S&P Global
Market Intelligence

Old Republic International Corporation NYSE:ORI

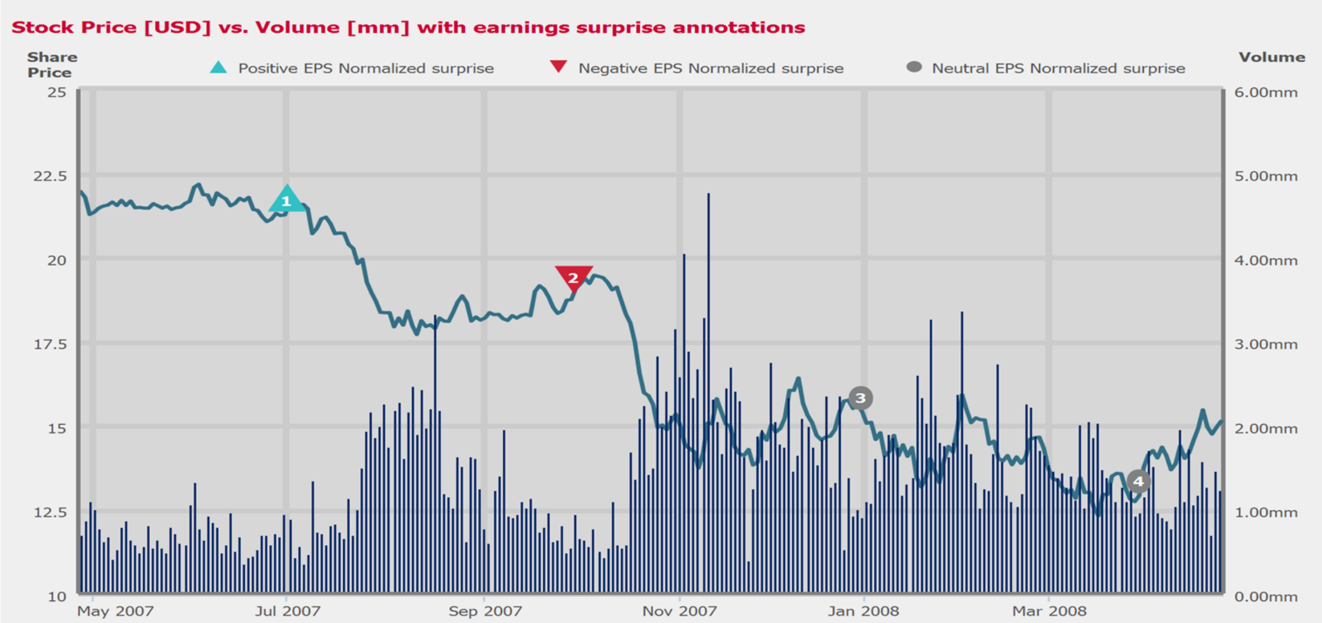
FQ2 2008 Earnings Call Transcripts

Thursday, July 24, 2008 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2008-			-FQ3 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.10)	(0.22)	NM	(0.03)	(0.15)	0.53
Revenue	-	-	(2.28 %)	-	-	-
Revenue (mm)	991.90	937.40	-	1005.65	3929.43	4015.03

Currency: USD
Consensus as of Jul-24-2008 11:41 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2007	0.45	0.49	8.89 %
FQ3 2007	0.39	0.11	(71.79 %)
FQ4 2007	0.09	0.09	0.00 %
FQ1 2008	(0.02)	(0.08)	NM

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Call Participants

EXECUTIVES

Aldo C. Zucaro

Christopher S. Nard

Leslie Loyet

ANALYSTS

Daniel Johnson
Citadel Investment Group

David Lewis
Raymond James

Elizabeth C. Malone
KeyBanc Capital Markets

Geoffrey Dunn
Dowling and Partners

Gregory A. Roeder

Mark Aden
KeyBanc Capital Markets

Patrick English

Ronald Bobman
Capital Returns

Unidentified Analyst

William Clark
KBW

Presentation

Operator

Good afternoon ladies and gentlemen. Welcome to the Old Republic International Second Quarter 2008 Earnings Conference Call. Today's conference is being recorded. All participants 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 a question.

At this time for opening remarks and introductions I'll 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 2008 results. This morning we distributed a copy of the press release and hopefully you have all had a chance to review the results. If there in anyone online who did not receive a copy you may access it at Old Republic's website at www.oldrepublic.com or you may call Liz Dolezal at 312-640-6771 and she will send you a copy immediately.

Before I turn the call over to Al Zucaro, Old Republic's Chairman and Chief Executive Officer, please be advised that this call may involve forward-looking statements as discussed in the press release dated July 24, 2008. Risk associated with these statements can be found in the Company's latest SEC filings.

With that I would like to turn the call over to Al for his opening remarks. Please go ahead.

Aldo C. Zucaro

Thank you, Leslie. And again, welcome to this Old Republic quarterly up-to-date visit. As we said the last time we came together on this type of call, our most current report really smacks of deja vu all over again and with just a few wrinkles thrown in to make at it little less repetitive in this latest installment.

The lesser similarity that you'll notice in this morning's release comes from our general insurance business. As you can see it posted a composite underwriting ratio that breached the 100% mark ever so slightly after it had rested safely below that level for some 24-prior consecutive quarters, which is pretty much of a record for us over time.

For the first half nonetheless, first half of this year, the ratio still sports a reasonably good underwriting margin of about 2.5 points, as you see, and at this level the margin is within the expected range of the 95 to 98% underwriting ratio that we factored in to this year's operating plan early in 2008.

