S&P Global
Market Intelligence

Old Republic International Corporation NYSE:ORI

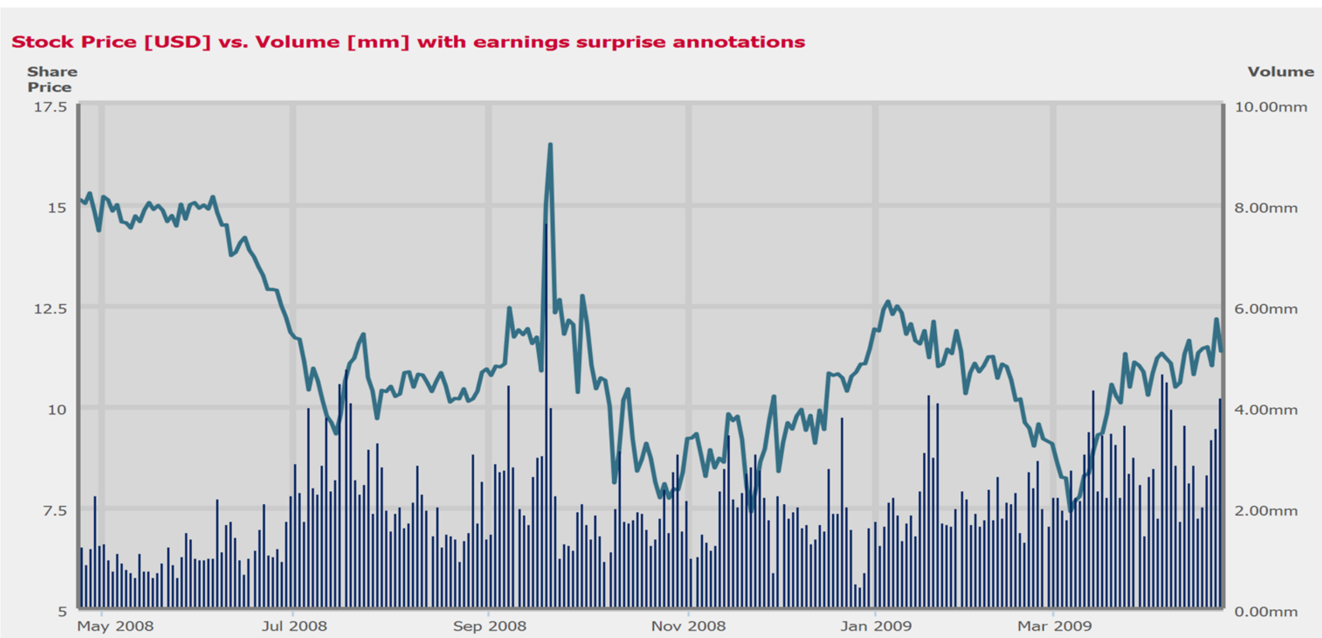
FQ2 2009 Earnings Call Transcripts

Thursday, July 23, 2009 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2009-			-FQ3 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.27)	(0.21)	NM	(0.16)	(0.95)	0.71
Revenue	-	-	▲3.19	-	-	-
Revenue (mm)	884.00	912.20	-	904.30	3539.00	3603.00

Currency: USD
Consensus as of Jul-14-2009 2:02 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2008	(0.16)	(0.22)	NM
FQ3 2008	(0.16)	(0.20)	NM
FQ4 2008	(0.25)	(0.31)	NM
FQ1 2009	(0.34)	(0.23)	NM

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Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman & CEO

Chris Nard

Leslie Loyet

ANALYSTS

Andrew Kahn
Kahn Brothers Group

Beth Malone
Wunderlich

Bill Clark
KBW

Bill Romel
Divine Capital Markets

Craig Rothman
Millennium Partners

Dan Johnson
Citadel

Geoff Dancey
Cutler Capital

Mike Grondahl
Northland Securities

Ron Bobman
Capital Returns

Presentation

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Old Republic International second quarter 2009 earnings conference call. 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 this conference is being recorded and would now like to turn the conference over to Leslie Loyet of the Financial Relations Board. Please go ahead.

Leslie Loyet

Thank you and good afternoon everyone, and thank you for joining us today for Old Republic's conference call to discuss second quarter 2009 results. This morning we distributed a copy of the press release. Hopefully you've all had a chance to review the results. If there is anyone online who did not receive a copy, you can 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.

Please be advised that this call may involve forward-looking statements as discussed in the press release dated July 23, 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 Al Zucaro, Chairman and Chief Executive Officer for his opening remarks. Please go ahead.

Aldo Charles Zucaro
Chairman & CEO

Okay, thank you Leslie. Well, welcome again and here we go for another regular quarterly update on our business. We'll dispense with the parroting of the information contained in the morning's release since you can readily see it on our website. Instead, we'll just limit ourselves to giving some additional color to the release and allocate most of the budgeted time to the questions you may have.

As we've done in the recent past, Chris Nard is on the call with me. Chris is of course the CEO of our Mortgage Guaranty business, and he will join me in particular with respect to the Q&A portion at the tail end of the call.

Let's see, focusing first on our General Insurance business which is our largest, as you must know. The most critical parts of the story here of course relates, both premium trends as well as the year-to-year underwriting performance.

