trends.

The thing that most people worry about, is what they call the shadow inventory, which is foreclosures that are kind of backing up either in the court systems in States that have judicial foreclosure proceedings, or are in the moratorium phase and a back up of servicers as the moratoriums have been in place, and as people start to work through these modifications.

It's difficult to determine when that shadow inventory will hit, but I think we are of the belief that it doesn't happen all at once. Again, these states where you have to move through the court system through foreclosures, while they are in moratoriums right now; I don't think those States have got out and doubled or tripled the number of Judges in the States. So if those things move through it will come out in kind of a normal triple as opposed to the dam breaking all at once. So hopefully that occurs if this economy stabilizes and it gets absorbed a little better than in the last year or so.

Mathew Goetzinger
Fiduciary

I was just kind of clarify if indeed the shadow inventory those delinquent loans that would indeed be reflected in your delinquency number there?

Chris Nard

Yes, those are in the delinquency population today. And they predominantly back up and what we would call a status three, which is a pre foreclosure status and you can see those in the numbers for the industry just starting to build there.

Mathew Goetzinger
Fiduciary

I'm sorry, just lastly on the general insurance business. I wondered if for someone that's not quite as familiar with the CCI line, if you could just kind of review exactly what that type of product is guarantying or wrapping and the type of maybe duration that you expect to be associated with that type of business.

Aldo Charles Zucaro
Chairman & CEO

Well, the product as we said many times in the past is something that is a product we have underwritten since the 1950s, and it insures pools of loans originally it was exclusively home improvement loans, but as time wore on the product line was expanded to include home equity loans, lines of credits and so forth and so on, and some seconds obviously right to the first mortgage.

So by definition, it is a consumer product which is very much inline or has some of the same features as the Mortgage guaranty line today in terms of the economic cycle in which it operates. To differentiate though, the product is differentiated from the standpoint that it's written on a policy year basis, meaning that each policy stands on its own and quite a bit of the product is retro rated, meaning that this is swing rate that applies to it.

So that depending on any one lending institutions, experienced with its own pool of loans, the premium rate can go up or down depending on that loss ratio and the ranges of acceptable loss ratios that are agreed upon at the beginning of the policy term.

Mathew Goetzinger
Fiduciary

So and that's wrapping a pool of mortgages then?

Aldo Charles Zucaro
Chairman & CEO

Well, either yes well not mortgage is necessary the same seconds and home improved but loans, any kind of consumer loans pretty much, not credit card loans or anything like that. But then finally there is a cap on each year's total maximum claims that can be paid, and typically that cap is 10%. So the moment you reach 10% of whatever you've insured you are off the risk. But in between that's a big swing you can have some great variability.

To give you an idea, in the worst of times before this current rescission, the business has produced, known 80% or 85% loss ratio. Today at its peak, we are looking at over 150%, so it's at least two times worst than we've ever experienced in that business and that's what driving the loss ratio in the general insurance area.

Now the business currently accounts for about 5% of our general insurance earned premium days, and as you might imagine, the business is declining in terms of the amount of risk in force, and therefore the amount of premiums that we are collecting, because we are not writing any new business to speak of since, as I indicated before. First of all, this is very little mending in this area being done, and secondly whatever lending there is would not necessarily be acceptable to us from an underwriting standpoint, given the changes in underwriting standards we have adopted.

Mathew Goetzinger
Fiduciary

Is that a 150% loss ratio is that consistent with kind of maxing out the 10% cap on each policy here then.

Aldo Charles Zucaro

Chairman & CEO

No, it could go a little bit higher although we sense that this seems to be just a little bit of a decline in the number of claims that are being reported, but you have the same issues with that businesses we have with the mortgage community business in terms of rescissions and so forth. Those are the same factors that tend to attenuate the loss ratio on it.

Operator

(Operator Instructions) Your next question comes from Wunderlich Securities - Beth Malone.

Beth Malone
Wunderlich Securities

I just wanted to ask a couple of questions here on the mortgage insurance market; do you anticipate that there would be any changes from the GSEs on what kind of attachment they will have from loan to value. In talking to some of the representatives of Fannie Mae and Freddie Mac, they are talking about only expecting mortgage insurance on 80% or more instead of lower demand, and reducing the demand for mortgage insurance by the GSEs. Have you heard anything about that?

Chris Nard

Beth you mentioned today only and require mortgage insurance on LTVs over 80%. That wouldn't be a change I think you might be referring to a discussion about buying less coverage.