The more significant factor in this latest or current rise in the composite ratio is the loss portion and it rose by about 13% to the 76% level that we posted in the release and it rose by almost 11% in this year's first half when you compare both periods to the same periods of 2007.

Loss reserves grew very moderately in these two periods, so that … of 2008 … so that most of the increase in the ratio stemmed from the higher paid losses for many, if not most, of our coverages. In the second quarter of this year, in particular, we did experience higher paid losses in the line of coverage that we call consumer credit indemnity, which is a consumer loan type of coverage that we have been offering for some 50-plus years, but the line did reflect in the second quarter some catchup in our quarterly settlement process and thus the higher paid loss ratio in particular that you see for the period. At this point in time, we think we'll be returning to normalcy in this regard for the remainder of this year.

With respect to loss reserves, I might add that they do continue to develop favorably. A couple of points of savings so far this year in our loss reserves relative to the amount that was posted at year-end 2007. So, that's pretty much par for the course for us. But again, the major contributing factors to the higher incurred loss ratio in general insurance comes from the cumulative effect, we think, of some rate declines that have taken place across just about the entire spectrum, more or less, of most of our insurance offerings during the past 30 months or so.

As you know, those of you who listen to these calls from time-to-time know that we have been indicating over time that perhaps rates have been coming down by anywhere between 2 and 5% over the last couple of years, and I think the rise in the loss ratio in most coverages is reflective of that lower premium quality, if you will.

Also, as we have noted again in the release there were two specific coverages that … where the loss ratios inched up to a greater degree. One of which again is the, the one I just referred to, namely the consumer credit indemnity product, which as the name implies is closely attuned to economic considerations and consumer spending in housing areas of the economy and/or, as well as employment which doesn't happen to be an issue currently, to any significant degree, but that loss ratio over time has tended to percale [ph] up whenever these sectors of the American economy edge south as they have been doing recently.

Again, it's a matter of greater claim frequency more than anything else. In the general aviation line it also delivered somewhat higher loss cost and our opinion in this regard is simply that these loss cost reflect mostly, again, the cumulative cyclical decline in premium rates after having experienced some pretty … some very goods times, I should say in the 1990s, and the earlier part of the century. So we're just going through a down cycle in general aviation as well.

Looking at our crystal ball, if you will, at this moment, we are expecting a flat to downward tilt to the premium line for most of our general insurance coverages. But for the year as a whole, we still hold to the expectation that the segment has a good chance of producing the anticipated underwriting ratio within the range that I mentioned before that we have mentioned in the past of 95% to 98%.

Finally in general insurance from an operating cash flow standpoint, the business is still producing very good contributions to consolidated results and while this has been, of course, additive to the invested asset base, investment income, as you can see, growth has stalled pretty much, and that's a reflection, primarily, of the lower yields that have flattened out or come down a bit as a matter of fact in response to the current Fed policy and securities markets expectations.

Let's see, turning the page to our Mortgage Guaranty Group, the story here falls very much in the same old category. For the fourth quarter in a row, all key elements affecting underwriting profitability of this line have obviously continued to head south. You can see that in particular in the exhibit of the segmented operating statistics that we include in each quarter's earnings release, we continue to manage this part of our business with the expectation that the cumulative loss ratio for the 30 months or so between mid-2007 and year-end 2009 will likely aggregate 150%. For the first 12 months of that period namely, between June, July 1, of '07, and June 30, of this year, the cumulative loss ratio stands at 179% or thereabout.

So our current assessment of the near-term statistical trends in this business tells us that Old Republic's MI loss ratio is likely to range between, 175 and 200% for the second half of this year and then to start gravitating toward that cumulative, 150% bogey as 2009 progresses. This set of expectation is, of course, is judgmentally based on the number of emerging Federal Reserve, US Treasury, Legislative, I'm sure all of you are posted on what is happening in the US Senate, with the promise of a presidential sign-off by week's end on some pretty massive legislation that's intended to help in this mortgage lending and housing area. And of course, there are a number of market-driven steps also that are expected to redress, if you will, the housing and related mortgage lending issues in this consumer sector of the economy.

Also, I might say that we are assuming that the beneficial effects of captive reinsurance claim recoveries, which are on the rise, the reduced captive insurance participations in new business, which as you may know, starting in July of this year, are coming down to a maximum of a 25% level versus the 45, 50% they were at until then. Also, we expect greater success in the claims remediation area due to increasing detections of frauds and inattention to loan underwriting standards in the past by certain lenders, and of course the new and better priced product that's going to start kicking into the bottom line that the combination of all of these factors will temper the ultimate level of the cumulative loss ratio for the composite of that 30 month period, and in fact bring us, we think, to that 150% composite by the time that the market starts to turn sometimes in 2010. At least those are our expectations and our understanding of the variables that should lead to that type of resolution.

What all of this of course says is that we currently do not expect to make any money in our Mortgage Guaranty line, either this year or in 2009. There is, as you know, there is some noise out there. We think it's wishful thinking, in our opinion, to the effect that the housing may be reaching a bottom, and that a rainbow is about to come up on the good ship lollypop. But we're not aligned with that school of thought, and as we said in the past, our expectations are for a continuation of a relatively stressful period before we can see the emergence of profitability sometimes in 2010, as I say.

Speaking of stress, we are managing our Mortgage Guaranty balance sheet with the idea of running it close to a 20 to 1 risk to capital configuration, which as you may know is well within the statutorily acceptable 25 to 1 ratio.

