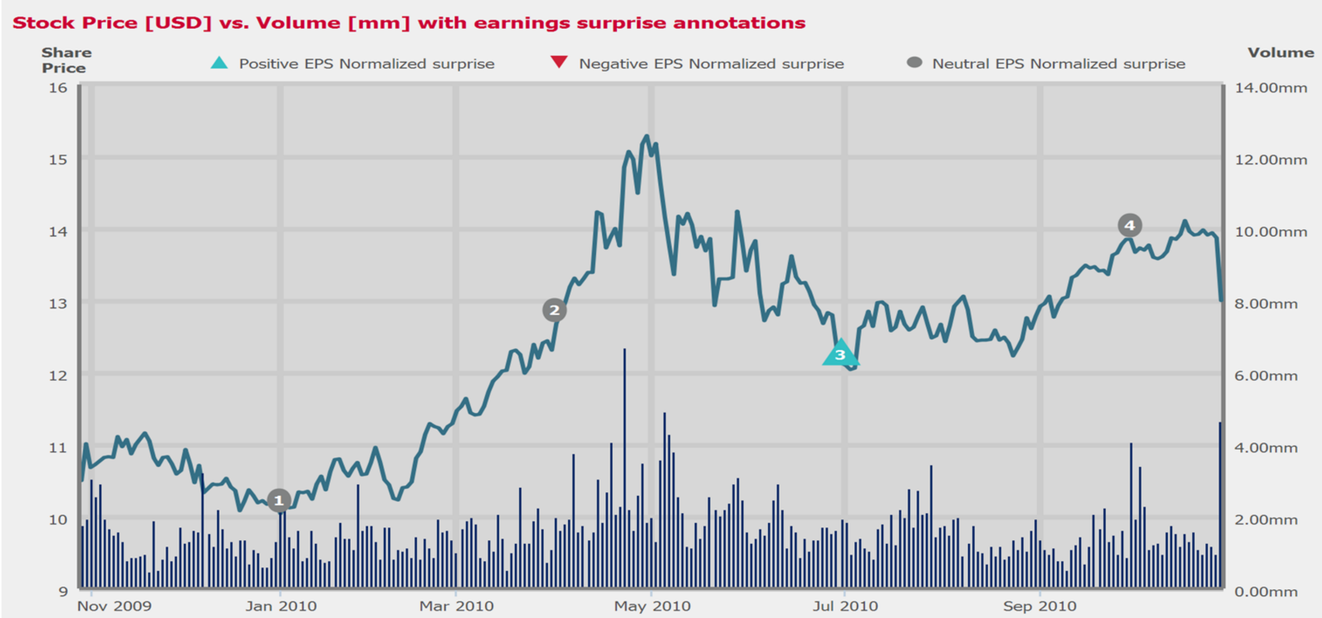
S&P Global
Market Intelligence

Old Republic International Corporation
NYSE:ORI
FQ4 2010 Earnings Call Transcripts
Thursday, January 27, 2011 8:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ4 2010-			-FQ1 2011-	-FY 2010-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.04	(0.12)	NM	0.16	(0.02)	(0.16)
Revenue (mm)	1046.91	1145.90	▲9.46	1048.25	3876.31	3993.50

Currency: USD
Consensus as of Jan-26-2011 8:22 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2009	(0.22)	(0.17)	NM
FQ1 2010	(0.12)	0.10	NM
FQ2 2010	0.03	0.05	▲66.67 %
FQ3 2010	0.08	(0.17)	NM

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Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman & CEO

Chris Nard

Leslie Loyet

ANALYSTS

Beth Malone
Wunderlich Securities

Bill Clark
Keefe, Bruyette & Woods

Geoffrey Dunn
Dowling & Partners

Presentation

Operator

Please stand by. Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Old Republic International fourth quarter 2010 earnings 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. I would now like to turn the conference over to Leslie Loyet with the Financial Relations Board. Please go ahead.

Leslie Loyet

Thank you. Good afternoon and thank you all for joining us today for the Old Republic conference call to discuss fourth quarter and year-end 2010 results. This morning we distributed a copy of the press release and hopefully you've all had a chance to review the results. If there is anyone online who did not receive a copy, you may access it at Old Republic's Web site at www.oldrepublic.com.

