S&P Global
Market Intelligence

Old Republic International Corporation NYSE:ORI

FQ2 2010 Earnings Call Transcripts

Thursday, July 22, 2010 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2010-			-FQ3 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.03	0.05	▲66.67	0.09	0.40	1.23
Revenue (mm)	892.10	935.30	▲4.84	961.65	3733.50	3862.50

Currency: USD
Consensus as of Jul-22-2010 5:57 PM GMT

	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2009	(0.27)	(0.21)	NM
FQ3 2009	(0.17)	(0.28)	NM
FQ4 2009	(0.22)	(0.17)	NM
FQ1 2010	(0.12)	0.10	NM

Table of Contents

Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman & CEO

Chris Nard

Leslie Loyet

ANALYSTS

Beth Malone
Wunderlich Securities, Inc.

Bill Clark
Keefe Bruyette & Woods, Inc.

Mike Randall
Northland Capital Markets

Stephen Mead
Anchor Capital Advisors LLC

Presentation

Operator

Good afternoon ladies and gentlemen. Thank you for standing by. Welcome to the Old Republic International second quarter 2010 earnings conference call.

Today's conference 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 now like to remind everyone that this conference is being recorded.

I will now turn the conference over to Leslie Loyet of the Financial Relations Board. Please go ahead, ma'am.

Leslie Loyet

Thank you, good afternoon, everyone, and thank you for joining us today for the Old Republic conference call to discuss second quarter 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 on line who did not receive a copy, you may access it at Old Republic's website at www.oldrepublic.com or you can call Liz Dolezal, 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 22, 2010. 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 would like to turn the call over to Al Zucaro for his opening remarks. Please go ahead.

Aldo Charles Zucaro
Chairman & CEO

Good afternoon to everybody. As always, we appreciate very much your interest in following the trends in our business on a quarter-to-quarter basis. Also as always, we assume that you've seen or have access to this morning's press release so we will not slavishly repeat what is in there instead we'll just add some color to what you have already seen and read.

At the halfway mark this year, so far. The overall results we are posting are reasonably close to where we expected them to be, at budget time, late last year. However, while they are on target, the make up of them vary somewhat from the expectations we've had at the time.

In General Insurance we thought some of you may remember, our saying, we thought that we would be posting a composite ratio for that business of about 98% or so, 96% to 98%, as I recall we said. But here we are staying at the same level, at the same time last year i.e. at about 102% and we are therefore clearly in the underwriting loss territory still with respect to that major part of our business.

In Mortgage Guaranty, even if we exclude the beneficial effects of the several transactions that we disclosed in this morning's release, the underwriting losses we are reporting are currently running at about half the rate we reported in last year's first half. So, this business, even after taking these other factors that I'm sure Chris will speak to in a few minutes, this business is beginning to feel like it is on a rebound and that it should gradually turn to a stable level of profitability in the next 24 months or so.

To a large degree, we have the same feel for a rebound and in the title side of our operations. At half time this year, we thought we'll be posting a little better underwriting ratio than the 103 or so percent that we've booked so far, and that you see in one of the tables in the press release. But as you can see, this ratio is nearly identical to last year's performance.

The story here continues to be the same as we have reported for several quarters now, and that is that we're having to invest a lot more than we first imagined, mostly in people resources that are needed to sustain the much greater market share that we are garnering. To the best of our knowledge, we are currently running at a little more than 10% market share in the title insurance, and that's just about double where we were just a year or so ago. So we're really making hay in terms of getting more business in the front door. So now, we think that it will take a while longer for operating expenses in title insurance to strike a better balance with the top line.

Looking at our general insurance business in a more granular fashion, the lack of progress in the underwriting front in our view rests primarily on the operating difficulties that we're still encountering in our consumer credit or CCI coverage. As we noted in this morning's release, the delinquency rates on that business, oddly enough, have been dropping fairly steadily since mid-year last year or thereabouts. But even in the face of strong loss mitigation efforts, the line obviously keeps delivering unabated loss frequency.

As we noted in the release, several insured institutions are currently responding, have been for several months now, with more timely claim verification of the delinquencies that they have been reporting to us, and this is having the effect of turning a higher number of delinquencies into actual indemnifiable claims sooner than might otherwise been the case. And also we are still in our reserving process for those claims. We are still, or continue to take into account what we consider to be historically low levels of mitigation opportunities, so that the loss reserves are tending to stay at a much higher level than would have been the case when we were a number of years ago, in fact, experiencing and reflecting in the reserves a much higher level of mitigation opportunities and benefits.