As we show in this morning's statistical exhibit, we're currently posting a … what 16.5 … 16.4, I guess, to 1 risk to capital ratio. So we have quite a bit of maneuvering room before we have to face that 20 to 1 benchmark that we have set for ourselves. Our thinking in this regard is that we don't want to throw money up against a wall until we're reasonably sure that it is necessary to our long-term management of the mortgage insurance cycle.

Our independent financial ratings, by the way, are holding up reasonably well, and they are holding up, we believe, in the light of our expressed intents in this regard of balance sheet management.

And finally, we're … in this regard, we're also quite confident that we can show our two most important customers who rely on our mortgage guaranty insurance, of course those are in the persons of Fannie Mae and Freddy Mac, that's Old Republic's Mortgage Guaranty business is good for the money.

It's also … maybe also helpful to note that, I think, that the possible further increase in MI risk in force over the near-term is dependent on the behavior of several variables, which I might confess, we're not totally able to fully assimilate at the moment. Some of these key variables, of course, include first and foremost, the effect of the future MI operating results on the capital structure of this segment of ours, as well as such matters as the coming reduction, as I mentioned before in captive insurance participation in the business, which obviously will kick-in more of the new premium production to our own side of the equation. Some of the … some of it may rest on the market share implications of the competing FHA product growth, namely that $300 billion authorization which is part of the current bill that's moving through the Congress now, which would enable the FHA to refinance some loans under pressure and the effect of that, of course, would be to eliminate some risk in force from the MI industry's balance sheet, though it might cost us some money in terms of participating in the fixing of those loans, and of course to some small degree, the recent sidelining of a small mortgage guaranty competitor may also have a little bit of an impact on market share participations by us and our competitors in the MI sector.

All of this to say that we'll be approaching any necessary capital addition to this business over the next two to four quarters in a very disciplined manner. To the extent that we need to tap external capital sources, we have every expectation of doing so in a fashion that is least degrading of our common shareholder interests. In other words, we have no intention of punishing our common shareholders with any unnecessary dilution of their equity interest in the company.

As you can tell, finally, by simply comparing the paid and incurred loss ratios for the MI line, which shows up in the statistical exhibit of this morning's release; the amounts we are paying are still slow tracking the incurred figure, and again, as we pointed out in the release, this relationship between loss payments and the reserve impacted loss costs, which we include in the statement of income, forms the substance of the positive operating cash flow we continue to experience in this business.

Ultimately, of course, the paid and incurred lines will cross at some future date, and that's a main reason we've been accentuating a shorter-term maturity spectrum in this portion of the investment portfolio. And thus, again, the slower rate of growth of the totality of our investment income.

Let's see, there's not much that I need to add to the disclosures we have made about our title business. Suffice it to say that we continue to do our level best in redressing the imbalance between the relatively fixed operating expense structure of that business and the topline activity we're experiencing.

Since, reaching a peak sometimes around midyear of 2003, it's interesting to note that we have reduced overall employment counts by some… almost 40%, but obviously this has been insufficient to counter the significant drop in business activity during that period.

So, as a transaction-driven business, much more so than the loss-impacted business, even though our loss ratio was as you can see has been trending up a little bit for the past year and a half or so, but nonetheless as a transaction-driven business, the resumption of much stronger new and resale housing activity is going to be required before this part of our consolidated operation returns to a much more positive bottom line contributor.

Finally, I might note that in the… in the remaining portion of this morning's… towards the end of this release… of this morning's release, we included some commentary about the changes that have affected both sides of the Old Republic consolidated balance sheet. Specifically on the left side, we have taken a greater hit from the securities market's price deterioration in our stock, but the portfolio, in particular.

The drop in the… these market valuations, as we pointed out, so far this year, has been most pronounced with regard to the three major stock positions we have taken in leading Mortgage Guaranty and title competitors common shares, which, again, we identified, and have identified in the past. We have shown the impact of these declines on our company's common shareholder's equity account through a couple of tables towards the end of the release as I say.

And as we have noted there, we have every expectation that these three investments will play out positively as the housing industry comes back to life in the next 24 months or so. As a result, we think that the current value reduction of these holdings is very much temporary in nature, and that these companies' shares and their valuation will be additive to the Old Republic shareholders' account as the cycle turns, just as our own business in these lines is expected to do.

Let's see, otherwise, I don't think there's much more that I would like to add, as regards to the company's latest balance sheet or operating results through June of this year. So, as we indicated, again, at the top of this visit, we'll just turn the conversation to an interactive mode to enable anyone to ask whatever questions may be out there. As we have done several times in the recent past, Chris Nard, our Mortgage Guaranty CEO will now join me for this part of the call, and help answer some of those questions. So without much adieu, we'll just do that.
Question and Answer

Question and Answer

Operator

[Operator Instructions] We'll have our first question from David Lewis, Raymond James.

David Lewis
Raymond James

Good afternoon and thank you.

Aldo C. Zucaro

Hi, David.

David Lewis
Raymond James

Al, just touch on general insurance for a minute. That's a pretty big spike from the first quarter to the second quarter.

Aldo C. Zucaro

Yes, indeed.

David Lewis
Raymond James

And I know that you talked about the two primary lines that impacted that. You indicated that consuming indemnity or consumer credit indemnity might return to normalcy. What is normalcy? And is that anticipated in kind of your guidance for the full year? And anticipated… kind of moves toward that in the second half? Because I guess that would imply a combined ratio at… we'll call it somewhere in the 96, 97% range for the second half, versus the 102 for the second quarter.