Beth Malone
Wunderlich Securities

Right, that's what I mean.

Chris Nard

Yes, that option has always been out there in the GSE guides. It's always been a small amount of the production that we do. We haven't seen any significant change today.

Beth Malone
Wunderlich Securities

Okay. And then you took over some reinsurance you kind of commuted, I guess some reinsurance agreements in the mortgage insurance book. Is that what we should anticipate going forward, is that a natural expectation of a market condition like this and do you view that generally as a positive trend?

Aldo Charles Zucaro
Chairman & CEO

Well we've, in the last year or so correct me if I'm wrong Chris. We've done a few of those and we mentioned it in this release, because we had done a couple of larger ones which involve a larger amount of money as we indicated in the release. I think the answer to your question Beth, is that it's going to depend on the needs and the strategies that are being followed by our lending customers.

I mean, some of them want to get out and liquefy their captive insurance companies from the standpoint or whatever excess capital they may have in it and cash in and let the business run off in our hands, as opposed to their keeping the run off. Others may want to just not have anything to do with that line, since it is typically a small, very small piece of their business and they would rather be paying attention to the other matters that are of more pressing interest to them. That's what I can think about, Chris can you add to that.

Chris Nard

I would just echo it's individual by customer by customer, and whether they continue to maintain an appetite for mortgage credit risk or they feel that it's time to move on to more traditional activities.

Beth Malone
Wunderlich Securities

Is it driven also by their financial needs or is it, when these banks are lenders --

Chris Nard

I think it's more, I can't speak for the buying, but it generally feels like it's more strategy driven than economic nature of it.

Beth Malone
Wunderlich Securities

Okay, just a couple of more questions on the title of business; one of your competitors that has recently released results indicated that they due to some changes in court decisions affecting title, they released some loss reserves, and I was wondering, are those factors that are affecting the entire industry or have you seen that same trend for your title business and could we anticipate that reserve development would be favorable as a consequence?

Aldo Charles Zucaro
Chairman & CEO

Well, first of all Beth, I'm not familiar with that particular release from a competitor that you are talking about, nor am I remembering anything right now about any changes in loss or anything that would affect claims. So I can only speak to our own interest and what we've seen for the past year and half or two is a gradual increase in reported claims and in the number of claim payments and so forth. If you track our loss ratio during that same period, a year and half or so, you will see that has been creeping up and that we've been reacting to what was happening.

Now of course as you know, reserving any insurance company is a process of looking through the rearview mirror and expecting that what you see in the back, you are going to be able to see through the windshield. To the extent that our view of what has happened is going to repeat itself, we don't see any basis for suggesting that our reserve levels are too high right now.

Beth Malone
Wunderlich Securities

Okay. And then one last question on the rescissions, do you anticipate that the number or the size of rescissions will accelerate as we move through the mortgage cycle here, I guess as claims increases the percentage of rescissions, are they expected to rise or how do you look at that?

Aldo Charles Zucaro
Chairman & CEO

Well, I think you're asking the question similar to one that was raised just before, so I will turn it over again to Chris to address.

Chris Nard

Yes, I think Beth what you will see is, as we talked in the past, the books that have created lot of stress are the, what they call the late '05 book through the early 2008 book first quarter predominantly, and as those books age, that will be the predominant generators of the rescission activity.

Well I couldn't tell you a date I think you'll see it continue to increase until that late '05 or to the late '07 early '08 book has moved through the cycle, and then you'll see it start to decline as the delinquencies become more representative of the business originated after the first quarter of 2008. I think in that instance you'll see a return to more normalized low levels of rescissions.

Beth Malone
Wunderlich Securities

And have you seen many lenders push back when you have offered a rescission have they argued with this decision or are they acceptance?

Chris Nard

Yes, I mean the way it occurs as we investigated, we have a third party investigate and we have it reviewed by third parties and then it goes back to the lender and there is always a long period of dialogue to make sure the facts are straight, the information whereas there is a lot of dialogue and debate in the process.

Beth Malone
Wunderlich Securities

Okay, so the lag time was about, would you say about a year between the time of the claim and when it's finally decided.

Chris Nard

It could be up to that amount of fund.

Operator

Your next question comes from Bill Clark - KBW.

Bill Clark
KBW

Could you share the percent of revenues in the title business that was agent related in the quarter. I know you usually provide that in the queue but I think it will helpful.

