S&P Capital IQ

CONTENTS



# Old Republic International Corporation

NYSE:ORI

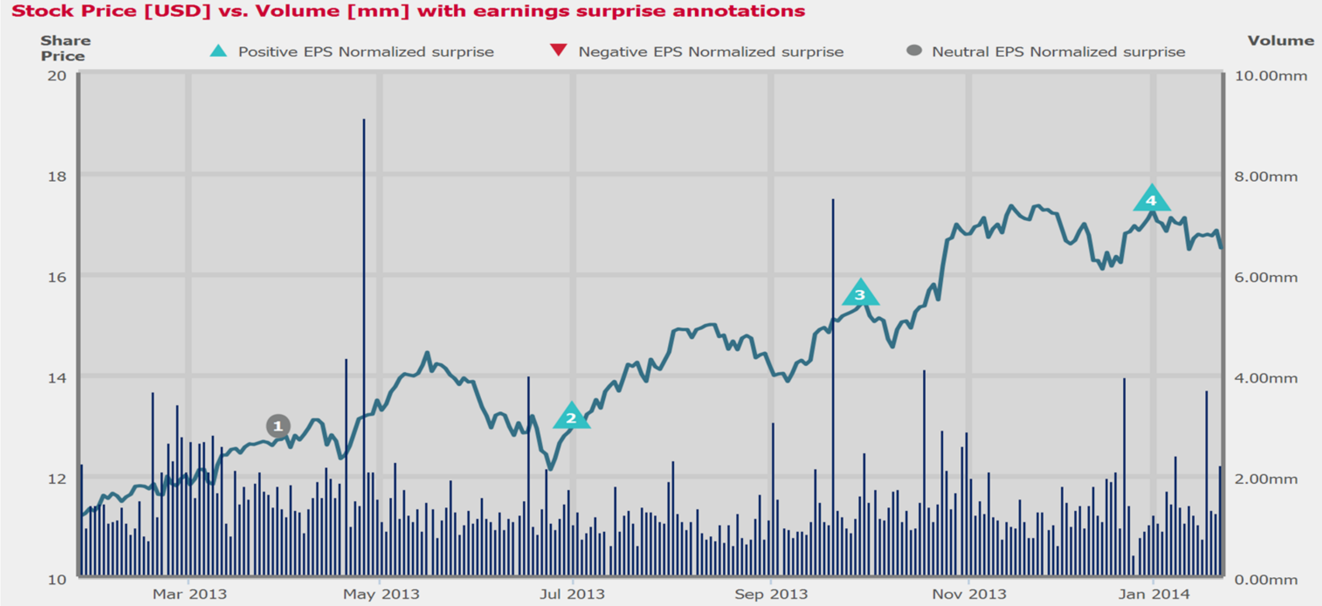
*FQ1 2014 Earnings Call Transcripts*

Thursday, April 24, 2014 7:00 PM GMT

## S&P Capital IQ Estimates

| | -FQ1 2014- | | | -FQ2 2014- | -FY 2014- | -FY 2015- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 0.24 | 0.25 | 0.00 | 0.25 | 1.02 | 1.05 |
| **Revenue (mm)** | 1232.00 | 1430.60 | 16.12 | 1213.00 | 4941.00 | 5058.60 |

Currency: USD
Consensus as of Apr-16-2014 2:55 PM GMT




| | - EPS NORMALIZED - | | |
|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE |
| **FQ1 2013** | (0.04) | 0.20 | NM |
| **FQ2 2013** | 0.02 | 0.37 | 1750.00 % |
| **FQ3 2013** | 0.11 | 0.35 | 218.18 % |
| **FQ4 2013** | 0.20 | 0.33 | 57.14 % |

# Call Participants

## EXECUTIVES

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

**Karl W. Mueller**
*Chief Financial Officer and Senior Vice President*

**Mark A. Bilbrey**
*President of Old Republic Title Insurance Company*

**R. Scott Rager**
*President and Chief Operating Officer*

**Scott Eckstein**

## ANALYSTS

**Christine Amanda Worley**
*JMP Securities LLC, Research Division*

**John Eric Deysher**
*Bertolet Capital Trust - Pinnacle Value Fund*

# Presentation

**Operator**

Good day, and welcome to the Old Republic International First Quarter 2014 Earnings Conference Call. Today's conference is being recorded. [Operator Instructions] I would like to remind everyone that this conference is being recorded and would now like to turn the conference over to Scott Eckstein with MWW Group. Please go ahead.