Please be advised this call may involve forward-looking statements as discussed in the press release dated January 27, 2011. Risk associated with these statements can be found in the company's latest SEC filings. Joining us today from management are, Al Zucaro, Chairman and Chief Executive Officer; and Chris Nard, President. At this time I'd like to turn the call over to Al Zucaro for his opening remarks. Please go ahead.

Aldo Charles Zucaro
Chairman & CEO

Thank you, Leslie and good afternoon and thanks to everyone for joining us in this usual quarterly review of our business. We'll assume as we always do that you had a chance to read this morning's release and that hopefully will make sense to you. As we've done in the past, Chris and I will make some comments to perhaps shed some greater light on the release, and then we'll leave more time for the question-and-answer - questions session.

The picking up from our last quarterly reports, there is very little that's new in our business except for the final quarter of 2010 which as you saw incorporates the financial accounts of the newest addition to the Old Republic family of companies. And as the release indicates, the PMA merger took effect as of October 1 of last year and therefore as required and appropriate we have included its activities as part of Old Republic from that point forward.

As we have noted in various sections of the release you can readily see that the merger with PMA added about 2.3 business zones or maybe 16% to our pre-merger asset base. And it was also additive to the common equity account pre-merger again to the tune of about $230 million or that's about a 6% increase over what we had at the end of September.

The release of course also speaks to PMA's premium and bottom-line effects in the final quarter of 2010 and based on what we know at this moment. The addition of this business to our General Insurance revenue base will be about 20% in 2011, that's the combination of premiums and net investment income and any kinds of fee income coming from PMA.

So it's a substantial merger for us. It is the - in historical terms it is the single largest merger that Old Republic have had over all of this years. We think that this merger in particular is very promising in several ways. Most notably, we think it is in the opportunity that it presents to expand PMA's very viable business Westwood from its - from the long times East Coast base from which it has been operating since it was founded some 95 years ago.

It also provides the benefit to us through some very important industry underwriting specialties that PMA brings to the table and particularly in the healthcare area, the education area, the retail and wholesale trade area, and in some light manufacturing sectors of the American economy.

So, in combination all of this, now we think is very positive and critical from an Old Republic risk management objective standpoint and those objectives in particular have to do with product line diversification as well as our capital allocation and protection processes.

As you see in the release consolidated wise, we experienced again some pretty poor results in the latest quarter, i.e. the fourth quarter of last year and all of 2010. But, fortunately and pleasurably, the damage was a lot less when we compare that to what we sustained in the same timeframes as 2009. As a summary table on the second page of the release shows, the earnings difficulties are still centered primarily on our Mortgage Guaranty business and on the similar - or related consumer credit indemnity coverage that we underwrite in our General Insurance segment.

While the remainder of our General Insurance business and our title insurance line continue to be profitable, both of them nonetheless are performing as levels that are substantially below we believe they are long-term potential as well as in regard to their past history prior to this downturn that we are currently experiencing.

So, focusing a little more on General Insurance the underwriting ratios that you see there was slightly better in the fourth quarter and slightly worse for all of 2010 and the differences are however we believe sufficiently small to qualify 2010, 2009 periods and years as substantially equivalent to one another.

The CCI lines of course continues to make the biggest difference in the all important underwriting part of our business. Its impact was particularly accentuated for those of you follow us; you saw that we became particularly accentuated in the second half of 2010 when we experienced inflows of claims activity from a largest bank with which we've done business for a number of years.

As we've reported in the past, regard to that matter the claims activity has been caused by quicker resolution of claims which could not be validated by that bank and thus could not have been reserved and paid for us, paid by us prior to their validation.

So in combination with the remainder of our CCI product line, these claim costs added about 7.9 percentage points to the 4Q 2010 General Insurance claim ratio and 7.3 percentage points to the same ratio for all of 2010. So there is I think light at the end of the tunnel, so to speak the 7.3 that we incurred in 4Q 2010 is somewhat than what we reported for the prior quarter i.e. the quarter of the year.

As I believe we - as I recall, we mentioned in our review of the nine months results, we began to see a little bit of a slowdown in the claim reports from that source and in the past three months or so the reported CCI delinquencies and as well as the number of claims that are still awaiting validation have been trending down fairly consistently.

So now, I think we need to see this trend continue for the current quarter or so before we conclude this particular storm, it's moving out to sea so to speak. We leave aside the CCI products which is currently inactive and so far has new production is concerned for the simple reason I believe first of all there is no demand out there in credit markets, consumer credit markets that we are phased with and we don't have any product out there which would address those needs at the present time.