With respect to the former to premium trends, it's best to say its same old, same old. As a generalization, rates for most coverages have continued to be under some pressure. But on top of that, of course, since mid-year 2000 in particular, the premium line has been affected mostly by the drop in economic activity nationally. All of that though doesn't mean that our business persistency is not good, because it is still very good.

The drop in economic activity is moreover, particularly pronounced with respect to our consumer credit indemnity coverage or CCI as we refer to it internally, which is producing renewal but very little, if any, new premiums. This, of course, reflects the much reduced willingness of lenders to extend credit, and the cut-backs by consumers for both home improvement and equity borrowings and also I suspect their unwillingness to borrow, given the job situation.

Finally, our own decision not to provide new coverage at the same rates and terms of trade as prevailed until the early part of last year. We are likely, incidentally to change these rates in terms of trade in anticipation of the greater lending activity and hopefully, the need for the product as the economy improves down the road.

I might also mention that the CCI coverage accounted for just 7% of our general insurance earned premium line for the first half of this year. This compares to a little more than 10% for all of 2008 and 9% for 2007. So it's clearly on a down trend for the reasons I just cited. We sure expect that the premiums from this particular coverage will continue to decline in the near term.

With regard to most other general insurance coverages, the year-over-year drop and net premiums earned has ranged, you can see the overall change in the earnings statement that we put out in the release this morning. But among the various coverages, the drop has been ranging between 5% and 12% in the first half of this year.

As we said before, this is again due to the combination of the cumulative rate declines we've experienced for the past 36 months or so, both as a company, as well as on industry wide basis and of course, the more current effects of the economic we're experiencing in the US.

From an underwriting performance standpoint, the general insurance loss ratio, as you can see in the release of about, 75%, 75.3% in this year's first half. That ratio was about 240 basis points or 2.4 percentage points higher than it was for all of 2008.

Among the coverages, the commercial automobile or trucking line and the general liability coverages produced somewhat moderately lower loss ratios, where as among our major coverages, Workers' Compensation and some property types of coverages, such as Inland Marine and most importantly our Financial Indemnity line have all reflected higher loss ratios and was the case for all of 2008.

Again by way of a refresher in our case, our financial indemnity lines consist of the E&O and D&O line that consumer credit indemnity coverage I mentioned before and as well as our fidelity and surety covers. As we have reported in recent periods however, the CCI coverage has been among the worst performers among these financial indemnity coverages. It once again serve to increase the overall general insurance composite underwriting ratio by 6, almost 6.2 percentage points in this year's first half.

So if we exclude the CCI policies, the general insurance composite ratio for the first half of this year would have been 95.3%. Now, this is versus the 101.5% we show in the release. By comparison, for the first half of last year, the reported ratio of 97.4% would have been 5.5% lower or 91.9% if we also excluded the CCI line.

So, as you can see, CCI has had significant negative effect on the underwriting account of our general insurance business. But the upshot of all this when we eliminate the CCI product is that our general insurance business is still producing very good underwriting results in the context, as I say of a top line, that's about 7% lower year-over-year if once again we exclude the drop in the CCI coverage.

In general insurance, again in balance sheet-wise, there is very little change since year end 2008. Our reserves in the segment are developing positively. The capital account is benefiting from a combination of factors including about a $100 million that we pumped in as a result of the capital raise we did at ORI back in April of this year, and it's also benefiting from the positive earnings of the segment, and particularly in the second quarter from unrealized market appreciation of the investment portfolio that's carried at fair value or market value.

Let's see, looking at Mortgage Guaranty. Aside from any responses to the question that I'm sure maybe raised after these opening comments. There isn't much we need to add to the contents of the release as it applies to the slide. We think we've spelled out in the release all the key variables that have affected the results to date. As a matter of fact, the operating statistics that we also include with the release on page 9, those statistics shed some additional light on what we've said.

Safe to say that the performance of the mortgage guaranty line is pretty much in accord with the expectations we had at the beginning of this year. We continue to believe that the restoration of mortgage guaranty profitability will be a relatively slow, evolving process that will extend well into 2010, if not the early part of 2011. This is of course, very much in line, we think, with the current low expectations for an uplift of the American economy any time soon.

In this segment of mortgage guaranty, operating cash flow for the first half was very positive. As of mid-year, the combined statutory capital of our Mortgage Guaranty Group, it continued to be more than sufficient to support the insurance risk in force.

We might note here that risk in force, if you were to compare the quarter-to-quarter numbers, it has been declining fairly slowly since September of last year. That too in large measure to the reduced new business market penetration by both, our company, as well as the private mortgage guaranty industry at large.

All of this, I think says that the combination of the regulatory framework in which we operate and the capital structure of our own mortgage guaranty segment, which as you may know consists of three risk taking insurance companies. As well as the expected profitability of the existing and future business we are likely to underwrite.

Finally, given the control that we can exercise on the underwriting exposures, we assume that the combination of all these factors should enable us to at once meet our obligations to policyholders, as well as continue building the capital base of the segment.

Lets see, looking at title insurance, as you can see, that was a good news item in this morning's press release. Initially or originally at the beginning of this year, we thought that the title business might turn around in the second half of this year, but yet here we are in the second quarter of the year and the business has provided a nice offset to the less than stellar results of our two other major segments.