And this of course applies to the four more recent accident years, namely 2007 through 2010, which are still alive from a reserve development standpoint. And, of course, these two factors are also boosting the claim ratios we are posting. At this juncture, if we were to hazard a guess, it now appears to us that we are not likely to be out of the woods in this CCI line until well, into 2011 if not 2012.

And I might add, as again I'm sure Chris will speak to in short order, that these expectations for the CCI coverage pretty much mirror those we currently have in terms of the expected return to a stable, profitable mode in our mortgage guaranty line.

So let's see, in most other regards, our general insurance business is holding up very well from an underwriting standpoint. If we eliminate the effects of the CCI coverage, as we've mentioned in the earnings release this morning and we mentioned that in terms of the number of percentage points of loss ratios, which have been increased by virtue of the experience we are having in CCI, the remainder of our general insurance business is sporting a composite ratio that is still reflecting a mid-90s level, just as it did in 2009; again, ex-CCI effect.

So we're still experiencing, however, in general insurance, lessened market opportunities to grow the premium revenue stream, but we are still confident that we will overcome this particular issue of top line as the US economy picks up some steam during the next 18 to 24 months. We continue to believe that so far as this cycle for both, the general insurance business as well as the US economy, that it's going to be much more of a long drawn-out situation and that we're not going to come out of these recessionary conditions as quickly as we have tended to be accustomed to in our country.

In the meantime, there are some positives that are happening to the general insurance business; for example, the very large truck insurance operation is beginning to show some early signs of premium growth, and thus mostly due to the benefits of an expanded agency plan that we've been working at for several years and some very good, high business retention rates in the high 80s. So we are keeping our business in trucking as well as in most other coverages, but the issue is particularly in those parts of the business where are the premiums are truly based on sales or miles driven or employment levels, the premiums are still being affected downwardly by the lack of strong economic activity.

But as you know trucking, just like the cardboard business, is one of the early indicators of the economy pulling out of the doldrums. So we feel good about seeing this part of our business benefit from these early indicators of economic recovery.

Year to date, I might add, the premium levels in trucking are up about 8%, which is the first time in two or three years that we have had this kind of uptick in the top line. And I might add that the same thing is happening with our home warranty line which like title benefits from both refine activity as well as original sales of homes, but that business is also showing signs once of the greater market penetration although our production facilities are primarily on a direct basis as opposed to agency-driven. But nonetheless, we are getting, we think, better share of the market that's there and the proof of it is that year to date premium growth in home warranty is in the low teens. I think it was around 12% or thereabouts.

In terms of earnings quality for the general insurance business, we continue to experience year-over-year stability with respect to prior years' claim reserve developments and as has been the case for us for quite a number of years. We continue to reflect small annual year-to-year redundancies ranging between 2% and 3% or 4%. So that's very good in our view. In that, at least the numbers that we are publishing are much more reflective of current levels of underwriting quality as opposed to being tainted by issues dealing with prior years' reserving.

Cash flow wise, I would say we were borderline negative, which means we had about a couple of million dollars, as I recall, of negative operating cash flow in general insurance, and that's reflective mostly of the lack of top-line growth that we are experiencing while in that business.

Chris, why don't we cover the housing and mortgage lending portions of our insurance coverages?

Chris Nard

Sure. As you can see from the release and what Al said, the year-over-year improvement we're seeing in the MI business, results mostly from the lower claims costs but also benefits from the cancellation of some pool insurance policies that we had in the first and second quarter. And to a lesser extent the termination of a few small captive reinsurance arrangements that were executed in the first and second quarter of 2010.

We've seen the traditional primary delinquencies decline in both the second quarter and in the year to date comparisons. I think it's worth noting that that stands in pretty sharp contrast to what we saw in the first half of 2009, when the traditional primary delinquencies rose significantly through both of those periods. That recent decline in the delinquent inventory is reflective really of two things. It's the decline in the number of newly reported delinquents as well as what we were glad to see was an increase in cure rates on the existing delinquent population over the first two quarters of the year.

To take a second and turn to the more challenging side of the business. New production; you can see from the release that our new insurance written was down in both the second quarter and in the year-to-date comparison, and I'll talk a little bit about that in the next few minutes. But on a slight positive note, we did see that new insurance written was up about almost 30% in the second quarter vis-à-vis the first quarter of 2010. As a result of these low levels of new insurance written, we've seen the continued run-up of the bulk business and the high level of refunded premiums related to the rescission activities that the industry has been experiencing. As a result of that, the net earned premium line has continued to slide.

As well, the drop in new insurance written has also contributed to the net risk in force decline that we have seen over the last several quarters. At these low levels of new insurance written, we are unable to replace the risk that's left the portfolio due to refinancing or claim settlement.