Chris Nard

I don't have it right now in front of me. You're correct, I mean just take a look at something here.

Aldo Charles Zucaro
Chairman & CEO

It have been running this year somewhere around 57%.

Chris Nard

Yes, right. It should not change significantly. As the year wears on I think you're going to see a little bit of an uptick in the -- my gut is that you're going to see a little bit of an uptick in the agency side because of the lag affect that usually occurs relative to that business. Now, again as I said I don't have it in front of me.

Bill Clark
KBW

Okay. Well do you think it was maybe another smaller increase?

Aldo Charles Zucaro
Chairman & CEO

Yes, right.

Bill Clark
KBW

All right. And second question, the paid loss ratio in mortgage insurance business seemed like it dipped down quite a bit this quarter, was that related to the captive?

Aldo Charles Zucaro
Chairman & CEO

Right. We tried to do or daunt us to explain why that was occurring, and if you look at the paragraph, I'm pretty sure that, let's see, it's a paragraph just above the table that includes the makeup of our incurred loss ratio in Mortgage guaranty.

If you will see there it's says, last sentence above that table, it says the recording of the above noted reinsurance recapture had the effect of decreasing the paid claims ratio by 49.3% in the third quarter. So what you would do is you add 49% to the 57.8% and you take 49% away from the 156% claim provision. That's the mechanics of those entries that we make when we book these types of reinsurances. So the loss ratio does not change, it's just a component of it and just the effect on paid loss ratio on reserves.

Operator

Your next question comes from Richard Lane - Broadview Advisors.

Richard Lane
Broadview Advisors

A couple of questions on the CCI business I take it those pools of loans that you are insuring all that's securitized?

Aldo Charles Zucaro
Chairman & CEO

No, I don't know if it's, it seemed no, it's less than 50% particularly of the loans that we insured in that 2006, 2007 period. I'm pretty sure that it's less than 50% of all the loans. The majority is our portfolio loans.

Richard Lane
Broadview Advisors

So would these be other insurance companies for their own portfolio or who is the buyer?

Aldo Charles Zucaro
Chairman & CEO

No, by portfolio I mean that the loans would be kept on the lending banking institutions books.

Richard Lane
Broadview Advisors

Okay, so the originator is buying?

Aldo Charles Zucaro
Chairman & CEO

Well, he is keeping, typically keeping up the loans on his books right.

Richard Lane
Broadview Advisors

Who else do you compete with in that business?

Aldo Charles Zucaro
Chairman & CEO

Well, until recently and I think there from what we can tell they're fundamentally out of business. United Guaranty was in that business, the subsidiary of the AIG and there was a couple of smaller competitors that were into business, but for the longest time, most of that business was written by Old Republic and United Guaranty SSA.

Richard Lane
Broadview Advisors

And are there a couple originators, obviously you are not going to name them but standout as having some 38 core underwriters that you are just going to work your way through much like maybe a bad vintage year?

Aldo Charles Zucaro
Chairman & CEO

Well, I think the latter is certainly a true fact and in terms of bad originators, I think you and anybody else that follows the business would know that some companies have had worst experience than others if you want to call that a bad originator then that's what it is.

Richard Lane
Broadview Advisors

Do rescissions and fraud enter into this business as it does in the MI business?

Aldo Charles Zucaro
Chairman & CEO

Yes, well rescissions for again the same type of issues that Chris addressed before poor documentation or failure to adhere to underwriting requirements that were agreed to the initiation of the insurance relationship.

Richard Lane
Broadview Advisors

But the rescissions have been at pretty high level in the MI business, has it been similarly?

Aldo Charles Zucaro
Chairman & CEO

It have been somewhat lower, but they are still been significant in the CCI product.

Richard Lane
Broadview Advisors

And in this business essentially in run of review or will you go back to this business?

Aldo Charles Zucaro
Chairman & CEO

Yes, we're still in the business, we're not writing any new businesses. As I tried to indicate before, first of all this as you know a lot less lending taking place, and secondly we did change our underwriting standard substantially a year and half or so ago and as a result of that there is no business out there that we can write in adherence to those underwriting standards.

So, from that standpoint we're out of the business and while we're still committed to it, this economy and lending activity will come back, they may not come back with the same force as we experienced in the earlier part of this century, but it's going come back, people will still need to borrow money, and there still need to be a need for institution such as ourselves that can enhance credits.