Aldo C. Zucaro

Yes.

David Lewis
Raymond James

Or the 100 or so.

Aldo C. Zucaro

Yes. Yes. Well, the comment about normalcy, if I wasn't clear about it, David, had to do with the spike we had in claim payments for that line in the 2Q. And what I meant to say was that we should not have a spike in paid losses… as much of a spike in paid losses for the rest of the year.

David Lewis
Raymond James

Okay.

Aldo C. Zucaro

But to follow-on to your question and the effect that the greater loss costs in general insurance are having in the second quarter and what is to be expected for the second half of the year, I would just like to rest on the point we've made relative to our expectation that the full year is still going to land within a 95 to 98% composite for the totality of that general insurance book, and of course, doesn't take a rocket scientist to figure that looking at the first half of this year, we probably will or should end up on the higher end of that range of the 95 to 98, rather than the lower end. I think that's reality at this time.

David Lewis
Raymond James

Okay. And on the MI business, based on your comments, I would guess that you would believe that the second quarter of '08's loss ratio is probably near or if not at the peak; is that--?

Aldo C. Zucaro

Yes, I think that's what I tried to say when I indicated that the second half was going to be within a range of 175 to 200. You figure that all of this legislative and so forth activity that's taking place, as we speak, is about to have an effect, but yet my gut for what it is worth tells me that it's going to take at least a couple of three months before these institutions, the FHA and what have you, are able to get their act together and in fact institute the legislative intent of the… that's taking place.

David Lewis
Raymond James

And last question…

Aldo C. Zucaro

It's going to take a while.

David Lewis
Raymond James

Yes. And last question have you changed the average reserve per delinquent loan it was either in the first quarter or the fourth quarter, I think you bumped it from around 12,500 to 15,000.

Aldo C. Zucaro

I think it's higher than that, I don't have that number in front of me, but that is not… severity which is what you are talking about?

David Lewis
Raymond James

Right.

Aldo C. Zucaro

Has not increased significantly from what I remember. As I said, I don't have those numbers in front of me, but my recollection is what I saw a while ago, is that, no, there has not been a significant change there. We are currently at 103% of the… of the cost. So we're assuming a 3% cost to get rid of… in addition to the insured-loan value, to get rid of these loans.

David Lewis
Raymond James

All right. Thanks very much.

Aldo C. Zucaro

Yes, sir.

Operator

We'll go next to Mike Randolph [ph] with P Colony [ph].

Unidentified Analyst

Yes. Thanks for taking the call. I had two questions. First off, can you talk a little bit about some of the price increases that you are getting in the mortgage insurance area? And then could you give us the number of delinquent units or loans at the end of June and March?

Aldo C. Zucaro

Let's see in terms of price, I think… well, Chris, why don't you handle that, since you are closer to it?

Christopher S. Nard

What has gone in to effect throughout the first half of this year, I think, was when the bulk of the actions took place; it would result in about a 20% plus price increase across the board in all products. So I think they will all be in effect as of date of August 1, of this year. And, again, it's pretty well across the board on all classes of products, and it equals out to on a weighted average basis to about 20, 21%.

Aldo C. Zucaro

And also, Chris, by the way, do you have a different answer on David Lewis's earlier question about the severity of the average?

Christopher S. Nard

No, you got that right. It's about 103% is what we have… yes. But the per-case number is up significant over a period of time.

Aldo C. Zucaro

Let's see have we answered both questions that were just raised?

Christopher S. Nard

Yes, what is really driving now the per-case up is the Florida and California.

Aldo C. Zucaro

Yes.

Christopher S. Nard

We talked about on previous calls. You have got much higher loan amounts in Florida and California, and they have been the primary driver of that and the upper Midwest the job situation in Michigan, Ohio, they have been the driver of the increases in delinquencies, and obviously with those delinquents come much risk higher amounts.

Unidentified Analyst

Do you have a specific number though for just the delinquencies at the end of June or March?

Christopher S. Nard

Yes, give me a second; I don't think I have those right in front of me.

Unidentified Analyst

Al, while he's grabbing those, could you talk a little bit about… you seem to be running at a lot higher risk to capital than some of your peers. Can you just talk about your comfort running at 16.5 to 1?

Aldo C. Zucaro

Yes. Well as we… as I said, as we said to everyone, that as an interest in this issue, we recall our experience, some of us who have been around a long time, recall our experience back to the mid-1980s in the mortgage guaranty industry, and while the issues were somewhat dissimilar, the extent of the stress that we were feeling in the business was not very significantly different than it is today. The industry was also much smaller than it is today, but the hurt was nonetheless there, and we were able to run those businesses as an industry, and I may be corrected on this, but I think it was close to a 21 to 1 for a period of time, and we survived very nicely.

There was the same effect at the time of significant price increases around the bend, and those within a year or year and a half's time did serve to… as is expected in the cyclicality of the business… of all of our insurance business, really, those had the effect of repairing profit margins and the balance sheet of the various companies that were in the business today, which are fundamentally the same ones that are in it today. So taking that as a… using that as a base, we feel very comfortable to move it to a 20 to 1, based on the way we calculate the risk in our company, which I believe is similar to our competitors. And we still leave ourselves, you know, a 20% cushion when you compare that to the 25 to 1, which is the bare bones requirement under… that's mandated by the Insurance Department regulations.