**Scott Eckstein**

Thank you, operator. Good afternoon, and thank you for joining us today for Old Republic's conference call to discuss first quarter 2014 results. This morning, we distributed a copy of the press release. If there is anyone online who did not receive a copy, you can access it at Old Republic's website, which is www.oldrepublic.com.

Please be advised that this call may involve forward-looking statements as discussed in the press release dated April 24, 2014. Risks associated with these statements can be found in the company's latest SEC filings.

Participating in today's call, we have Al Zucaro, Chairman and Chief Executive Officer; Scott Rager, President and Chief Operating Officer; Mark Bilbrey, President of Old Republic Title Insurance Companies; and Karl Mueller, Senior Vice President and Chief Financial Officer.

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

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Okay, thank you, Scott. And good afternoon to everybody, and we appreciate again your attendance on this update of ours. And this afternoon, we'll follow the same pattern, as we've taken in recent quarters, and that is, as Scott just mentioned, 4 of us will address the key factors that affected the results in this year's first quarter. Scott Rager will speak to our General Insurance business. And in Rande Yeager's absence from the office, Mark Bilbrey will do the honors with respect to our Title Insurance business. Karl Mueller then will take over and discuss the financial aspects of the business. And I'll say a few words initially and then at the end of this presentation.

So without much more ado, I'll begin by first addressing the runoff business, which has had a large and positive impact on the most recent consolidated results of our company. So if we look at Old Republic's operating earnings trends for the last 4 quarters, 5 quarters or so since year-end 2012, we can see that 2 elements really stand out: one is the continued emergence of our title business as a very powerful earnings contributor during the current up leg of the housing cycle; and secondly, the faster operational turnaround of the runoff mortgage guaranty business. Mark Bilbrey, of course, again, will speak to the title part of this uptick in our earnings from those areas, so I'll just make those comments right now about the mortgage guaranty business and what that turnaround implies for the foreseeable future.

As we've disclosed over the past several years, this MI business has been in runoff operating mode. And since 2012, we've operated it under the supervision of the North Carolina Department of Insurance, which is the main responsible regulator for this part of Old Republic's business. The regulatory solvency of the business has been maintained throughout the runoff period. And we've been able to do this with necessary and, I must say, very positive regulatory considerations, which have altogether assured a very stable business environment in which our mortgage guaranty insurance subsidiaries have been able to fairly engage in the settlement of all legitimate claims and other obligations. So if we look, by the way, at the statistical exhibit that we've posted on our website this morning, as we do each quarter, we can see that one of the main elements which is -- which are driving the MI turnaround is the steady and fairly steep drop in the number of insured loans that are in various states of delinquency. For instance, since year-end 2012, these have dropped by just about 38% cumulatively, and on a quarterly basis, they've averaged about 9% for the last 5 quarters, including this latest first quarter of the year. And as we also note in the release, there are several, of course, other beneficial factors at play here, and all of these are converging to drive down claim costs and thus provide fuel to the turnaround that we've been experiencing.

Now while we've remained focused on the turnaround all this time, we've made a couple of attempts in the last 2 years, in the spring of 2012 and again in the spring of 2013, to recapitalize the mortgage guaranty business through the Wall Street capital markets so that, hopefully, the MI business could at once retain its fidelity to the runoff obligations and, secondly, to possibly reestablish itself as an underwriter of new mortgage guaranty risks. Obviously, for those who -- of you who follow Old Republic, we announced in a successive order that we were not successful in either attempt, for reasons that we've given in past news releases and as well as in the published reports that we send out as a publicly held company. So in any event, without belaboring the points and the disclosures we've already made, let me just say this about the mortgage guaranty situation at this time.

First of all, we feel reasonably comfortable that this runoff is going to play out just fine, and it will do so to the end of enabling us to pay out most, if not the full amount, for all legitimate mortgage guaranty claims we settled. And secondly, that -- we believe that we can do this by obtaining some necessary regulatory approvals to amend the existing runoff terms. This will require a couple of changes in the permitted regulatory financial accounting practices, in addition to -- also in addition to our adding a reasonable amount of new capital in our flagship mortgage guaranty subsidiary. We truly believe that this additional capital should later become retrievable as the business runs its course. And we think that -- in combination, all of this, together with what we believe are well-founded expectations, particularly at this time having gone through 5 consecutive quarterly improvements in the mortgage guaranty business, that our expectations are well founded for the continuation of a profitable runoff and that this should enable us to accomplish our main objective. And then of course, that objective has been and is to exit the business with as complete and permanent a settlement of legacy obligations as possible.