As we've noted in the earnings release, the main driver of this positive reversal of the title line rests of course, very much on the higher level of title premiums and fees that we've booked in this latest quarter. It is particularly significant, we think, that our western states' operations, which had been a big culprit of our operating difficulties in recent quarters, that those have moved clearly into the black for the first time in many quarters.

Well we are not yet ready to call a complete cyclical turn for the title insurance on business. We are optimistic that the combination of external economic events and our own abilities to secure market share gains in what we believe is probably once in a lifetime opportunity to obtain market share gains. That the combination of those factors should lead to a fairly steady emergence of profitability in the coming-up leg of the cycle and probably result in a much larger title business for us.

As you can see in the release of the combination of holding company and life and health than other small internal services operations, something we classify as corporate and other in the release, that the combination of those items produced a significantly lower contribution to this year's consolidated bottom line. It's note worthy, I think, that the increased interest costs that are now emanating from our April 2009 issuance of some $315 million of convertible debt, this also affected second quarter results adversely in this particular realm.

There is, of course, something of an income contra effect to this by virtue of the investment income that's generated by the funds we obtained and that were redeployed to both the general and title segments from the debt offering. However, as I'm sure you realize, there is a lag effect between the time that we receive those funds and the time that they are fully deployed within the system, so that we should start getting the benefit of this contra-investment income to a greater degree starting in 3Q '09.

Consolidated-wise, the company's shareholders equity account, as you can see in the release, it reflected an approximate increase of 3%. After having experienced several quarterly declines as a result of both earnings issues, as well as in the second quarter of last year, a substantial other than temporary investment charge to the income statement. Most of the increase that we are experiencing is due to the market appreciation of the investment portfolio that we carry at market or fair value as we indicate.

In the aggregate, our claim reserves have developed positively through mid-year 2009, and we expect them to continue doing so for the rest of the year. We continue to have very good comfort in the value attributed to our claim reserves on the balance sheet.

Finally I might note that we have continued to pay a cash dividend at the higher rate that was established in June of last year. From time to time, we are asked about the prospects of continuing the payment stream at that rate or some other rate, and our answer has always been the same, and that is that we do look at our situation each quarter in terms of both, the prospects of our various insurance subsidiaries over the near and longer term, time, horizons, and we make our decision accordingly.

So again as you see, so far at least we have felt very comfortable in maintaining the dividend at the higher rate at which we've paid it the last time in June of this year. I think that's the extent of the comments I was prepared to make. So as we indicated beforehand, we'll now open the call to any questions you may have.
Again, as I said, Chris Nard and I will answer the appropriate questions.

Question and Answer

Operator

(Operator Instructions) Your first question comes from Dan Johnson - Citadel.

Dan Johnson
Citadel

Just one question today, and that's just on maybe drilling down a little bit deeper into the commercial auto market that you serve. Maybe could you talk a little bit about what we're seeing in terms of what used to be just a discussion around price trends, but now we have to talk about the economic impact to that business. So, both sort of a rate comment and a unit comment would be much appreciated. Thank you.

Aldo Charles Zucaro
Chairman & CEO

From a rate standpoint, I think we've done a very decent job. I think our people that are involved with that part of our business have been exceedingly disciplined. I would say that if anything, trucking has born, the lesser burdened of rate declines of the past three years in our business. So we're very happy with that.

Our persistency has been very good, which to us at least indicates that in the climate of the last two or three years when rates have been under pressure, that the general population of the [assureds] has placed value on the quality of the service we provide in trucking and has been willing to stay the course from a rate renewal, from a policy renewal and acceptance of our rate structure.

In terms of the amount of business that we are writing, we have the usual competition that we face day in and day out, and we have to fight to keep our business. Again, as I say, though, we find ourselves fortunate in having long-term tenures of our customers, and that's very helpful in this kind of situation.

There is no question whatsoever that the economic situation we're in, in this country, is having an impact, in terms of miles traveled and goods transported throughout the country. As you know, miles and the value of cargo and so forth are, as well as the value of the equipment are very much the base upon which premiums rates are applied.

So, when the economy is in the doldrums, as it is today, it stands to reason that we are having difficulty maintaining an uptick in the top line. As a matter of fact, the first half of this year it was down, I don't know, 4% or 5%, I think. Don't hold me to that. But the point is, it was on the downtrend and not on uptrend. Trucking, as you may know, does tend to roll out of the box pretty quickly when the economy turns around and when that occurs, we think we're going to be in very good shape in that part of our business.

Dan Johnson
Citadel

Directionally, would you say that at the end of the second quarter versus the end of last year, that the pricing trends are any more favorable and are the unit trends similar, or have they gotten tougher as the year has gone on?

Aldo Charles Zucaro
Chairman & CEO

I think the pricing trends have remained pretty tough in that business and that's why I said before, it's quite remarkable, and I know we're patting ourselves on the back or at least I am patting the back of our people in having remained very disciplined in securing and keeping business at rates that we feel are reasonably adequate. There's no question that, that business has obviously incurred somewhat higher loss ratio.

I don't have the number in front of me, but it's been inclining. It's still a very profitable book of business. But the cost of goods sold, in terms of claims has been inching up and that of course is a reflection of the lower rates at which we've written. But I would say that, having said all that, though I should say, the rate situation has remained pretty much the same as it has been for the last 18 to 24 months.

Operator

Your next question comes from Bill Clark - KBW.