Unidentified Analyst

Got you.

Aldo C. Zucaro

As I say, we're taking a look at this thing, every quarter. And again, as I say, we're going to be fully prepared to put some money on the table, as we come close to that… if and when we come close to that 20 to 1.

Christopher S. Nard

The only other thing I would add there, Al, is that you did a good job with it, but the risk to capital ratio is a relatively static number. It doesn't take into account the volatility or the nature of the risks in the book. So if you had a book that was more volatile, had higher risks attributes to it, you would look at… maybe a lower risk to capital ratio, if you had a book that you felt had lower volatility in it, you might be more comfortable with the higher number.

Aldo C. Zucaro

Yes, I think that's a good point, Chris. Okay. Have you got any information Chris?

Christopher S. Nard

Yes, the ratios and if you look at the delinquency ratio, particularly the traditional primary, at year end '07, it was at 4.36%, and then at year end '08, it had gone to 6.92, and as I had mentioned earlier, if you look at the individual states, the real two large drivers in that increase have continued to be Florida and California. While the upper Midwest has been difficult for us, the Michigan, Ohio, Indiana, those delinquency rates have not jumped quite as high or as quickly as Florida and California. They have been at a more elevated state, really, for the past few years.

Unidentified Analyst

Okay.

Operator

[Operator Instructions] We'll go next to Mark Aydin, KeyBanc.

Mark Aden
KeyBanc Capital Markets

Good afternoon.

Aldo C. Zucaro

Yes, sir.

Mark Aden
KeyBanc Capital Markets

Just a quick question on the MI business. I was just interested to know if you were surprised by the amount of losses in the MI business.

Aldo C. Zucaro

Surprised? Well, not really. Again, we have been looking at this business over the entire 30 months period that we expect it will take to more or less fix it. Our reasoning has been that mortgage lending and housing took, what, five, six years to get in it's current straits. And, on a judgmental basis, we think it's going to take half as long to fix it. And our expectation, as I have indicated before, and as we have indicated on several other past occasions, is that when it's all said and done, we will have posted something akin to a 150% loss ratio. We are currently at first 12 months in to that 30-month period, as I said before, about 176, 179, I forget exactly. It's going to get a little worse for the second half of this year, and then starting next year, it will very slowly, we think, as all of these fixes that are being talked about the help that's being given to Freddie and Fannie, the greater charter authorizations being given to FHA.

And the other band aids that are being put on the system, all of those will, we believe conspire to alleviate the pressure, and lead to a lessened loss ratio, and then, of course you have got the new production in both starting… sometimes in first quarter of this year, second quarter of this year, going into next year, which we expect will represent a profitable book of business, which will offset the loss costs of the past. Those are our thoughts, and they have been there now for the past nine months, 12 months or so. And we see no basis for changing those expectations. So from that standpoint, we're not surprised by the level of losses we're incurring.

The only surprise comes in from the standpoint of when they'll occur, whether it occurs in the second quarter or the third quarter. The other element of surprise has to some degree to do with the recoveries from captive reinsurance. Those are really done on account-by-account basis, and each account tends to have a somewhat different mix of business, and therefore the loss recoveries for each of those mixes will tend to be different, but there's no question that those recoveries are on the rise, and they will continue to rise, we believe, and therefore, also contribute to a attenuation, if you will, of the loss costs.

Mark Aden
KeyBanc Capital Markets

Okay. Thank you very much.

Aldo C. Zucaro

Yes, sir.

Operator

We'll go next to Dan Johnson, Citadel Investment Group.

Aldo C. Zucaro

Hello, Dan.

Daniel Johnson
Citadel Investment Group

Good afternoon. Thanks for taking my call. I have a question on the delinquency statistic that we use referencing, I guess, in this quarter, a...I guess it's a 6.92% delinquency ratio. Couple of questions around that. I see that there's a heading that says 12 months ended. So I'm assuming that is not the delinquency status for the quarter. It's actually a --?

Aldo C. Zucaro

The delinquency rate as of a point in time, namely, as of...in this case, June 30. Correct, Chris?

Christopher S. Nard

Yes, it's always kind of a period end delinquency calculation.

Daniel Johnson
Citadel Investment Group

Okay. So this isn't some delinquency number...that sort of is a very real time snapshot of what the portfolio looks like --?

Aldo C. Zucaro

Where it is right now, right.

Christopher S. Nard

That is where it is today.

Daniel Johnson
Citadel Investment Group

Okay. Well that takes care of a good part of the question. Then the second part is in the last quarter, we have moved up about 120 basis points in the primary and probably 200 basis points in the book. Can you just give a little color as to sort of where we're seeing that, whether you want to answer that in terms of geography, sort of nature of the borrower, however you want to discuss it?

Christopher S. Nard

Sure. Now, there is a couple of different moves pieces there. One is a mechanical one that I'll cover first. We had a one-time catch-up, if you will, from a large national lender that occurred in the first half of the year, and that makes up a good piece of the jump in number of delinquents in the second quarter, and I think that's as we report that, you have seen that reported, pretty much throughout the industry. The other...it's kind of the mechanical event--.

Daniel Johnson
Citadel Investment Group

Is that for the traditional or the book?

Christopher S. Nard

Traditional primary.

Daniel Johnson
Citadel Investment Group

Okay.

Christopher S. Nard

That was a big chunk in the jump of the traditional primary. For the rest of the traditional primary, again, it's the rapid increase in delinquencies in Florida and California. Those are the ones that continue to rise at a rate that is much faster than the...the other states in the country.