Now in this vein, let me reiterate a point we've made several times over the last couple of years, and that is that Old Republic's long-term objectives for the business remain just as I have said. We think that the MI industry is a good one, that it can serve a useful societal purpose but that Old Republic's involvement in it can no longer be. And we just -- I mean the simple reason for it is that we just do not have the kind and amount of capital that would be needed to, at once, reestablish the business as a viable competitor that can safely operate for the long term with adequate coverage of possible future catastrophic exposures similar to those that we've encountered and that the industry at-large has encountered during the Great Recession years and the ones that have followed.

So now that we've resolved this plan of ours, we still believe that -- nonetheless that, sometime during the next couple of years, as the runoff becomes as stabilized as we think it can be, that some appropriate, acceptable external sources of capital can be brought to bear and reinvigorate what is still, in our opinion and belief, a very well-organized and reputable business charter under the RMIC nameplate, which has been around for more than 35 years, as I recall. So it would be a good thing to be able to recapitalize this thing down the road. We've got good staff in place, very knowledgeable people. And with the right amount of capital and the right pedigree of that capital, the business can be reinvigorated, we believe.

Now I'll just say a few words, when in speaking of runoff, about the other part of the runoff which is represented by the consumer credit indemnity or the CCI product line, as we refer to it in short. Now this runoff is proceeding apace and the dynamics that drive it are similar to those that affect the MI line. Loans in default continue to drop. And all the legitimate claim settlements are being made at 100 cents on the dollar in that business. Now the lingering exposure that's driving up, and continues to drive up from one quarter to another, claim costs, and I must say they're being driven to a greater-than-anticipated level, that these are -- that the costs are residing in the continuing litigation expenses we have relating to just one bank in particular, which we disclose fully in our 10-K and 10-Q reports.

We truly believe that cooler heads should ultimately prevail in this situation, which has really lawyered up and that's keeping -- simply keeping a bunch of lawyers at the feeding trough. So we are looking forward to a time in the -- hopefully, in the near future when we can in fact be rid of this runoff and go on to better and more useful things at Old Republic.

So as we've previously arranged, I'm going to now turn the mic over to Scott Rager here, my -- one of my colleagues, esteemed colleagues, I must say...

**R. Scott Rager**
*President and Chief Operating Officer*

Thank you.

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

...To speak to the General Insurance business and its prospects. So Scott, take it over.

**R. Scott Rager**
*President and Chief Operating Officer*

Okay, moving right along. I'll now address some key points about our General Insurance business.

The first quarter of 2014 numbers played out about as we had expected for the General Insurance group in total. Gross written premiums were up by 10.2% over first quarter of 2013, while the net earned premiums grew by 9.4%. The earned premium growth's emanating not only from moderate rate strengthening but also new business and new organic growth of the book that's been in place throughout the cycle. Customer retention levels are steady in most operations. And obviously, the growth dynamics vary by specialty marketplace served by our respective operations, but the books are growing in line with our expectations. We're making headway on market share in most operations, but the economy and the competitive environment in some specialty areas still pose some issues. For example, marketplaces with respect to professional liability and general aviation are saturated with participants and the rate environments for each remain challenging. We continue to grow these books slowly on a risk-by-risk basis, and as a result, the underwriting results remain excellent.

Relapsing risk selection standards or what we perceive as rate adequacy would give us more growth, but we'd be sacrificing the bottom line to grow the top and which is counter to our philosophy as an underwriting institution managed for the long run. As for economic impacts, we're seeing increased payrolls in the energy and commercial construction fields growing on a more pronounced basis. Although we've experienced some revenue increases in our trucking book, it was not attributable to organic growth, and that's unusual for us at this stage in the economic cycle. And we believe this results more from the effect of severe winter weather that we incurred rather than a slowing economy.