Looking forward on that topic, we would continue to expect to see the new insurance written and the total risk in force be challenging throughout the rest of the year as we deal with these lower overall market sizes and the reduced MI penetration rates that we're seeing in the market.

As a matter of percentages, the MI penetration rate we estimate in the first half of the year, is running really at historic lows and is likely under about 5% for the first half of the year.

The other piece of the production equation is market share. Through the first part of the share, RMIC's market share has trended down somewhat, in the most recent reports, I think we would have is through the end of the first quarter. And what we're seeing there is a range probably in the mid-9% area. I'd largely contribute that downward trend to our reluctance to moderate some of the terms of trade in the business until we're a little bit more comfortable with what we see in the real estate market stability here over the next quarter or so.

As we think about the MI industry penetration rate, it really continues to be driven by two major factors. One is obviously the higher FHA market share that we've seen really since the end of 2007, beginning of 2008 and the other is the impact of the delivery fee charges that the GSE imposes on some certain high LTV loans. In our view we'd say both of these factors, in addition to the low overall volume in the market contributes to the production at these very low levels.

Switching gears a little bit to the modification side with respect to HAMP in particular, we saw some changes in activity in the second quarter of the year, specifically, and there was a lot written about this year. Specifically servicers began to clear out a lot of the aged HAMP modification that they held in inventory.

As a result of that, we saw a material decrease in the number of loans, delinquent loans that were in some status of HAMP, but when you go back and look at that we would think that the bulk of those had a very low level probability curing, hence the reason why they were cleaned out by the servicers.

That being said, as of the end of May, we've seen close to about 7,000 loans cure as a result of the HAMP modification program.

Looking forward, as far as the newly reported HAMP goes, we've seen the expected drop that we anticipated as a result of the increase in the documentation requirements before a borrower is activated. But again, we would assume that those newly reported HAMPs will have a higher probability of cure given the more qualified nature of the loan.

Another positive trend in he mitigation area is the recognition of the need for additional modification opportunities for borrowers who may not qualify for HAMP or who may fall out of the process for one reason or another. And I think what we've seen is Fannie Mae and some servicers developed medication programs that will catch some of these borrowers who still have a high likelihood of curing, but we're unable to qualify possibly for the debt to income ratios or some of the documentation requirements in the hand.

Moving on to the capital discussion, as you can see from the release, the risk at capital ratio for the group of companies that comprise RMIC remains under the commonly referred to 25 to 1 level but the risk to capital ratio is at a point where we could potentially cross the 25 to 1 threshold in the coming quarters.

As we've mentioned on previous calls, in the event that that were to occur, we've been granted a waiver by the North Carolina insurance department which is RMIC, State of Domicile. It would permit us to continue to write new business in the flagship company, if we do pierce that 25 to 1 level some time this year. In the event that another stake, who may have a risk to capital ratio requirement, would not either recognize the North Carolina waiver or would have granted us a waiver through their own statutory processes. We have an agreement in place with Fannie and Freddie that would led us continue to write new insurance in a subsidiary company whose risk to capital ratio is in fact under 25 to 1.

All that being said, with all going on in the marketplace, we were certainly pleased to see some positive developments in the MI business in the second quarter. In spite of that, I would say we are still cautious as we look to the third and fourth quarter of this year. But we think as we will see those two quarters play out, we'll have a better look into 2011 and be able to get a better feel when stability will return to this line for us.

With that, I'll take a second and switch gears to the title side of the business. Unlike the mortgage guaranty business where we've had tremendous top line pressure over the last few years, our title business has been able to really continue the positive top line momentum that they were able to get going in the second half of last year. In the second quarter of this year we posted a small profit in comparison to the loss generated in the first quarter of 2010.

Premium and fees were up significantly. They showed strong growth and we're up about 35% over last year's second quarter. And those gains really reflect largely our growth in market share which has come from one, some dislocation in the business and two, our joint venture with the Attorneys' Title Insurance Fund in the State of Florida. As a result of those events, our market share at the end of the first quarter, again the last reporting period we have, was up significantly to about 10.5%.

As Al mentioned in his opening comments, expenses though in this business are up as well for the quarter and the period, year-to-date period. The growth in expenses here is largely reflective of the infrastructure investments we've had to make to manage a much bigger business these days and the investments that we've made to opportunistically grow production that we think is available as a result of some of these events in the business.

Claim costs in the title line rose just very slightly as we made some additions to loss provisions based on some of the developing recent book years.

That all being said, certainly pleased at the growth we've seen in the title business recently and are reasonably optimistic that we're starting to stabilize in this real estate business.