So, production is today consists more exclusively I should say of renewals on business that have been written in prior years. Leaving that aside, the remainder of our General Insurance is performing reasonably well. If you look at the statistical exhibit that we put on our Web site this morning concurrently with the publication of the quarterly report released, you'll see that in combination our three largest coverages that includes are, worker's compensation and automobile or truck insurance in our case.

There is a combination of those three major coverages continues to produce some very consistent and acceptable loss ratios which for the last years or so averaged about 72 points and that's very much in line as you see with the loss ratio for 2010. So if you take that level of loss ratios and you add, say 24, 25 points to it to cover underwriting in general, operating expense as you can readily see that the General Insurance business and those three lines in particular are producing very good underwriting margins.

So again the main continuing issue with our general insurance business - reside not just in the underwriting pars of - particularly over the non-CCI business, but the issue is basically a topline issue with respect which market conditions are not sufficiently propitious to lead us to a more aggressive pursuit on the production side.

As we see it - as the American economy remains on fairly slow growth, which is already sleeve sapping vitality in sales and employment levels in particular. So if you add to this, the perception and I believe the actuality that there is a loss of commercial insurance capital and capacity available out there in combination you have the answer to both our current as well as near-term view of top-line trends with General Insurance.

Now of course, PMA's addition to our book of business will provide some welcoming inputs to premium volume in 2011 as I indicated before. And see bottom-line wise, the release shows that the first quarter inputs from PMA's activities in the fourth quarter, the loss that you see there from PMA contains quite a bit of noise, I might say created by such things as non-recurring merger costs and other charges and investment income differences that are caused by the realignment of the two operations.

But we think that as 2011 progresses there should be a lot less noise again in the combined accounts of the two companies. In terms of General Insurance earnings quality, prior year's reserves through year-end 2010 have continued to develop favorably. I might note that the level of redundancy was clipped somewhat by adverse developments on the CCI claims lines and of course that's a reflection again of the same issue that we mentioned before i.e. the fact that we did get an influx of claims in 2010 which we had no basis for anticipating as we closed the books on 2009 of course when they rolled through the system it caused a downdraft on prior year's loss.

In terms of cash flow, the General Insurance business ended the year within the same range as of 2009 which means that it produced about a $110million, $112 millions I recall of positive cash flow versus the $120 or so million that was posted in 2009. That in summary represents some highlight comments on General Insurance and so now, as we indicated, I will pass the phone over to Chris Nard who will speak Mortgage Guaranty and Title Insurance businesses.

Chris Nard

Good afternoon. As you can see from the release, PMA results in this year's fourth quarter improved somewhat from the same period last year and the year-to-date comparisons also show improvement as well. In both of those instances when you leave aside the effects of the captive commutations and the pool terminations, the year-over-year changes continue to be driven by varying claim payment trends and by changes in the reserve provisions.

On the delinquency side, total delinquencies declined 32.5% in 2010 when compared to year-end 2009 and in the same year-to-year comparison the traditional primary delinquencies declined almost 19%.

The decline in the delinquent inventory throughout the year is reflective of several things. One a decline in a number of newly reported delinquents an increase in the number of delinquencies that cured during the year as well as the reductions arising from the terminations of certain pool insurance contracts and also from an increase in the level of paid claims.

With respect to the production side of the business, new insurance was up, new insurance written was up just slightly in the fourth quarter-to-fourth quarter comparison, but down in the year-to-date comparisons. On a positive note the new insurance written trended up slightly in each quarter since the first quarter of this year and was up about 7.5% in comparison to the third quarter of 2010.

We see net earned premium continue to trend lower throughout the year and that is as a result of several things as well, one the low level of new insurance written that we're seeing today continued runoff of the bulk business which has been accelerated by the termination of these pool insurance, several of the pool insurance contracts, and a high level of refunded premiums related to the elevated level of claim recessions, but we would expect to see the level of refunded premiums begin to decline throughout 2011 as recessions become a smaller percentage of the total claim settlements.

Net risk in forces continued to decline as well. This again is driven by the fact that the low levels of new insurance that we're generating are insufficient to replace the risk that's left the portfolio due to refinancing or claim settlements. We would continue to expect the risk in force in new insurance written numbers would be challenged throughout this year as this market continues to stabilize.