Industry wide, we see rate levels moderating. From an Old Republic General Insurance group perspective, our various operations are experiencing flat to high single-digit rate increases depending on the marketplace served and our particular position in it. From a claims costs perspective, the loss ratio edged up to 72.7%. And on the other hand, expense ratio moved down to 23.5%. In the aggregate, the composite ratio came down to 96.2%, contrasted to last year's 96.4% at the end of the first quarter and 96.7% for the final quarter of 2013. Claim severity and medical costs still seem to be the main drivers in the upward tilt of our claim ratio trends. At this point in time, though, we still see the year-end 2014 composite ratio ending near 2013 levels.

Knowing what we know today, we still see the 5-year growth objectives posted on our website as very achievable by the Old Republic General Insurance segment.

And now I ask Mark Bilbrey to report on our title operations. Mark?

**Mark A. Bilbrey**
*President of Old Republic Title Insurance Company*

Thank you very much, Scott. Good afternoon, everyone. It's my pleasure to report on our title group.

As reported this morning, our earnings were positive at $4.7 million. This happened in spite of a significant downturn in the real estate and the mortgage markets' recent quarters. The Mortgage Bankers Association projected that the refinance business could be off by 70% to 75%. To counter that, we obviously need purchase money mortgage transactions to pick up the slack. Seasonally, we're challenged in the first quarter of every year on the purchase money side of our business. It was never expected that sales of new and existing homes or commercial business would make up for the steep decline in refinance transactions. Mix and the weather, the interest rate increases and a lingering uncertainty about the availability of credit compounded the problem.

Our numbers were also impacted by the fact that, as an agency-centric company, our premiums are reported on a 3- to 4-month lag, which added to this. Our overall premiums and fees were down 14.5% over, year-over-year. Long -- our long-term strategic emphasis on the agency side of the title business has allowed us to maintain a degree of profitability in a very weak market.

While we see a slow but improving real estate market for the near term, we are excited about the long-term prospects of our business. There's certainly a great deal of pent-up demand for homes, new homebuyers' historically low interest rates and the moderation of rising home prices should allow us for a steadily improving housing and mortgage market for our title services.

Our commercial business has remained strong. We have a lot going on with our technology units that should enable our business units, both agency and direct, to compete better than ever than we had before. Our market share continues to increase, arising to 15.1% in quarter 4 of 2014 versus 13.5% in quarter 4 of 2013. Year-over-year, Old Republic's title market share rose from 13.5% in '13 to 14.9% in 2014.

Our managers have made some hard decisions on expense management in the past few months, especially in those units that were most affected by the decline in our refinance activity. At the same time, we continued to emphasize strong financial and underwriting controls to minimize the risks inherent to the title business. We will not cut back on our commitment to ensuring the long-term security of our company. While refinance activity is likely to remain slow throughout 2014, we are witnessing recovery signs in the purchase market.

We continue to be proud of the Old Republic title group's progress and are optimistic about our prospects going forward.

Thank you very much. And I now would like to turn it over to Mr. Karl Mueller.

**Karl W. Mueller**
*Chief Financial Officer and Senior Vice President*

Okay, as Al stated in his opening remarks, I will comment briefly on Old Republic's financial condition as of March 31.

This morning's news release reported that consolidated assets grew to $16.8 billion, which is up slightly from year-end 2013. The cash and invested asset balance of $11.3 billion continues to reflect modest growth, resulting, I would say, predominantly from the investment of the positive operating cash flows that we reported.

The fair value of the bond portfolio increased slightly from right at 102.8% of book value at year end to 103.6% at the end of March. I would add that the realized gains from the sales of equity securities that were recognized through net income had the offsetting effect of reducing the amount of unrealized investment gains at the end of March. Essentially, we took investment gains that were previously unrealized and converted them into realized gains, as reported in the first quarter. Consequently, the overall decline in the value of net realized investment gains resulted in a $0.21 per share reduction in book value. I would note, however, that this was more than offset by the $0.48 per share net realized gains that were recognized during the quarter.

Investment income continued its upward trend, as new investments are, I'd say on average, being made at market yields generally higher than those applicable to bonds that were sold or matured. In addition, investment income benefited from the shift in the equity portfolio into higher-yielding common stocks and equity funds during the quarter. This should also be moderately additive to investment income in upcoming periods.

Claim costs in both years' quarterly results reflect the continuation of favorable development of the prior-year-end consolidated loss reserves. Similar to last year's first quarter, our General Insurance group reserves have trended slightly favorable. The Title Insurance reserves have developed pretty much in line with original estimates. And the RFIG runoff segment reserves developed most favorably to, I would say, all of the factors that we listed in this morning's release.