With that I'll turn it back over to Al.

Aldo Charles Zucaro
Chairman & CEO

Okay. Let's see a few points on our consolidated situation. Old Republic continues in our view to look very good from a financial condition standpoint even though we readily admit that consolidated operating earnings trends still need much room for improvement.

As you've seen in the release this morning, we posted some pretty significant realized gains in this year's second quarter. That's rather unusual for Old Republic to post large gains because we are fundamentally a buy and hold asset liability matching type of companies, particularly as that applies of course to the bond portfolio.

However, what happened in the second quarter of this year, we took advantage of some positive market valuations which we consider to be rather temporary, to sell part of one of the passive mortgage guaranty investments we had. And concurrent with that, we obtained a strategic redirection, if you will, of our municipal bond portfolio which had some rather significant built-in gains attached to it.

And as you can see in the table, towards the beginning of the press release, what we basically did was to match the actual tax basis loss which pertained to the partial sale of the MI investment. We matched that mostly with gains from sales of a portion of our tax-exempt bond portfolio and some other odds and ends that we had that we thought we should get rid of for one reason or another. So in the process of all that we garnered total proceeds from all of these sales of about $660 million in the second quarter.

I think year to date our total proceeds from all sales were about $772 million. I don't have the exact number in front of me. But it was $660 million in the 2Q. And we redirected the funds mostly to taxable bonds which have higher overall yields and should have a more beneficial effect from a tax efficiency standpoint going forward.

In other regards, our consolidated balance sheet and the income statement do not reflect any major departures from what was reported at year-end 2009 or at the end of this year's first quarter for that matter. The 2010 effective tax rate that you see there in our income summary of about 8.4% is obviously much greater than the negative 42% or thereabouts, rate in the first half of 2009. And that of course is a direct reflection of the fact that in the mortgage guaranty business in particular, we are incurring less underwriting losses, which as you know are taxed at the full 35% corporate rate. And as a result, the effective taxable income of the organization on a consolidated basis has driven the tax rate to the 8.4% level that I just mentioned.

As we moved from a pre-tax operating loss of almost $179 million last year to $36 million in this year's first half, not only did we have a higher tax rate, as I say, but our cash flow on the other hand was driven down and we reported that towards the end of this morning's press release. And of course the major reason is that Chris alluded to, and that is the impact of these insurance pool terminations which required us to in fact pay money back for the reserves that we were giving back, so to speak to the assureds, to the GSEs.

The only other item of note for our business at this point in time relates to the pending acquisition of the PMA companies that we reported back in June of this year. Since then, we have filed a registration statement with the SEC and PMA people have filed concurrently a proxy statement which is to be sent to the PMA shareholders for approving the deal. We have just heard from the SEC that we can go effective pretty much at will and we propose to do that in the next several days. And so that PMA will be sending out the whole package, which incidentally you can all see on the Edgar SEC website, before it get sent to the shareholders of PMA.

We expect the deal to go through and as we have from the very beginning, in dealing with this possible acquisition, we think that the merger of these two companies should be very beneficial both from the standpoint of policyholders and of course, the shareholders. So right now, we think that the transaction will probably close by late August or early September of this year.
That's about the length of the comments that Chris and I were prepared to make. And as was proposed at the beginning, we'll now open the meeting to any questions you have. And Chris and I will decide between ourselves as to which ones each of us answers.

Question and Answer

Operator

(Operator Instructions). Our first question comes from Beth Malone, Wunderlich Securities.

Beth Malone
Wunderlich Securities, Inc.

Just a couple questions. On the CCI business, it appears, that remains a very challenging operation for you and losses continue and I was just wondering, and maybe this isn't a right analogy, but would appear that market conditions for mortgage insurers and managing the mortgage insurance business seems to be making some headway, showing some progress. And I was just curious as to why there isn't some kind of similar trend in the consumer part of the business because I would assume the same economic factors affect both kinds of businesses.

Chris Nard

You've seen a little bit of that. As Al mentioned, we've seen the delinquency rate come down on the consumer credit business. And I think that part of its really analogous to what I said about the delinquencies declining in the first two quarters for the MI business. The difference that we've really seen particularly in the last quarter in the CCI business, is that, and again, as we referenced in the release, we've had some movement with some individual insureds, where the claims process has actually sped up, and that's had an impact of fronting some of those claims beyond what our expectations may have been at the end of the year. So in some respects, Beth, it's similar, the development of the delinquencies; in other respects, its dissimilar, when I refer to the impact of a couple of specific insureds.