While we've had a slight increase in the mortgage insurance industry market share in 2010, for the year the private mortgage insurance industry volumes are down significantly and the industry penetration rate, I think what we are seeing today is running just under 5% which is down from a recent peak of almost 15% that we reached in the end of 2007 and in the first quarter of 2008.

And to add to that year-to-date through the third quarter our mortgage insurance business's market share continues to trend down somewhat and is running at about 8.5%. Now one of the primary drivers as we've talked about in the past of the reduced MI industry penetration rate has been the growth of the FHA's market share and as we've discussed in previous calls, the FHA has been making changes that will positively impact its performance over time and by design begin to moderate their dominant market share.

As of early October, the FHA raised its monthly premium rates and that change has the potential to improve the MI versus FHA price comparison in several areas and that could support an improvement in the long run MI penetration rate. But the significance of those changes on the mortgage insurance market share are somewhat dependant on the loan level pricing policies of both Fannie Mae and Freddie Mac.

For 2010 as we shift gears to the modification side, we've seen about 16,000, 16,500 loans, pure as a result of the HAMP modification program or other modification programs that are present in the marketplace.

We've seen the newly reported HAMPs continue to trend down and while we would expect that to continue, we would estimate that we will still see some residual benefit from the program, but we would anticipate that the large increase in the modifications from the HAMP program are behind us.

But in recognition of the need for additional modification programs and opportunities, Fannie and many of the servicers have developed their own modification products that are designed to work with borrowers sue for one reason or another may not qualify for HAMP modification.

Last quarter one of the big news items that we discussed was the recorded documentation issues with foreclosures, then ensuing moratoriums that were announced by several large servicers. So far through this quarter, fourth quarter of the year as we had anticipated that had limited impact on us other than extending the time period that loans currently spend in various delinquency stages. This likely results only in the extension of the time the loan would remain in the delinquent inventory and not result in an increase in the frequency of defaults for those affected loans.

With respect to our risk to capital position, you can see from the release that the ratio among our mortgage guaranty group of companies remains above the 25 to 1 level. And as we have mentioned previously we continued to operate under a waiver from the North Carolina Insurance Department, which is our State of Domicile that permits us to continue to write business in the flagship company even when the risk to capital ratio is over 25 to 1.

In the event that another state with a maximum risk to capital ratio and their statutes feels that they are unable to recognize the waiver from North Carolina, or would not grant us a waiver under their existing statutes, we, like the other MIs, have been granted the ability to write business in a separate subsidiary by both Fannie Mae and Freddie Mac.

So to summarize, what we've seen, certainly seen improving trends in the newly reported delinquencies and the cured delinquencies then we also recognize the potential for increases in the MI penetration rates going forward. These positives continue to be moderated by the slow recovery we continue to see in the job market and what we estimate to be a continued gradual slide in home prices this year, obviously driven by the excess inventory in many markets around the country.

So we would expect that those two economic conditions would persist throughout 201 and contribute to a continued slow recovery in the housing sector. Let me take a second and segue to Old Republic's Title Insurance business. Our Title Insurance business continues to build on the positive momentum that we began to see towards the end of 2009 and in the fourth quarter we posted an $8.3 million profit in comparison to a $1.6 million profit in the fourth quarter of 2009. And on a year-to-date basis in 2010 our profit of $9.4 million also compares favorably to a $2.2 million profit that we had earned in the previous year.

As you can see from the release, the fourth quarter number was somewhat impacted negatively by about a $4 million charge related to the write-down of a counterparty receivable that we've currently deemed uncollectible. The premium and fees in our Title Insurance business continue to show very strong growth and were up 33% over last year's fourth quarter. These gains are largely attributable and continue to be attributable to our growth in market share that began as a result of the industry dislocations we saw in 2009 and the success of our joint venture with Attorney's Title Insurance Fund that we have in the State of Florida.

And as we look to the market share for the third quarter of 2010 which is the most recent information we have, share was about 11.2% versus 8.9% in the third quarter of 2009. On the expense ratio side of the business, the expense ratio for the fourth quarter of 2010 was down to 89.6% in comparison to the fourth quarter of 2009 when the ratio stood at 92.5%.