As of March 31, the debt-to-equity ratio stood at 14.6%, and the debt-to-total capital ratio was 12.8%. Both of these ratios have consistently trended downward over the past several quarters due to modest maturities of outstanding debt as well as growth in the shareholders' equity account. Shareholders' equity at the end of March was $3.86 billion or $14.97 per share, which is a $0.33 per share increase from year-end 2013. Our operating earnings per share in excess of the shareholder dividend added $0.09 to the book value for the quarter. And on top of that, investment activity added another $0.27 per share, as already was noted.

And finally, we continue to maintain sufficient liquidity at the ORI parent company through a combination of cash and readily available liquid securities to meet our foreseeable operating needs. And that would include the anticipated capital contribution to our mortgage runoff operation.

So with that, those are the highlights of our current financial situation. And I'll turn this call back to Al for closing remarks.

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Okay, well, there you have it. We look forward to our General Insurance business for the rest of the year to percolate, so to speak. And we expect a gradual drop in the claims ratio as the year wears on. I think we've got our arms around most of our -- whatever claims issues have developed over the last several years. So that should start to look good as the year wears on, as I say.

Our title business, as Mark says -- said just now, is going to look good. I mean, again, it's a long-term business and a single quarter does not necessarily indicate where the entire year is going to be, but it stands to reason that, at this time in the cycle, this year looks like it's not going to be as much of a barn burner year as 2013 was but nonetheless should be a good year.

And then finally, I think our mortgage guaranty business runoff, in particular, is going to continue on the same wavelength. And we do expect it to be a positive contributor to overall earnings this year. We are looking forward to hearings that will be announced shortly, to be sponsored by the North Carolina Department of Insurance, whereby a revised plan of action will be submitted for all interested parties to see. And the plan will describe what it is that we propose to do to accelerate the payment of previously deferred claim obligations, to the end of, in fact, together with our additional capital to be injected into the business, does raise the flagship company's capital to more than adequate solvency levels.

So we are looking to all of that as positive developments for the rest of this year.
I guess that's about it. So as was initially indicated, we'll now do what we normally do, which is to turn this meeting over to any questions that you may have, and we'll do our level best to address those questions.

# Question and Answer

**Operator**

[Operator Instructions] And we'll go to Christine Worley with JMP Securities.

**Christine Amanda Worley**
*JMP Securities LLC, Research Division*

A couple of numbers questions. First in General Insurance, on the loss ratio side. I know that picked up a little bit versus the first quarter of '13, and I was wondering if there are specific lines that were driving that.

**R. Scott Rager**
*President and Chief Operating Officer*

Actually, the -- Christine, the loss ratio of first quarter '13 was 96.4% and the composite ratio for first quarter this year was 96.2%, so it was a tad bit below.

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

She's asking about the loss ratio...

**Christine Amanda Worley**
*JMP Securities LLC, Research Division*

On the loss ratio side specifically, not the composite.

**R. Scott Rager**
*President and Chief Operating Officer*

Loss ratio itself [ph]?

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Yes.

**R. Scott Rager**
*President and Chief Operating Officer*

It ticked up, yes. As has been the situation in the past, the workers' compensation, as you can see from the supplemental materials we provided, ticked up a bit over first quarter. And that's -- but it chipped down from third quarter and fourth quarter in '13, and we hope to continue that trend downwards. We continue to review loss ratios and development quarterly and make those adjustments on loss provisions as appropriate. But as you know, our objective with respect to that particular line of business is to get it down somewhere in the low 70s, where it has been. But that's -- it's workers' compensation typical [ph].

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Yes, if you look at the totality of the 3 lines versus the commercial, automobile and workers' comp and general liability, which is the way we look at it from an underwriting standpoint, a total account basis. You're looking, compared to 2013, that 78.0% versus 78.0%...

**R. Scott Rager**
*President and Chief Operating Officer*

For '13, yes.

**Aldo Charles Zucaro**

*Chairman and Chief Executive Officer*

For the first quarter of this year. So things are moving along. As I tried to say before, Christine, we've had a tough time, particularly in the comp line, for at least 2 years now. And again, as I said, I think we finally have got our arms around this thing. I think it's going to bob up and down and weave a little bit, but I think you're going to start seeing improvements in comp as the year wears on and as some of the corrective actions we've taken in the last couple of years, as well as rate increases which have permeated the business, that -- we should begin to see improvements there.