Bill Clark
KBW

One title question and two MI questions, if I may. I will take the title one first. Is there any way you could give a little more breakout of the impact of market share versus just overall industry volume increases in the title business?

I know you mentioned market share, so, maybe it sound like most of that pickup came from there, but just wanted to get a sense of, depending on where industry trends might go, how your premiums might follow that?

Aldo Charles Zucaro
Chairman & CEO

I don't have specific numbers to separate the two. But I would say right now that a lot of the increase in the top line was due to the refinancing activity that was very heavy in the second half, in the later part of last year and the first four months or five months maybe of this year.

As you know, there is a lag effect between the reporting and recording of premiums in our business, particularly in our case since much of our business stems from independent agents, therefore, that lag effect results in having the benefit of premiums on the refinance activity being booked in the tail end of the first quarter, but most pronouncedly in the second quarter of this year.

As to the second part of your question, therefore, I would say that we are just beginning to get the benefits of the additional market share gains that we have been and will be experiencing as a result of taking advantage of various market dislocations and consolidations that have taken place in the title insurance industry in the last nine months or so.

Those, again, because they stem or will stem predominantly from agency sources, as opposed to direct sources, that those will continue to lag. I would suspect that we're going to start seeing most of that beginning to come through in the third quarter and the fourth quarter.

So even though the fourth quarter as you know tends to be typical a slow quarter, even the beginning of the year tends to be slow because of the seasonality of house purchases and sales. Even though that maybe the case, I think the thrust of this market share addition should be beneficial to our top line. At least, that's our current thinking.

Bill Clark
KBW

Great, that's helpful. On the delinquencies and MI, I know you give the delinquency rate. But just, if you could maybe comment on the delinquency count in terms of the sequential change. Was that the same sequential change? Was it accelerating, decelerating? Any kind of update there?

Aldo Charles Zucaro
Chairman & CEO

Chris, you want to take that?

Chris Nard

Sure. I think what you see first off in that, not to change the question, but when you look at the delinquency ratio, I think one thing you have impacting that is the build up that you get with these foreclosure moratoriums.

So in a more normal cycle, you would wash out some of these late-stage delinquents that are building up in some of the later stages as the foreclosure moratoriums in many of these states still hold, or some states where the moratoriums may have passed, but simply there are states that have a longer judicial process and those court systems are backed up today and having a tough time moving the existing foreclosures through.

I think the increase in the delinquencies also impacted, obviously, by the declining cure rates as this market suffers through the continuing declines in home prices and sort of the tough employment forecast.

Bill Clark
KBW

So it sounds like there may be some deceleration in the rate of new delinquencies, just the ones that are there are hanging on a little bit longer?

Chris Nard

I think to get a long term look at those new delinquents; we really got to see how the third and fourth quarter of the year play out for us.

Bill Clark
KBW

Do you have the number of that captive reinsurance benefited in the quarter in terms of dollars?

Aldo Charles Zucaro
Chairman & CEO

From a loss ratio standpoint? What were you asking?

Bill Clark
KBW

I think last quarter it was like 60 million that benefited in the quarter. Wondering if you have that for the second quarter?

Aldo Charles Zucaro
Chairman & CEO

I’m going to stick my neck out Chris, but I thought it was around 72, 73. Am I wrong?

Chris Nard

I think it was down from that. I think I have that first quarter number. I think it was in the mid-to-high 30’s, 32, 33, maybe something like that.

Operator

Your next question comes [Bill Romel] - Divine Capital Markets.

Bill Romel
Divine Capital Markets

You had several strategies, if I’m correct, in the title business. Could you just give us an indication of how they worked out? First, you have a new arrangement in Florida?

Aldo Charles Zucaro
Chairman & CEO

When we speak about our ability to gain market share, it's coming from two directions. One, we do have this new arrangement which we communicated in the last couple of months with a very good name in the Florida market. We form an underwriting venture which will hopefully enable us to capture most of that company's business jointly with it.

The second part of the sources of market share gain stems from what we've referred to as dislocations in the title business and consolidation of title. Insurance company is the most prominent of which as you may know, relates to the LandAmerica company. I guess it was the third or fourth largest title insurer in the nation.

Bill Romel
Divine Capital Markets

That was the lawyers' title?

Aldo Charles Zucaro
Chairman & CEO

That was the old lawyer's title in little company and commonwealth title companies. It of course, went out of business in the late 2008, and was picked up by the nation's largest title company. But what occurs whenever you've got consolidations of that nature is that you get some overlap of agency relationships.

People relationships all of a sudden may be brought into question which therefore, then gives others competing organizations, such as ourselves an opportunity to start new relationships and there by gained a footing in various markets.

So, those are the two sources and as I tried to say before, Bill, in answer to another question, we don't think we have yet seen, but the tip of the line of the trust of the new production we are going to get by virtue of this acquired market share gain. That's to come I think, starting in the third quarter.

Bill Romel
Divine Capital Markets

I think it's super to have that. You've made several moves there. They are working out very good. You don't want to say how good they could be. But I think that's very positive.

Aldo Charles Zucaro
Chairman & CEO

All of it plays with our philosophy of stressing agency production, although we have gained some pretty significant direct production sources through some people we've retained as a result of all these changes that have occurred. So we are happy with what's happening to the business from that standpoint.

Operator

Your next question comes from Mike Grondahl - Northland Securities.