And on a year-to-date comparison the 2010 ratio was 93% which was down just slightly from the 2009 year end ratio of 93.8%. The claim ratio was fundamentally flat for the quarter and down just a tiny bit, a 8.4 versus 8.6 in the fourth quarter of 2009.

Again we reported last quarter on the foreclosure issues and their anticipated effect on Title Insurance business and as we anticipated we think that the current issues don't create a significant exposure for the Title business and as we said we think that that exposure likely be in the area of increased legal expenses as you work through what maybe a wrongly executed foreclosure.

But in the unlikely event of a worst case outcome the Title Insurance Company could be responsible for the exposure to the new buyer if the property was wrongly transferred, but in that instance we continue to believe that the policy provisions protect the companies. We certainly continue to monitor these issues closely and will stand top of this throughout the foreclosure processes.

We continue to be looking back - continue to be reasonably satisfied with the progress we are making in the Title Insurance business and continue to be optimistic as we see this business continue to stabilize. With that, I'll turn it over back over to Al.

Aldo Charles Zucaro
Chairman & CEO

Okay. So let's see. To conclude this parts of our discussion and move on to the Q&A portion which I suspect most of you are much more interested in. Let me just say that the Old Republic balance sheet remains in very good shape. We are just about to complete a revamping of the PMA investment portfolio to align it with our own preexisting system-wide preferences and to - in the post-merger period to eliminate any asset and liability correlations that existed. As you can see also in the - I think in the balance sheets that we submitted, our equities represented just about 6.5% of our investment portfolio at the year-end 2010. That's up from 5% or so at the end of 2009 and substantially, if not all of the increase is due to a market appreciation during 2010.

Now, again our big chunk of that equity portfolio to at both year ends '09 and '10 consisted of two significant investments we have had beginning in 2007 in what I believe are the two largest publicly held mortgage insurers in the country. As we have reported consistently since then, since we bought those two issues in 2007 as I say and some of it in 2008, part of our thinking was that the mortgage guaranty industry would write itself by 2010.

Now as matters have turned out of course, we were, that long in that assessments and those investments of course have depreciated significantly as you can readily see in the table. At this juncture of therefore what is worth we think that the results for the Mortgage guaranty business including our own - are not likely to be written in black ink before 2013. In this current downturn, is the - is obviously the most damaging since the industry was reinvented in the 1950s and therefore it stands to reason that it will likely take quite a bit longer to return to profitability.

If you look at the table on top of page 7 of this morning's release, you'll see that in 2010, we reduced those investments, in those two MI companies by about 25% on an original cost basis. All of this reduction stemmed from our sale in the first half of 2010 of a portion of the investment in MGIC position. That sale took place at a time when we considered that the MGIC stock was appeared to be a at least temporary high and timing we thought was convenient for us to offset a taxable loss from those sales against taxable gains we had elsewhere in the portfolio.

So the transaction was driven by both tax considerations on the one hand as well as an ability to reconfigure our portfolio at least part of it towards more of a taxable bond portfolio, just what we invested the proceeds from both the MGIC sale as well as the other securities that we sold which were primarily tax events which did not fit with the current and foreseeable tax position of Old Republic on a consolidated basis.

So that's the long and short of the reasons for the sale that you and that we reported recently in one of the necessary SEC filings with regard to our ownership of the MGIC's stock holdings. As the PMA transaction again, it's the effects of the merger when we revalued assets and liabilities as we must in accordance with GAAP requirements. As a result of all those adjustments to the balance sheet the consolidation did not result in very much goodwill being attached to our own result in consolidated balance sheet. So that was a bottom-line is that we don't - any order to speak up into the shareholder's account.

On the liability side of the balance sheet, just as I indicated before relative to the general insurance business, we feel very comfortable that the totality of our consolidated disclaim reserves that have been posted over time that they are likely to play out positively and does not debilitate 2011 results. Our consolidated debt level which now includes about $130 million that we picked up through the PMA transaction still stands at a relatively low 11.5% of equity and at this level, particularly when you consider that just some 75% or so of that total debt is represented by a 2009 issue of convertible securities that are likely to convert into equity in beginning in 2012.
That we have quite a bit of flexibility in managing the consolidated capital account. That means that we can safely add a reasonable amount to our overall modes of capital as we may require for business and centered reasons going forward. Let's see, that's about it, this is the end of our comments, from Chris and I. And so now, we'll open it up to your questions.