Daniel Johnson
Citadel Investment Group

And if you tried to delineate between something that looked more like a prime borrower, versus a Alt-A or sub-prime borrower, can we get an update on what the prime borrower statistics look like?

Christopher S. Nard

I don't split them out or report them by discrete borrower characteristic, but I think it's safe to say that the early delinquents have been particularly heavy in the reduced stock in the lower FICO, and the higher LTV buckets. The prime borrower in those markets is obviously holding up much better than the borrower that came in with what we refer to around here as a crack on the egg shell, so to speak, the reduced stock, the low FICO, or the 100% LTVs.

Daniel Johnson
Citadel Investment Group

Certainly that's where the deterioration has been earlier on. I was wondering maybe are...are we seeing an increased deterioration amongst the prime borrower class?

Christopher S. Nard

Well, I don't have that in front of me, but I still think the bulk of the problem has been in the higher risk buckets. Where we'll get the deterioration in the prime borrower is a more economic-driven delinquency, let's say, not that he couldn't afford the house when he got in it at the beginning, but one who was more affected by overall job loss in the economy.

The one that you mentioned in bulk bit, what you're seeing in the run-up in the delinquency rate in the bulk is simply the run-off of the business. We haven't been adding any new production in the bulk arena, so you'll obviously see a big jump in the delinquency rates because there's no new business being added on top of it.

Daniel Johnson
Citadel Investment Group

Great. And then the last question around delinquencies is what are you seeing from delinquencies in the first quarter or let's just call it the 2008 book of business?

Christopher S. Nard

What I would tell you...that's a good question, what I would tell you is we feel better about what we would see as the anticipated delinquency development in the first half of 2008. I mean, it's obviously very early to tell, but we have come to learn that the very early delinquency development is a good predictor of how the books will play out, and we, suffice it to say, we felt much better about what we've seen in 1Q and 2Q. That's a very good question.

Daniel Johnson
Citadel Investment Group

So you feel better about what you are seeing at 2Q on the '08 business versus what you saw last year for the '07 business?

Christopher S. Nard

Yes, I mean I think if you look at this market, you can see the stress really start to hit in '06 and '07, and those being books that developed delinquencies very early on in their lives. So, yes, the early '08 development is more comforting than the early development in the previous years.

Daniel Johnson
Citadel Investment Group

Would you go so far to compare it as good as you saw it maybe back in '04 or maybe '05?

Christopher S. Nard

I have to think about that for a second, but, yes, it probably looks like...if I had the numbers in front of me, which I don't...but my guess is it looks like development, well prior to '06.

Daniel Johnson
Citadel Investment Group

Great. Thank you very much for the question.

Christopher S. Nard

Yes, the one thing...when you mentioned that the other thing you got to look in there is the environment in which those delinquencies cure out. So while you may feel better about the early development of the '08 delinquents, those delinquents will age in a little bit of a tougher environment than maybe the '04 delinquencies would have aged. So there's a lot of moving parts in there, but, again, the early development is a positive.

Operator

We'll go next to Geoffrey Dunn, Dowling and Partners.

Geoffrey Dunn
Dowling and Partners

Hi Al, how are you?

Aldo C. Zucaro

Hello, Geoffrey, how are you? Long time, no hear.

Geoffrey Dunn
Dowling and Partners

Yes. Glad to be back.

Aldo C. Zucaro

How you like your new house?

Geoffrey Dunn
Dowling and Partners

Enjoying it very much. Thanks.

Aldo C. Zucaro

Good.

Geoffrey Dunn
Dowling and Partners

I have two quick questions. First, at the holding Company level are there any other revolver or line of credit facilities beyond the CP facility?

Aldo C. Zucaro

No, that's it.

Geoffrey Dunn
Dowling and Partners

It is. And then --?

Aldo C. Zucaro

But we do have a large shelf, $1 billion shelf.

Geoffrey Dunn
Dowling and Partners

Right. You were very clear that if and when you needed to look for capital for the MI operations you would look for the least dilutive means, it sounded like. If…I know you like your business mix, but if that included a potential asset sale is that something you would entertain?

Aldo C. Zucaro

No.

Geoffrey Dunn
Dowling and Partners

Okay. Thank you.

Operator

We'll go next to William Clark, KBW.

William Clark
KBW

Afternoon.

Aldo C. Zucaro

Hi, there.

William Clark
KBW

Last quarter, I think you gave us the dollar amount of captive benefit in the MI business --?

Aldo C. Zucaro

I'm sorry, I cannot hear you.

William Clark
KBW

Sure. Sorry about that.

Aldo C. Zucaro

That's okay.

William Clark
KBW

Last quarter you gave us the dollar amount of captive benefit in the MI business. Do you have that for this quarter?

Aldo C. Zucaro

Yes, I think you have it, Chris, right. I know I have it someplace. I can't put my finger on it. Was it around 67 million this quarter or year-to-date period?

Christopher S. Nard

Yes, it might have been a tiny bit higher...yeah, it was about 65...about 65 million, Al.

William Clark
KBW

And that was the quarter or the year-to-date?

Christopher S. Nard

That was the quarter.

William Clark
KBW

Quarter. Okay.

Aldo C. Zucaro

Yes, here it is. As matter of fact I just looked at this yesterday. In...it's gone from 25.5 in the 1Q, to 65...almost 65.8 in the 2Q, and it was a very small 8.7 million according to this number here in 2007 as...in total. So it's accelerating significantly.