Mike Grondahl
Northland Securities

Al, just a couple of quick questions. Could you remind us the capital raise you did earlier in the year, where are you allocating? What businesses are you allocating that $315 million to?

Aldo Charles Zucaro
Chairman & CEO

A 100 went to the general insurance business, 30 went into our title business, 130 or thereabouts went to repay commercial paper balances, and a remainder was kept for general corporate purposes.

Mike Grondahl
Northland Securities

At any point in time, do you plan on putting any into the mortgage insurance company?

Aldo Charles Zucaro
Chairman & CEO

Well. As I tried to say in my initial comments in this call, we think right now we're in tip-top shape in terms of the amount of capital we have committed to the Mortgage Guaranty business. The ability of that capital to sustain our obligations to policyholders as well as sustain the new business in force that we are currently putting on the books, which as again we indicated is much smaller size because of current market conditions.

So at this point in time, we feel very good about the capital we have in place, and therefore, we are not seeing any need to add further to the capital that we have there. As you may recall, we did add $150 million of assets to that business at year-end '08 or earlier this year. So in that context, we think that the addition of that plus what was there is sufficient.

Mike Grondahl
Northland Securities

In the press release it's mentioned there was an increase in fraud rescissions and that claims severity actually went down. Can you give us some numbers around that so we can understand that a little bit more?

Aldo Charles Zucaro
Chairman & CEO

Chris, you're in charge of those numbers.

Chris Nard

One thing I want to be clear is, if we don't classify it as fraud, we think of that as more of a legal term. Simply the master policy is specific in relation to misrepresentation and the fact that we're able to rely on the information provided in the file is being true and correct on its face. So we don't potentially reference fraud simply that the information was misrepresented when we eventually go back and look at the file.

From a number standpoint, I don't know that I have anything directly in front of me, but it is certainly, if we go back as long as 2003 and 2004, there has always been an element of misrepresentations in high LTV lending. So even in good times, certainly you don't see the levels that you see today but there has always been that component to the business.

So I think the increases that you see today from us are not a change in process. It's simply the result of a process that's been in place for a long time, working as the higher risk books from 2005, 2006, 2007; rolls through the system. That will over the long haul get back to more normal trends as again those high risks books work their way through.

Those numbers are real lumpy. They come up and down depending on what the investigations look like, the timing and such.

Mike Grondahl
Northland Securities

One-time claim severity was down. Can you comment on that?

Chris Nard

Claims are down a little bit as you get an increase in rescissions. The rescissions do have a tendency to be more heavily weighted towards the high risk markets in the country, certainly California, Florida, Arizona and Nevada. I think those things have impacted that average claim amount.

Mike Grondahl
Northland Securities

Did you guys comment at all on modifications, how many you did in 2Q versus 1Q?

Chris Nard

No, but I think certainly we've seen a big increase in the second quarter in modifications. As you guys know there is certainly a lot of talk about the government modification program, its called HAMP. That was released I think at the end of the year, people worked hard to get things in place to be able to do that in the first quarter and in the second quarter we have started to see a very positive trend and those modifications starting to come through.

Mike Grondahl
Northland Securities

Great. Maybe I can get some of the details offline from you guys then. Thank you.

Operator

Your next question comes from [Andrew Kahn] - Kahn Brothers Group.

Andrew Kahn
Kahn Brothers Group

Just two quick questions. Can you give us an idea of which origination quarters are creating the bulk of the losses?

Chris Nard

I don't think if it so much. Well, you think late '05, '06, '07 are really when I think all of us in the industry look at the books, the more worrisome books. We all made significant changes to underwriting guidelines in the fourth quarter of '07. Here at RMIC we would had taken out maybe the first month or so of '08 for those to work their way through, but really we worry the most about '06 and '07.

Andrew Kahn
Kahn Brothers Group

Okay, that's helpful. Following that do you guys have a sense of when the losses will begin to significantly diminish? I don't know if that something should be on the horizon in the next year and a half or so?

Chris Nard

Well, I think as Al said in the beginning, we don't really see a material recovery until late 2010.

Andrew Kahn
Kahn Brothers Group

Right.

Chris Nard

But I think it would be tough for us at this point to tell you when we had any level of confidence to be able to predict when that going to turn for us.

Andrew Kahn
Kahn Brothers Group

All right, fair enough. That's about it. Thanks, guys.

Operator

Your next question comes from Ron Bobman - Capital Returns.

Ron Bobman
Capital Returns

I had a couple of MI questions. In the modification activity, is it a fair assumption that when the mortgages are modified, if the legacy mortgage had MI coverage on it that presumably the modified mortgage prospectively will continue to have MI on it, is that sort of always the case?

Aldo Charles Zucaro
Chairman & CEO

Generally, that's a good question. For all intents and purposes, if the modification was insured, it will remain insured. We're more than happy to modify the loan because we are always on the risk. So anything that puts the borrower in a better position ultimately accrues to our benefit as well.

Ron Bobman
Capital Returns

Got you. Then, as part of that loss reserving process for those loans subject to modification, is there sort of an explicit or implicit re-default rate or re-delinquency rate that you assume as part of your loss reserve studying or loss reserve adjusting process?