Question and Answer

Operator

(Operator instructions) Our first question today will come from Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn
Dowling & Partners

Good morning or good afternoon guys. How are you?

Chris Nard

Hi Geoff

Chris Nard

Good afternoon Geoff.

Geoffrey Dunn
Dowling & Partners

Few questions on the MI side Chris. First I think North Carolina is the only one has come out and actually indicated some sort of ceiling dedicating 30 to1. Can you talk about what kind of conversations you've had with them now that you are approaching that level? And also can you comment on the reserves this quarter. Did you make any adverse adjustments to your recession or modification assumptions and could you quantify the impact on the reserve any?

Chris Nard

Let me give you a feel in general for the state and the way the waivers work is, it's generally what I'm familiar is you don't have a - I don't know it's trip wire you have check points along the way versus any metric that is a set in stone metric. I think one of the things that got us to the industry to where they were is a hard set in stone metric of a risk to capital ratio and I think we were sufficiently successful in showing people that in this business as it recovers that's hard set trip wire metrics whether they maybe risk to capital ratio or any other metric that an insurance department would watch, really it is not the way to manage which you got to look at all the metrics that trends and how they work together and I think I can reasonably confidently say that's how most of these states are doing in.

On the reserving provisions, as I said early on in the prepared comments, we would think that the recession effects begin to moderate through 2011 as we've all talked about the high risk books really came out at the end of '05, '06, '07 and unfortunately to some extent the early part of 2008, to the extent that you see misrepresentation surface and generally in the first 18 months or so, once you get 18 months past the end of the high risk books you are going to begin to see the recessions drop off and as we do that we would manage the reserving metrics accordingly with our expectations.

Geoffrey Dunn
Dowling & Partners

Specifically did you change that metric this quarter adversely affecting your provision?

Chris Nard

Yes we would look at it each quarter and when we anticipate that the claim settlement percentage, the recession percentage of claim settlement would decline, we are going to ratchet down that amount. But I can't tell you, so that's the general trend. I can't tell you off the top of the head if we made that adjustment this quarter or not.

Aldo Charles Zucaro
Chairman & CEO

Would not just think it's been kind of…

Chris Nard

The trend Jeff is obviously been to move that thing down. I just don't remember the quarter-to-quarter change.

Geoffrey Dunn
Dowling & Partners

No, I understand. I just seen several of your peers do it and obviously when those adjustments versus expectations cease we can see dramatic improvement occur that's why asked that.

Chris Nard

Absolutely the trend has been to moderate it down.

Aldo Charles Zucaro
Chairman & CEO

As you know our usual practice in terms of disclosures is that, if something is material we will so state and the fact that we haven't said anything is that we have viewed whatever adjustments we have been making there has being one of the middle and not worthy of any particular attention.

Geoffrey Dunn
Dowling & Partners

Okay. Thank you.

Operator

And next we'll hear from Beth Malone Wunderlich Securities.

Beth Malone
Wunderlich Securities

Okay, thank you. Good afternoon. I have a couple questions. Just following up on the recession. Just I think I try to understand when you were saying Chris that, should we assume that recessions that there was a bulk of recessions that occurred and now they are going to slow down just because of the nature of those types of policies that are vulnerable to recession are early in this process?

Chris Nard

Yes the only thing Beth I just I wouldn't call it a bulk of recessions it's been running at an elevated level for the last several years. But if you want to think back to the timeframes I gave you at the end of 2008 or the middle of 2008 was really the end of the bulks that had high percentages of misrepresentation. If those work their way through the system you'll see this thing began to trend down.

Beth Malone
Wunderlich Securities

Okay, okay. So, was that what influence the level of results for, was that a significant impact to the level of results for the Mortgage Insurance in the first half of 2010, because in the second half obviously we saw a significant increase in the loss ratio for the book of business compared to the first half.

Chris Nard

Well I think if you are looking at the loss ratio Beth, you got to think about the impact of the decline in the premium, the net earned premium. So I'd look at it by splitting out the premium in the loss picture.

Beth Malone
Wunderlich Securities

All right. So, those two combined.

Chris Nard

Yeah.

Beth Malone
Wunderlich Securities

And then when you talk about the FHA changing some of their metrics, what's the timeframe of when you can see the benefit of that to your own business. Does it take a 12 month period or do you see some of it now?