Richard Lane
Broadview Advisors

And on the MI side, are you just looking at some constraints on what's the capital and current market conditions. Would you say maintaining the market share on new writings or allowing you to become a smaller part of your industry. How do you look at the outline.

Aldo Charles Zucaro
Chairman & CEO

The last numbers I saw, correct me Chris. We're still hanging on to our 9%, 10% market share, right, based on the numbers we're seeing?

Chris Nard

Yes, we have been fundamentally flat through this whole cycle, I think we went in in about a 10% share player plus or minus, and I think we'll come out this year at about a 10% share plus or minus. And in individual quarters it will drop to nine go up to 11, but its been consistent through the whole period.

Richard Lane
Broadview Advisors

And Chris, given the fact that you have a large investment in both managing and TMI, and given that both those companies published quite a bit in terms of statistics, delinquency rates, by vintage year, by type of policy, a new dawn, it's pretty hard for me to benchmark you guys.

One, just a comment, but it surely will be great if you would look at doing something like MGIC supplement, not that they saw all these wonderful underwriters, but it allows you to get your arms around a little bit to the extend that you can, so I just ask that you considered doing that. Secondly, because I'm sure you have examined their supplements in quite detail given that substantial investment you have in both of those companies. How would you characterize your underwriting performance versus those two companies?

Aldo Charles Zucaro
Chairman & CEO

I will address both of those questions real quick. In so far as what they report, I mean that's obviously their business and we have no access to their books, we are passive investor, we can speak with quite a bit of strength and knowledge about our own book, and we think that our own book looks pretty good, even though it is suffering like most of the books from one of the greatest recessionary times we have experienced in a couple of generations.

With respect to your point about the level of the amount of statistics that we produce and publish, our view has always been that Mortgage Guaranty is just another line of insurance at Old Republic. It is not a standalone line like you see in the two companies that you have just mentioned MGIC and PMI, and therefore, the only reason why we distinguish between, let's say Mortgage Guaranty and title insurance and general insurance, is because of regulatory constraints on the one hand and/or regulatory requirements, the effect of which is to force us to write certain types of business; in our case title insurance and Mortgage Guaranty insurance in separate standalone charts, but to us it's all insurance; whether we write it in the general insurance book or the title insurance book or what have you.

To us it is all part and parcel of the need that we see for an insurance company to have a diversified book of business, a diversified kinds of risks to achieve a proper balance both within economic cycles that pertain to the insurance business as well as economic cycles generally. That may be a long winded answer to your question, but that's the reason why you do not see us provide the same level of statistics as a standalone company which has nothing else to talk about might do or will do in the case of most of them.

Richard Lane
Broadview Advisors

Well, I had known you for a long time, I've owned your stock for a long time too. If I didn't have some respect for your business acumen inherent I wouldn't be there, but having said that as a professional investor, no disclosure in this day and age is definitely a trend?

Aldo Charles Zucaro
Chairman & CEO

Well, we appreciate both comments about your faith in Old Republic and your commentary about the need for disclosure, but there is also and we don't need to get into an argument, but there is such a thing as overwhelming with statistics to the point where you can't see the forest with the trees. And we try not to do that either.

Operator

Your next question comes from Mike Grondahl - Northland Securities.

Mike Grondahl
Northland Securities

Yes, Chris just one more question for you, have you described your pools if you will, late '05, '06, '07 in the first quarter of '08. Can you give us a sense for -- have you seen or in which of those pools have you seen peak delinquencies and where you haven't seen peak delinquencies sort of what inning do you think we're in?

Chris Nard

That's good question. Hard to say on peak delinquencies, but what I will say is that the increases still come from, we're saying still predominately come from those stressed books which I think makes some sense even given the current stressed environment we've been pleased with the performance of the book that we've put on in that new period, what I call after the first quarter of 2008 through this period.

Those books, the tough books late of '05,'06, and '07. They will eventually burn out and it's safe to say that we're closer to that period and further away, but I would be really reluctant to tell when I thought they were going to burn out, because you just got too many parts out there in the economy.

Mike Grondahl
Northland Securities

What about just '05,'06,'07 kind of relative to each other, I mean do you -- can you say -- late in the game?

Chris Nard

'05 is running a less stressed environment, because the beginning of '05 was okay and those loans have a little bit of equity buildup in them. I don't really sense much differentiation in the '06. '07 books, they were kind of part and parcel to one bad period of time. '05 performs a little better, but it like '08 is the tale of two books. Certainly '05 looked pretty good, late '05 looks like one what I'll call the dark time, and then the first quarter of '08 is pretty rough, but the second quarter of '08 looks like all new guidelines in present.