Chris Nard

Ron, I think in this in this case, when we talk about modifications, it's really too early in the process to be able to project what that's going to look like from any standpoint. Certainly you hear numbers in the marketplace about expectations that 50% would re-default. But again, I think for the efforts we put into the activity, that's not an unreasonable expectation, although I think it's way too early to put a hard number there.

Ron Bobman
Capital Returns

Got you. So, from a practical perspective, if you were to look at a mortgage, it's delinquent maybe it's delinquent in getting more so as time passes, the lender or the servicer is in discussions to modify the loan, I assume prior to the technical modification being effective, you get a look at it.

If you still think there's a good probability, these things going to reenter delinquency? Do you really have sort of a say in the process to, say hey guys this is futile, this probability is too high, this person is going to revisit this in three months, six months, a year from now. Are you, from a practical perspective, sort of along for the ride?

Chris Nard

Well, I don't know if along for the ride is the right term, but I think it's safe to say we are generally supportive of virtually all modifications. Now I think in some instances, we delegate that responsibility or authority back to the lender. But again, at the end of the day we're generally supportive of most all reasonable modifications they would bring to us.

Ron Bobman
Capital Returns

Okay. I had another MI question. The last gentleman asked about rescissions. I'm trying to sort of get an idea. I know it's a bit of a cohort basis where rescission activity now may have been put into the pipeline, the investigations 12-plus months ago. Do you have any sort of order of magnitude as to where this problem period, late '05, '06, '07, ultimately what percentage of the book is going to be subject to a rescission?

Chris Nard

Yes, I really don't have that number for you. The big bubble that was the '06 and '07 book to the mortgage industry as a whole makes it really difficult to try to project that out.

Ron Bobman
Capital Returns

At what point you have done enough investigation of that '06, '07 book and put it back to the lender asking for their agreement with respect to rescission or they are not opposition to it, will you have an idea where you will be through the lion's share of that bubble wind period?

Chris Nard

Maybe 36 months. I don't have enough experience with it yet to be able to give you a firm number.

Ron Bobman
Capital Returns

I'm sorry, 36 months from the issue period or today?

Chris Nard

36 months from today. I think we will have seen that run its course.

Operator

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

Beth Malone
Wunderlich

I just was interested to know what your perspective is on the mortgage and title business given that when we started to see the deterioration a few years ago in this market very rapidly you often referenced back Houston in the early 80s as a good example of a similar kind of environment as a way to kind of measure how the mortgage insurance and title business could develop.

I'm just wondering now, after we've gone through some of this, would you still argue that, that's a fair comparison or is this so much worse or different that you really can't use those kinds of comparisons today?

Aldo Charles Zucaro
Chairman & CEO

I'll start, and then Chris can pipe in. If you recall, and I forget now whether it was in the first quarter of this year or year-end call. When I remember distinctly saying that, I would eat [Inaudible] on this issue. That we had assumed that in this cycle, in the Mortgage Guaranty business, we would have a cumulative loss ratio of 150%, which was for the period from 2007 mid-year '07 to the end of 2009, when we thought that the business would turn itself around as Chris just indicated before.

As matters now stand, and as they have stood now for at least a couple of quarters that cumulative loss ratio is much closer to 190, 195. Correct me if I'm wrong, Chris. I think we are in that area, cumulatively, between mid-year '07 and current date. So, from that standpoint this particular cycle seems to be a lot harsher than what we experienced back in the late '80s, early '90s.

To the extent, therefore that this goes into 2010, we may yet turn out to be right about that 150, but it will be over a longer timeframe that was the case back in that earlier cycle. With respect to the title business, this cycle does not have as much loss ratio content as the last significant down cycle we had had in title insurance. You have to remember that back in the late '80s, early '90s, late '80s in particular, we were running loss ratios in the high teens, or mid teens, I should say.

Today, we are down to around 7, 8%, perhaps. So, there's a big difference there from a title insurance standpoint. I don't know if I have answered fully your question.

Beth Malone
Wunderlich

No. I think that makes sense, that it is worse. A kind of similar question on the trucking market, do you see that as being more severe than most other cycles that you've seen in the past that have been driven by the economy?

Aldo Charles Zucaro
Chairman & CEO

No. This one just doesn't feel as bad. The last time, we had anything similar in trucking, a real down cycle was in the 1992 to '94 or '95 period. Maybe I've got some of my years wrong. Maybe it was 1996 to '98. Yes, I think that's correct. This one does not feel like that at all. This is not as amplified, certainly not from a loss standpoint, certainly not from a rate decline standpoint.

Beth Malone
Wunderlich

In the competitive environment, are you starting to see any kind of moderation or some of your more aggressive competitors stepping back a bit in the trucking market at this point, being kind of forced out because of losses they've already incurred?

Aldo Charles Zucaro
Chairman & CEO

There are a couple, I'm sure that you are aware of it. There are couple of a smaller players that had to pull in their horns. One or two that have gone out of business. So far as the major competitors we face, everybody is in the fray, still. Everybody is pounding away.

Beth Malone
Wunderlich

Is AIG in particular more of an issue?

Aldo Charles Zucaro
Chairman & CEO

I can't speak to that.

Operator

Your next question comes from Craig Rothman - Millennium Partners.

Craig Rothman
Millennium Partners

Can you give a monthly breakdown of title order counts?

Aldo Charles Zucaro
Chairman & CEO

No, I don't have that.

Craig Rothman
Millennium Partners

You don't give that? Okay.