William Clark
KBW

Great. Thank you. And second, you mentioned about an increased frequency in the consumer credit indemnity business --?

Aldo C. Zucaro

We're losing you again.

William Clark
KBW

Sure. Sorry. You mentioned increased frequency in the consumer credit indemnity business in the general insurance. Just wondering if you can give us maybe a little more detail around that in terms of...maybe a metric in terms of how much frequency went up or whether you expected it to maybe--?

Aldo C. Zucaro

I don't have...that business we manage very much in the...within the framework of a property and liability business. We use different statistical methods to develop reserves and so forth specific...more specifically we use link ratio methods, and Bornhuetter/Ferguson methods, not to get technical on you.

So therefore, the type of information you are looking for, we just don't use it. It suffice to say, though, that those loss ratios, as I indicated before, do move in tandem with consumer-oriented issues, so that...some of the issues that you read about in consumer lending, such as credit card receivables, automobile loan receivables, and so forth, do have an impact, and you also have the effect...the housing and mortgage lending effect as it applies to...home equity loan-type of borrowings.

So you have got a mixed bag of loans and a mixed back of issues that affect those...the pattern of losses, but, they are up significantly, perhaps a little higher than we expected from a loss ratio standpoint, but not yet to any significant degree anywhere close to what we're experiencing in the MI segment of the business.

William Clark
KBW

Okay. Thank you.

Operator

We'll no next to Beth Malone, KeyBanc.

Elizabeth C. Malone
KeyBanc Capital Markets

Hey, thank you. Good afternoon.

Aldo C. Zucaro

Hi, Beth.

Elizabeth C. Malone
KeyBanc Capital Markets

Hi. I just had a couple of questions. On the in-line business, I assume...as you discussed the pricing and the underwriting standards of that business have dramatically improved in the last nine months, I would assume. So is there a way to just...when does the new business kind of outstrip the existing business where the losses are currently occurring. Is there any way to quantify that?

Aldo C. Zucaro

You run with that, Chris.

Christopher S. Nard

Yes. Well, not…I can't quantify while we're sitting here. It's a going to have multiple moving parts to it. One of the big ones would be what the overall size of the market plays out to be in 2008, and 2009. So we had a very large fourth quarter, a large first quarter and the second quarter was smaller yet. So you have got new business tapering down.

That's obviously an impact of our improved credit guidelines, increased pricing, and then a bunch of penetration from the FHA into the marketplace. So to the extent that the new business is smaller, it will take longer for the new quality book to over…to essentially swamp the older book, particularly the '06 and '07 years. If the market plays out to be larger than we think towards the end of the year, then that will happen more quickly.

Persistency is going to have some role in there as well, how long that new stuff is staying around. And then finally, even within the mix in the new business, the quality of the new business, you'll have varying rates depending on what type of loans you get, either by LTV or kind of prime credit quality, all has different rates into it.

So it's difficult one to guess at. But suffice it to say, each quarter that we put on a quality new book and we feel pretty good about these last ones, the closer we are to that tipping point.

Elizabeth C. Malone
KeyBanc Capital Markets

Okay. And I guess you can't take historic experience, like what happened...I guess you often refer to the...kind of the bottom of the market, relative to Houston environment in the '80s. Could you take that and make some assumption about when it turns? Or there's too many factors that are different?

Christopher S. Nard

Yes, there's just too many different factors.

Elizabeth C. Malone
KeyBanc Capital Markets

Okay.

Christopher S. Nard

For that comparison.

Elizabeth C. Malone
KeyBanc Capital Markets

Okay. And then, on the MI business, what the outlook for combined or composite of 150 to 200% for the rest of this year, that would suggest according to my math, that you will be reporting losses...or potential reporting losses, total operating losses for the next couple of quarters. And I know your intent is to maintain the shareholder value, but is this...is there a possibility that the dividend would have to be cut to preserve capital, if that's the scenario of the outlook for losses?

Aldo C. Zucaro

Well, the best answer we can give you, Beth, at this time, is this. That, one, we review the annual rate of the dividend once each year at the February meeting, late February meeting of our Board of Directors. And we do that in the context of the operating plan that we have in place for the next 12 months. And in that context, we have...we factored in this year, the kind of loss that we're painting with the loss ratio guidance, if you will, that we are giving you.

So that tells you that the dividend rate that we set took into account the fact that we would not be taking any money out of our Mortgage Guaranty group, certainly. Little money out of the title business. And some money out of the general insurance business to fuel the parent holding company's cash needs to pay dividends and what have you.

Also, the amount of dividend that we have planned for the year are substantially below the amount of dividends that we can currently take out over the various insurance companies without regulatory approval.

Elizabeth C. Malone
KeyBanc Capital Markets

Okay. And then one last question. On the results of the second quarter, are the rating agencies aware of where you are in terms of these losses? Or could we see more commentary coming from them as a result of what you've reported for the second quarter?

Aldo C. Zucaro

We have given the rating agencies the same kind of prospective or expected results that I just mentioned to you that we put together for this year relative to our decisions on dividends, capital and so forth. So there should be no surprise.

Elizabeth C. Malone
KeyBanc Capital Markets

Okay. All right. Well, thank you very much.

Aldo C. Zucaro

Yes.

Operator

We'll have our final question from Greg Roeder, Adirondack Funds.

Gregory A. Roeder

Good afternoon.

Aldo C. Zucaro

Yes, sir.