**Christine Amanda Worley**
*JMP Securities LLC, Research Division*

Okay, great. And in the workers' comp line, specifically on the loss ratio side, was there any development? And if so -- prior year development. And if so, could you quantify it?

**Karl W. Mueller**
*Chief Financial Officer and Senior Vice President*

Well, Christine, as I stated in my comments, the General Insurance group overall developed slightly favorable. When you take it by the pieces, I think you would not be surprised that we took a little heat in workers' comp in GL, and that was offset by favorable developments in some of the other lines. It's pretty consistent with where we've been over the past several quarters.

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Yes. But again, and correct me if I'm wrong on this, Karl, over time, our General Insurance business has typically, for all the lines combined, produced a 2% to 3% reserve redundancy year-over-year. And in the last couple of years, that has really been impacted fairly steadily all this time down to the point where today we have maybe 3/10, 2/10, 4/10 of 1 point of redundancy, as opposed to 200 or 300 basis points of redundancy. Is that right, Karl?

**Karl W. Mueller**
*Chief Financial Officer and Senior Vice President*

That's correct.

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Yes. And that's been a gradual evolving thing over the last 2 years in particular, as I'm saying. And that's what our focus is on and that's where I think you're going to start seeing a resumption of those longer trends in the loss reserves element.

**Karl W. Mueller**
*Chief Financial Officer and Senior Vice President*

Agreed.

**Christine Amanda Worley**
*JMP Securities LLC, Research Division*

Okay, great. And then on the Title Insurance side, I know you attributed part of the weaker volume in the first quarter to adverse weather. Is that something that now, to date in the second quarter, you've seen sort of pick up a bit as we've gotten past some of the weather troubles?

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Mark, are you going to take that? Yes.

**Mark A. Bilbrey**

*President of Old Republic Title Insurance Company*

Thank you, Christine. Yes, I'll be glad to, Al. Thank you. Christine, this is Mark. I've -- you're exactly right with the weather trends going back. And while the weather was incredibly challenging in January and February specifically, it's improved greatly. The other thing is inventory in some areas, where we have some areas that where not as impacted directly by these storms and the weather of the winter. There is just really, in some areas, not enough supply and there's a pent-up demand for those. So it is -- we're seeing very favorable order trends right now. So I think that is -- hopefully, that is past.

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

But again, Mark, if I can just -- because we've got so much of our business on the agency side production-wise, that it's going to take yet another quarter, if not a little longer, right, for that pipeline to get refilled and, in fact, hit the books, right?

**Mark A. Bilbrey**
*President of Old Republic Title Insurance Company*

That is correct, Al. We're -- we have a typically 90-day as a round number lag and as that corner gets turned. And -- but we've already had results and comments on -- from our agent community that, that corner is being turned for them. And so we're anticipating that to turn in within 30 to -- I'd say, quite 3 to 4 months.

**Christine Amanda Worley**
*JMP Securities LLC, Research Division*

And then final question: Are you disclosing roughly how much capital you've earmarked to contribute to the MI subsidiary?

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

We should be able to do that, Christine, in the next couple of weeks. As I've tried to say before, we're in the process of setting a date. I believe that a hearing date will be set for June 11 in Raleigh, North Carolina. And in anticipation of attending that hearing, we will be submitting a revised plan which will reflect all the changes that need to be made in order to accelerate that deferred payment obligation set of claims. And it is at that time, in the context of that plan, that we'll put some number down on what is required by way of a capital injection. And as we've said and as I think Karl intimated before, all of that money is going to be well within our means of disbursing to the -- without having to borrow or do anything like that.

**Christine Amanda Worley**
*JMP Securities LLC, Research Division*

And that's something -- will you release it in a press release? Or is that something we'll likely have to wait until the second quarter to hear?

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

No, no. It will be released when we issue this plan, okay? And that will -- that should take place, Karl, do you know, I mean, within a week or so...

**Karl W. Mueller**
*Chief Financial Officer and Senior Vice President*

I think it's within a couple 3 weeks at the outside.

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Okay. At the outside, couple of 3 weeks, Karl said, okay? Yes.