Aldo Charles Zucaro
Chairman & CEO

Yes. I can say to you that they've been on the incline for sure.

Craig Rothman
Millennium Partners

They've been on the incline from the last month?

Aldo Charles Zucaro
Chairman & CEO

They've been increasing the last four or five months, yes.

Craig Rothman
Millennium Partners

Okay. Then just try and get a better hand on the losses at CCI and when we could maybe expect the loss ratio to improve it? Are the losses going to track similarly to MI losses that you just talked about maybe seeing improved at the end of 2010 I think?

Aldo Charles Zucaro
Chairman & CEO

Yes, I think the pattern is very similar between CCI and MILLION, the same rate of incline in loss ratio, accumulation from one quarter to the next. What differentiates the CCI product for us, at least, is the fact a substantial portion of it is retro rated, meaning that it's a loss.

There's a part of it to which is a loss-sensitive product, which therefore provides for some relief in the event that losses exceed certain particularly preset levels, such as one of those levels, as those levels are reached, we do get to charge more premium to the assured. That has the effect of attenuating the loss ratio. But in terms of pattern, you're correct in your assumption that they would track.

Craig Rothman
Millennium Partners

Okay, and the retro rating, have you breached those levels, is it safe to assume?

Aldo Charles Zucaro
Chairman & CEO

Well, it's hard to say. I don't mean to evade the question, but the retro rating applies on a policy and assured, you may have an assured with some policies that retro rated and some that are not retro rated. So our objective and what we must do in that business is in fact to look at each policy and each policy year and make the calculation separately.

I can say that some of them have been particularly poorly underwritten, obviously have reached the maximum amount of premium collection that we can hope for, but we have still others where there is still an opportunity to collect more premium.

Craig Rothman
Millennium Partners

Okay. If this is essentially an insurance policy on a mortgage, like in MI, there's no rescissions in this product?

Aldo Charles Zucaro
Chairman & CEO

There is the same type of issues that we face in the Mortgage Guaranty business apply to the CCI product, which is aimed at home equity loans, it's aimed at home improvement loans as we say and so forth and so on. You see the same pattern with other types of loans in terms of anything that's been packaged, and that has elements in it, whereby the packager did not follow, as Chris said before, the required underwriting, disciplines, pricing disciplines, then all those types of loans are going to have some element of rescission, where the insurance company can effectively put the loan back to the assured and deny coverage.

Craig Rothman
Millennium Partners

So are you having as much success with the rescissions in CCI as you are in MI, they just go along the similar lines?

Aldo Charles Zucaro

Chairman & CEO

I would say so. Chris, help me on that. We tend to share some of the information between the two lines and I think we're having similar degrees of success. I have to say that, again, you have different customers and they're not all the same.

Some lenders have done a very good job of adhering to the requisite underwriting standards. Others have not done as good a job, so therefore, depending on which side of the house has got the worst lenders, that's going to indicate the level of rescission activity and success that we have.

Craig Rothman
Millennium Partners

Okay and can you just remind me when you dividend up from the P&C company?

Aldo Charles Zucaro
Chairman & CEO

I'm sorry, say that again.

Craig Rothman
Millennium Partners

Can you just remind me when typically during the year you dividend up from the P&C subsidiary?

Aldo Charles Zucaro
Chairman & CEO

We usually do that on a quarterly basis, quarterly mode. Actually, the calculations are predicated on a running 12-month basis for all of our subsidiaries. But the payments, occur concurrent with the cash needs of the parent holding company which offer the monthly debt service as well as dividend payment to the shareholders.

Craig Rothman
Millennium Partners

How much did you dividend up this quarter?

Aldo Charles Zucaro
Chairman & CEO

I have no idea. We've indicated, if you look at our footnotes in the financials for the 10-K, as of year end 2008, we indicated there how much dividend paying capacity we have, and that has not changed, and that dividend capacity at that point in time, which carries or was into this year, was such as to provide more than adequately for the needs we have as I say for debt service as well as dividend payments.

Craig Rothman
Millennium Partners

Okay. Just lastly, are you seeing anything concerning [in surety]?

Aldo Charles Zucaro
Chairman & CEO

Concerning in surety?

Craig Rothman
Millennium Partners

In surety as far as loss trends go?

Aldo Charles Zucaro
Chairman & CEO

Well, as I think I indicated in the opening comments, the surety line, just like the other lines, the coverages that we have, in our so called financial indemnity book of coverages, which again includes E&O D&O in surety and the CCI product in particular, that all of those have been experiencing higher loss ratios this year, some of them particularly again the CCI product has been much more accentuated. But we do have issues in all those financial indemnity type of products for obvious reasons. A lot of them are driven by the economic situation in this country.

Operator

Your next question comes from Geoff Dancey - Cutler Capital

Geoff Dancey
Cutler Capital

I got a few questions for you. I'm first wondering, in the MI segment, operating expenses had come down, on lower personnel costs and other costs. Just wondering what we can expect in that going forward. Are there more costs to be taken out?

Chris Nard

I think, we have got that. It would be difficult for us, in this environment to get that much lower. I think we've had good success through this cycle to get it down to I think 14% this quarter. It's up a tiny bit from last quarter. It's hard for me to see that getting much lower, though, to be honest with you.