Chris Nard

The thing I added to my comments today was that, to really see there is two moving parts to the MI execution, there is the cost of the insurance execution against the FHA, but you also have to add in the cost of the conventional financing which is, I can think of it is the MI premium plus the loan level price adjustments from the agencies. So you can get an increase in premiums from the FHA, but which would on its phase make the MI execution more competitive.

But if you get a corresponding increase in the loan level price adjustments from the agencies, you'll negate the competitiveness that you gained with the increase in the FHA rates. So what we've seen to-date really is a move with the GSEs where the loan level price adjustments recently ratcheted up somewhat on the announcement of the FHA price increase which leaves us in some buckets in the same spot that we were in the beginning of the year.

So, we've seen the FHA has made a lot of other adjustments just besides pricing that I think will benefit us in the long run, but the change that they made pricing wise in October somewhat mitigated by the increase in the Fannie Freddie fees.

Beth Malone
Wunderlich Securities

Okay so, it neutralizes it. Okay when you talk about the improvement, some of the fundamental improvements you've seen in the markets like the fact that you are starting to see fewer delinquencies, new delinquencies reported and that the cure rates have shown some modest improvement, those two factors should lead to, my understanding is it should lead to a better mortgage insurance environment than we had in the past. But okay, so if that's the case and - is that the thing that we are looking for in 2011 to fee and a fundamental improvement in the loss ratios in your Mortgage Insurance business?

Chris Nard

Yes as I said in the past, we've seen a good trend in the decline in the newly reported delinquents for an extended period now. And we saw in 2010 the beginnings of an improvement in the cure ratio, but we need to still see a continued elevation in the cure ratios before you really begin to see material improvement. So, again to end of the year 2010 and at the year 2009 cure rates were up, but we still need to see those increases before you see markedly improved results in the MI space.

Aldo Charles Zucaro
Chairman & CEO

Let me just add this Beth. I think one of the issues here is that whenever you see improvements we do expect long-term improvements going forward in the Mortgage Guaranty business. You have to consider the fact that it is a long-term product and that therefore the improvement you get in premium rates and quality of underwriting we flex itself over a much longer period than is the case let's say we are talking in casualty business where you can't dramatically change in the property casualty business on a one year policy and get gratification from that the following year or the following 12 months as the new product rolls through the system.

In Mortgage Guaranty, typically, in any situation, any year, right, the amount of premiums that a mortgage guarantor books that relates to new production, okay is very small. And that's what delays the recognition of the betterment that you've had in underwriting standards or pricing or what have you. Okay. It's important to keep that in mind. That's what we keep saying, it's going to take a long time for this business to fix itself because even if you start today and even its housing where all of a sudden to come out of the shoot real quick, so that we would have great big new production, it would take a long time to get the benefits of that.

Beth Malone
Wunderlich Securities

Okay, thank you.

Operator

(Operator instructions) And our next question will come from Bill Clark, Keefe, Bruyette & Woods.

Bill Clark
Keefe, Bruyette & Woods

Afternoon guys.

Aldo Charles Zucaro
Chairman & CEO

Hi

Bill Clark
Keefe, Bruyette & Woods

Was there anything specific that caused the increase in the average paid claim in the quarter and how much of a factored was that in increase in the overall level of paid claims for this quarter?

Chris Nard

That average paid claim number, I don't have that - the supplement in front of me. But if you look at it, I think that number has been fairly jumping over the last several quarters it's gone up and down. We think that the general trend once you get out of that jumpiness is down because the higher risk loans in the portfolios the reduced stock, the heavy West Coast production, that went the claim earlier in this cycle. So we think that trend and bias is towards that average claim amount to very gradually trend down. But again you can get some odd movements on a quarter-to-quarter basis. But again that's really what we are seeing there.

Bill Clark
Keefe, Bruyette & Woods

Okay, and second there has been a lot of discussion in the marketplace slightly about how private MIs fits into the QRM definition. Had any thoughts on where you see those conversations going?

Chris Nard

Yes, I mean I think I had because I don't know what will come out. We certainly have been very engaged as an industry in flubbing on the benefits of mortgage insurance and obviously the original Bill directed the regulation to recognize mortgage insurance. All I would tell you that I think of this cycle has proved nothing. It's proved that the mortgage insurance business is well regulated and that really isn't a better way to credit anti-LPV mortgages. So hopefully that will be recognized when we see the QRM come out here in the next month or so.