**Operator**

And we'll go next to John Deysher with Pinnacle.

**John Eric Deysher**
*Bertolet Capital Trust - Pinnacle Value Fund*

Al, I have a question on your comment that, I think you said, in the next couple years...

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

John, can you speak a little more -- a little louder?

**John Eric Deysher**
*Bertolet Capital Trust - Pinnacle Value Fund*

Sure. Can you hear me now?

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Yes. Yes, very good.

**John Eric Deysher**
*Bertolet Capital Trust - Pinnacle Value Fund*

Okay, great. I believe you said, in the next couple of years, you're going to be looking for external sources of capital to recapitalize, reinvigorate the business because, I think, you feel it has good prospects going forward. And I was just curious, does the capital source have to be external? Does it have to come from outside of Old Republic?

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Well, John, let me just at least restate what I intended to say and what I believe I did say. One, Old Republic is committed to exit the mortgage guaranty business because the amount of capital that would be required to reinvigorate that business is much higher than we have the ability to generate internally. And given our capital allocation model, we can no longer envision having that amount of capital dedicated to that one line of insurance. We have also said that another issue for us being long-term players in the business is that we've not been able to get our arms around the potential for catastrophic -- we have not been able to get our arms around the issue of potential catastrophic events, which have to be provided for currently. And as we understand it from just reading the press and what's going on in the government's quarters in terms of its attending to the needs and the continuity of Fannie Mae and Freddie Mac, that's an issue that needs to be addressed as to how you provide for that potential. So not being able to address both of those issues, concurrently, we say, no, there's no place in it for us. That does not, however, mean that we are going to be looking to raise capital ourselves. What I believe I've said, okay -- or should have said is that our intent is to run off the business to maximize the amount of deferred payment obligations that can be paid out, hopefully, at 100 cents on the dollar or as close to it as we can get, okay, and then let the business stabilize itself for the next couple of years. And at that point, sometimes during that interim period, somebody with the right capital pedigree can come up with sufficient money to reestablish that company as a viable competitor in the industry. That's what I believe I said and should say.

**John Eric Deysher**
*Bertolet Capital Trust - Pinnacle Value Fund*

Okay. I understand what you're saying, but I'm just suggesting that, as shareholders, we would be interested in the possibility of contributing capital to the company via a rights offering or some other way because we agree. We think the RMIG [ph] business has a good future going forward. And I think for us to flat-out say we're going to exit the business in a couple of years is perhaps a little bit shortsighted. And I want to be on record saying that I feel strongly that, at the appropriate time, if you need capital, you should come to your shareholders and your significant shareholders, outside shareholders and see how they feel about this.

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Correct. And we will take that into consideration, obviously. But you know, first things first, the first thing we need to do is to meet our key objective and which is to satisfy as best and as fully as possible our obligations on the legacy claims. First things first. Once we've done that, then we sit back, take a look at what's happened and we will deal with it accordingly in the best interests of our shareholders. And I submit to you, John and all other shareholders, that what we are doing from a capital injection standpoint is in fact in the best interest of shareholders because, as I said, again, I think that the business can turn around sufficiently, that we can retrieve that money and use that capital elsewhere in the system, okay? But we have not given up on the idea of allowing RMIC to be resurrected. It deserves to get back into business, one way or the other, with the right amount of capital and the right pedigree for that capital. Those 2 things must be in place. The right amount and the right amount and the right stewardship. Those are...

**John Eric Deysher**
*Bertolet Capital Trust - Pinnacle Value Fund*

Agreed. Fine, as long as you'll consider outside shareholders at the appropriate time. We're...

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

We will. Yes, sir. Okay.

**Operator**

And there are no further questions at this time. I will turn the conference back over to management for any additional or closing remarks.

**Aldo Charles Zucaro**
*Chairman and Chief Executive Officer*

Okay, well, we don't have any other comments. We appreciate the questions. And hopefully, we provided ample responses to them.

Having said that, we look forward to the next announcement. And I suspect the next announcement will be confirmation by us of an agreement with the North Carolina insurance department to, in fact, establish a proper date for a hearing relative to the changes in the runoff plan for our mortgage guaranty business. And as Karl said before, that should occur in the next couple of weeks or so.

Okay, having said that, we bid you a good afternoon. Thank you again for attending.

**Operator**
This does conclude today's conference. Thank you for your participation.