Gregory A. Roeder

Yes. I'm trying to just get a better understanding of your new mortgage insurance business in terms of what you are underwriting today, versus what you did in '06 and '07. Now, you no longer are doing bulk deals, but are your LTVs different? Is your average loan size different? Is your FICO scores higher? Is there any difference in the geographic mix? Well, I would imagine there has to be some of that, but could you just help me out there?

Aldo C. Zucaro

Sure. Sure. Really, everything across the Board has changed from a mix standpoint. Obviously the new writings do not have anywhere near the component of low FICO scores in them that they had before. Now we've … the year-end numbers we released you can see the mix of low FICOs and reduced stock and other high-risk elements of our book.

And we've always tried to manage the business by, one, limiting the higher risk on tested items to as small as we could, and yet, still be a participant in the marketplace, but what you'll see is low FICOs are mostly out of the new writings. The reduced stock are out of the new writings, and the LTV profile is lower than the previous writings. So if you were to think of those as kind of the big three risk items, they have all changed significantly.

There are some more discrete items that are tougher to track just because the data is not as clean, but certainly those are all better as well. Things like debt to income ratio et cetera.

Gregory A. Roeder

And are you doing the same amount of business with captives as you had done previously, or have you seen some captives exit the market?

Aldo C. Zucaro

Little bit of both, meaning you've had, one, you've had certainly the drop in seed rate from 40% to a maximum of 25 occur. So first off you're seeding less premium out of the shop today. The second thing is we have had a number of lenders simply exit the captive reinsurance business in 2008.

Gregory A. Roeder

Okay. Thank you.

Aldo C. Zucaro

Sure.

Operator

We'll have a final question from Ron Bobman, Capital Returns

Ronald Bobman
Capital Returns

Hi, good afternoon.

Aldo C. Zucaro

Hi.

Ronald Bobman
Capital Returns

I had a question about captive reinsurance and sort of, I'll call it sort of collectible from the trust. I was curious to know if a trust … a captive reinsurance trust was depleted, if the cash was depleted, does the bank, the mortgage producer have an obligation to make up any shortfall?

Christopher S. Nard

They have no specific contractual obligation to pay after the trusts have been depleted.

Aldo C. Zucaro

Plus whatever capital they have in there, right?

Christopher S. Nard

Correct. Both of those.

Aldo C. Zucaro

Yes.

Ronald Bobman
Capital Returns

Is there any precedent, I mean has that ever happened before? And what has transpired in the marketplace? And obviously certain of these you will have … if it ever happened, the two parties may or may not have an ongoing trading relationship? Is there any sort of precedent? I'm curious.

Christopher S. Nard

Well, I can only speak for the Mortgage Guaranty business, captives are relatively new, they have been around for 10 years.

Ronald Bobman
Capital Returns

Yes.

Christopher S. Nard

And I have not seen one pay through the complete trust balance, so I can't reference any precedent as to what would happen when that occurred.

Aldo C. Zucaro

But it would be the same set of issues that we face anywhere in the insurance business and other lines of insurance, whether it's a captive insurance company or a traditional reinsurance company, we as the seeding company are always taking a risk that the combination of the reserves that are carried by those assuming companies, together with the capital that's there are all the funds that will ever be available to those companies, or that those companies will make available to the seeding companies to honor their obligations.

There is rarely any parental guarantee provided by reinsurance companies if they are owned by a holding company, and of course, if they are standalone insurance companies, certainly, what you see is what you get.

Ronald Bobman
Capital Returns

Got you. Thank you very much. Best of luck.

Aldo C. Zucaro

Okay.

Operator

We'll go next to Pat English, Fiduciary Management.

Aldo C. Zucaro

Hello, Pat.

Patrick English

Hi, Al. What is the flexibility that you have to transfer capital from the general insurance of the holding company to a MI writing company? A regulatory rating agency constraints and how much could theoretically be transferred?

Aldo C. Zucaro

We have no intention whatsoever to transfer capital from our P&C companies or other non-MI companies to the MI business. The extent of the capital transfer, if you want to call it that, resides solely in the amount of dividends that we can or would take out of the various companies, Pat, and as I indicated before, we have quite a bit of dividend paying capacity, but historically as well as speaking to the present, we have always shied away from maxing out on that because we've always wanted, particularly in our key operating companies, to maintain a sufficient cushion of capital to take care of eventualities that are not foreseen, such that, therefore, the amount of capital that we would add to the MI companies would come from, one, any excess dividends that we … any dividends that we take out in excess … that are in excess of the amounts we need to pay dividends to the holding company's shareholders as well as meet the holding company's cash flow requirements for debt service or what have you, and as we indicated also, from drawing down on our commercial paper as well as shelf offering.

And as you know, you have been around a long time … around Old Republic a long time, Pat, you know that our history in terms of capital raising has been to issue equity-like securities, convertibles, in particular, whether they be of the preferred stock kind or debt kind, which I have always attempted to be non-dilutive of the common shareholders' interest, but yet could be counted as much as possible as permanent capital base as much as possible of the capital base of the company.

Patrick English

Thanks.

Operator

That concludes the question-and-answer session for today's call. I'll turn the conference back over to Mr. Zucaro for any additional or closing remarks.

Aldo C. Zucaro

Well, very good. I don't have any other comments. Chris and I and all of us at Old Republic appreciate your continued interest in our company and following its progress, and I'm certain that if not next quarter, the following quarter we will ultimately have some good news to report. Having said that I'll bid you a good afternoon.

Operator

That concludes today's conference. You may disconnect at this time. We do appreciate your participation.