Mike Grondahl
Northland Securities

And after the first quarter of '08, what do you think the returns are on that business you've written in the last year or so?

Chris Nard

We would tell you I don't have a specific number for you, but, we're very pleased with the performance of that book and we think over the long haul even through this early stress, because it was written that lower LTVs, much higher credit and exceptionally generic other underwriting terms. We feel like we put on a book that can withstand some early jolts to it. So we feel good that it will meet any expectation we might have for a decent book year.

Operator

Your next question comes from Beth Malone - Wunderlich.

Beth Malone
Wunderlich Securities

Just one as a technical, the interest, what was the interest expense for the third quarter?

Aldo Charles Zucaro
Chairman & CEO

You got me. Basically it would have been roughly 9% of about an additional $300 million of debt that we put on the books on May. So that's about $6 or $7 million probably.

Beth Malone
Wunderlich Securities

Okay, yes that's helpful. And then in terms of the title business, you mentioned that the competitive landscape has changed dramatically as some of these other title companies have come under you've kind of disappeared in some cases, is there an opportunity for you to acquire books of business in the title market or would it make sense to have whole companies?

Aldo Charles Zucaro
Chairman & CEO

Well, we've effectively done the acquisition of books Beth by signing of a lot of agents that got peeled off some of these companies that either went of business or else got peeled off from the emerged operations of consolidated operations.

Secondly, we have done the same thing on the direct basis by hiring quite a number of what we considered top-notch people from these either consolidating companies or companies that have gone out of business. So we've done it, we've acquired the books of business to a significant degree we think, through those two avenues as opposed to buying a distinct book of business or company for that matter.

Beth Malone
Wunderlich Securities

Maybe you can't answer this, would that suggest that your capacity in title is sufficient that we could see premium levels exceed historic levels, that your market share would be greater at some point?

Aldo Charles Zucaro
Chairman & CEO

We without putting a number on it, we think that we are in process of building a bigger company.

Beth Malone
Wunderlich Securities

Okay. And then one last question on the mortgage insurance business, the HAMP program, do you anticipate that having a meaningful effect on the book of business that you ensure or is it just going to be an incremental?

Aldo Charles Zucaro
Chairman & CEO

Chris, why don't you address it, you are closer to it.

Chris Nard

Beth, it could be on material impact, but it is too early to tell. I think one of the things that clouds the picture as you hear a lot of talk about the performance of the early modifications not being good.

The early modifications were not largely payment reducing modifications, people got behind on the mortgages and the lender simply capitalized the delinquent amount on to the back of the loan and recast payments. Frequently the payments could have gone up as well as stayed flat. So I don't think those are indicative. This HAMP program results in the borrower's payments being reduced to 31% of their income, which is traditionally a very affordable rate for people.

So it could be material, I mean the program does present an attractive option for borrowers who want to stay in the house but it's far too early for us to see that. You hear comments about that might not be effective because 50% of the people re-default, 50% success rate on a 100 delinquent loans would be very attractive.

Beth Malone
Wunderlich Securities

Okay just one last question on the HAMP. If someone goes into the HAMP program, does the mortgage insurance stay in place, so it doesn't replace the mortgage insurance?

Chris Nard

No, the mortgage insurance stays in place and it would go, for once the loan performed through the trial period the mortgage insurance would essentially then have a current loan that was reported to it.

Beth Malone
Wunderlich Securities

So, I guess you would anticipate and since this is kind of just getting some legs to it, this could be something that builds over the next several quarters?

Chris Nard

Yes, I think we will see the reported borrowers in these programs grow over the next several quarters, correct. But it will take a while to see that impact, because again it takes such a long period of time to formalize the modification, and get the borrower to make three consistent payments.

Operator

And Mr. Zucaro, there are no further questions at this time. I will turn the conference back over to you for any closing or additional comments.

Aldo Charles Zucaro
Chairman & CEO

Well thank you, I have none and as always we appreciate the interest that all of you had in listening to this, and participating in this conference call for the third quarter, and as always, we will look forward to visiting again with all of you hopefully when the fourth quarter closes early next year. Having said that, we will bid you a good afternoon.

Operator
Ladies and gentlemen that does conclude today's conference. We thank you for your participation. You may disconnect.