Geoff Dancey
Cutler Capital

Okay. In the fixed income portfolio, looks like you're about 85%, or fixed income, so I guess, leaves a significant amount of cash that you're currently holding. I was just wondering what your experience?

Aldo Charles Zucaro
Chairman & CEO

No. Excuse me, no. We have 85%, as I recall, I don't have the figure in front of me. In the press release we say 85% and 4% in equities, right which is 89%. Then the remainder is in cash equivalents and a few odds and ends in the invested asset area. We include in that base number of our accrued investment income.

Geoff Dancey
Cutler Capital

I do recall you in the past being worried about inflation. I think that was the part you're taking in, in terms of increasing that percentage of the cash and short-term investments? I think if we look over 2007 it's much higher than it used to be what. What are your thoughts on that now?

Aldo Charles Zucaro
Chairman & CEO

Currently we have stuck to basically the bell-shaped type of maturity spectrum that we've had for a long time. That spectrum, of course, is highly regulated by our expectation on the payment and outflow of claims in particular. So, that's a discipline that has to remain in place. Currently, we think, as has been indicated by the Fed that rates are likely to stay down. However, longer term, we think that they are going to go up because of the government competing for cash, given the level of government commitments.

As a result we are going to be playing it close to the west and be able to end, and be willing to jump quickly once we sense that rates are going to be going up, which would imply that we might start going shorter in order to take advantage of the increase in rates down the road, if that should occur.

Geoff Dancey
Cutler Capital

So you're going to even decrease your duration further before you think rates will rise?

Aldo Charles Zucaro
Chairman & CEO

That's [conceivable], that's right.

Geoff Dancey
Cutler Capital

So you clearly don't think that that's happening imminently?

Aldo Charles Zucaro
Chairman & CEO

Not yet.

Geoff Dancey
Cutler Capital

On your long term capital allocation, I think it was November presentation you guys put out last year, you talked about general insurance of 60 to 70% mortgage, 20, 25 and title 8 to 10. Is that still...

Aldo Charles Zucaro
Chairman & CEO

That has not changed.

Geoff Dancey
Cutler Capital

That's not changed ever though your.

Aldo Charles Zucaro
Chairman & CEO

You may get a little change because our bottom line performance in mortgage guaranty keeps eating into the capital. But then again you are looking at the November presentation which was based on the September numbers. Therefore did not include the $150 million that I mentioned before, that we contributed to the mortgage guaranty business.

So when you add that back in, again, I don't have those percentages in front of me, but my gut tells me that we are still pretty much in the same bandwidth that we were in at that November meeting.

Geoff Dancey
Cutler Capital

So if you do end up eating through more capital in the mortgage segments, that brings you below that 20, 25%. You may be thinking about contributing to capital at some point in the future to bring it back up there? Is that fair to say?

Aldo Charles Zucaro
Chairman & CEO

We are going to be taking a look at how much business we are riding as we have indicated the amount of penetration by ourselves and the rest of the industry has been pretty low in the last several quarters.

Therefore, that's also going to drive the capital needs of that part of our business if we obviously see that risk increase overtime, then we'll have to take another look and see whether the capital we have in place is sufficiently adequate to carry the added risk. But at this point in time, again as we've said in this call, based on everything we know, we don't think we are in need of capital in the Mortgage Guaranty business for the foreseeable future.

Geoff Dancey
Cutler Capital

Okay, that's helpful. My last question just involves the rescissions. Can you just explain how you account for those? How does it play out on the income statement and the reserves?

Aldo Charles Zucaro
Chairman & CEO

Chris, you want to take it, or?

Chris Nard

Do you mind repeating that question?

Geoff Dancey
Cutler Capital

Yes, I'm just curious how we see the accounting for rescissions play out on the income statement in reserve accounts.

Chris Nard

Well, obviously, when you rescind on a loan, the loan essentially is put back to the borrower or put back to the servicer, and the amount of reserve comes out of the equation. So as those rescissions increase, unfortunately you do get the benefit of a reduction in the reserve.

Geoff Dancey
Cutler Capital

Okay. So you would reserve for the loan as soon at goes into?

Chris Nard

Yes, we start reserving for the loan as soon as we're notified that it's delinquent.

Geoff Dancey
Cutler Capital

Ok, and then as you dig in and find out that there's been some sort of error in the files, I think you called it, then you see some favorable development in the reserves?

Aldo Charles Zucaro
Chairman & CEO

You factor your estimate of the amount and the percentage of rescissions of claims that have been reported that are going to be rescinded, you factor that as a variable into the determination of your reserves at that point in time. And, that's what Chris says that you get relief as the rescission becomes more real so to speak.

Geoff Dancey
Cutler Capital

Okay. Is it safe to that at the beginning of the cycle that you probably do not have as high as the amount of rescissions that ended being the case?

Aldo Charles Zucaro
Chairman & CEO

Correct.

Chris Nard

Yeah. That is.

Operator

We have no further questions in the queue.

Aldo Charles Zucaro
Chairman & CEO

Okay. Well. Very good, boy this went a lot longer than we thought it would. An hour and 10 minutes. We appreciate everyone's interest as always in listening to the Old Republic story and showing your interest with the questions that you post to us. And, on that note we'll look forward to visiting with as many of you as possible at the next quarterly visit. On that note you all have a good afternoon. Bye.

Operator
Ladies and gentlemen, this concludes today's conference.