Bill Clark
Keefe, Bruyette & Woods

Okay, and then a last quick one. Any trends in most recent months in the title insurance business, due to any fluctuations in the interest rates? Is there anything you've seen there or else can you chalk any changes mostly to seasonality or things like that?

Chris Nard

Well I think certainly the increase in rates that we saw in the fourth quarter slowed down obviously the refinance activity. We'd see that first in the direct operations; it takes a little longer to see it in the agent operations. But we have been able to somewhat moderate that by the increase in market share that we've seen in the last year or so. But certainly the rate bump would have slowed down the refinance activity.

Bill Clark
Keefe, Bruyette & Woods

All right. Great, those all I had. Thank you.

Chris Nard

Thanks Bill.

Operator

(Operator instructions) And at this we'll take a follow up from Beth Malone, Wunderlich Securities.

Beth Malone
Wunderlich Securities

Okay, thank you. I just had a couple of more follow ups on technical stuff. Can you provide us what your total interest expense for the fourth quarter?

Aldo Charles Zucaro
Chairman & CEO

Yes, you see the debt level right and multiply that by an average of maybe 7% and that gives you the right number.

Beth Malone
Wunderlich Securities

Okay, great. And can you give some idea what the tax rate should be going forward?

Aldo Charles Zucaro
Chairman & CEO

As I said before Beth, we have reconfigured our bond portfolio to significant degree by moving both reinvested assets as well as new money into taxable bonds. So that's going to change the rate to some degree on the one hand. On the other hand, we don't have a handle yet on obviously what's going to happen from another earnings standpoint in all of these businesses and as you know, the underwriting account gets taxed to 35%. So, in combination I guess what I'm saying is that, we don't have a good feel for that.

Beth Malone
Wunderlich Securities

Okay, and then, on the dividend as you said in the past, I believe the dividend is an important and solid can you comment, should we anticipate that the dividend will remain intact?

Aldo Charles Zucaro
Chairman & CEO

Well, we have said, as you know consistently that the dividend gets looked at every quarter and it gets looked at in the context of one what we expect our capital needs and as you know in recent years our capital needs in General Insurance area have not been extensive, right because the reserve account in particular has stabilized and regardless of what happened if you have a stable reserve account and still have some growth in your capital account, it gives you additional leeway. Secondly, the general insurance business again as we've recorded has been the main source of dividends upstreamed to the holding company and that as far as we can see, remains in good shape. And finally, we do look as the long-term as to where the business is going again what's the capital needs are going to be to determine the rate at which we pay a dividend to the shareholders. But it is important to remember that while we've made annual budget plans and so forth that dividend gets looked at both by obviously management on one hand and as importantly the directors every quarter. So I can say to you is that you have with Old Republic this long history, so far so good, we've been able to maintain it. We hope to keep maintaining it. But no guarantees.

Beth Malone
Wunderlich Securities

Okay, and then finally, there has been a pretty visible discussion on the Bank of America lawsuit, where they've names Old Republic is, is that the only lawsuit - material lawsuit out there involving Old Republic and one of the major banks are mortgage creators?

Chris Nard

Well I would say that's two material and that would be Bank of America and JP Morgan Chase. There may be others but upside I don't think they would be.

Aldo Charles Zucaro
Chairman & CEO

As is the case with us and I believe most other financial guarantors whether they'd be MBIA type guarantors or mortgage guarantors. A lot of it stems from the old countrywide operations at Bank of America bought some time ago.

Beth Malone
Wunderlich Securities

Is there an estimated - maximum exposure for you on that?

Aldo Charles Zucaro
Chairman & CEO

No

Beth Malone
Wunderlich Securities

Okay, all right. Thank you.

Aldo Charles Zucaro
Chairman & CEO

You are welcome.

Operator

And currently we have no questions in the queue. I want to now turn the conference back over to Al Zucaro for any closing or additional remarks.

Aldo Charles Zucaro
Chairman & CEO

Okay, well. That's it from us. We appreciate your interest as always as we say. We mean that sincerely and look forward to our next quarterly visit in couple or three months.

Chris Nard

Having said that, we wish you a good afternoon. Thank you.

Operator
And that does conclude today's conference call. Thank you for your participation.