Aldo Charles Zucaro
Chairman & CEO

And I might add also, that unlike the MI business, Beth, which is still producing, although as Chris indicated, admittedly at lower levels of production, and those new premiums are obviously helping the underwriting account and offsetting some of the issues pertaining to prior years' MI production, in as much as the current production is of very good quality, is not pumping out any claims to speak of.

The CCI coverage is currently, I should say relatively moribund, in as much as both our underwriting standards have been established as well as pricing considerations, as well as the lack of lending by financial institutions on consumer loans, which were the loans that we were insuring when the market was going hot and heavy. That also is detracting from a quicker return to profitability of the CCI product. So you've got all the elements that Chris just mentioned, and the fact that we, for all intents and purposes, do not have any new production you know as an offset to the costs related to past production.

Beth Malone
Wunderlich Securities, Inc.

Is your intent to stay in the consumer credit business then?

Aldo Charles Zucaro
Chairman & CEO

Yeah. We think it's a good adjunct to the mortgage guaranty business. As we speak, we don't have a very good feel yet as to what that business looks like going forward. It probably at least initially, as the consumer lending is resurrected will be a smaller business than it had been coming out of this stronger economy we had a few years ago.

So we need to reconfigure, as I believe we've mentioned before. We need to reconfigure and we are busy reconfiguring our policy forms, underwriting standards and pricing. And then of course an awful lot is going to depend on how quickly lenders start making loans again to consumers for home improvement, home equity, or whatever type of borrowing that the CCI product is aimed at.

Beth Malone
Wunderlich Securities, Inc.

Okay. And then a question on mortgage insurance, on the commutations and the accounting for the commutations, the way you're being required to record the revenues from these commutations, are we to anticipate that that's going to have the reverse negative effect sometime down the road, it's actually going to, you're going to have to report a loss at some point, that you have already recorded the gain?

Chris Nard

Yes, I wouldn't think about it that way. As you know from our actions in the third quarter of last year, this was not our preferred way to do it. But what occurs is we book that risk premium today as income. That premium is associated with the risks on the loans going forward. So to some extent, the answer to your question is yes, we'll incur those losses on those captive commutations as they go delinquent in future periods, but it would be more in the normal course of business. It won't be a one-time negative entry.

Aldo Charles Zucaro
Chairman & CEO

But there's no question, Beth, to your point, that this type of transaction, because of the required accounting, does reflect a mismatch of revenues and expenses. However, in all fairness, people will also, people who are knowledgeable and familiar with the mortgage guaranty business will also say to you that inherently the accounting for MI does not and is not necessarily intended to affect the type of income and expense matching that you find in the property and casualty business where we are issuing one year policies, okay.

So take that as you will. The answer to your question is, yes, we'll have future losses. As Chris mentions, they will be, for lack of a better term, bled into you know in the same fashion as losses on the other part of the business.

Beth Malone
Wunderlich Securities, Inc.

Okay and then one last question on the PMA acquisition. In the S-4 filing, it was disclosed that PMA was in a dispute with the insurance department, the state insurance department, does that dispute over reserves development, does that have to get resolved in order for the transaction to close?

Aldo Charles Zucaro
Chairman & CEO

Of course, as you know, both PMA and ourselves are constrained from speaking about all the issues dealing with both companies, both PMA and Old Republic beyond the realm of the registration statement. I believe that if you look at the registration statement, I can repeat for you the fact that the insurance department examination has been that determination or the conclusion of that department examination, has been moved forward, and that is intended to give all sides the ability to take a look at matters, because you have to remember that examination goes back to year end 2007. And a lot of water has flowed under the bridge since then, so we are all busy. Everybody is busy looking at the current set of facts to make a determination of what issues still remain at this point in time.

Operator

Our next question comes from Stephen Mead with Anchor Capital Advisors.

Stephen Mead
Anchor Capital Advisors LLC

Can you kind of separate the CCI business from the rest of the insurance side and talk about sort of premiums in the other side of the business in terms of pricing and also volumes?

Aldo Charles Zucaro
Chairman & CEO

Yes. As we have reported steadily for the past several years, looking at the major parts of our business, Steve, our trucking business I think, not to brag, but we've done a good job and that we have basically maintained stability on the pricing side. There's been very little pricing deterioration, so all the loses in volume or the acquisition of volume, which we mentioned before, in this year's first half, has been based on the basis of economic activity but not on an increase in prices or what have you.

The home warranty, which is another line, which, as we mentioned, is growing for us also, has not sustained any significant pricing issues. The rest of the business whether it be workers comp or a general liability, which affect our bituminous companies, our construction business and Old Republic CPG, and a number of other manufacturing oriented types of insurances.

There is no question that pricing has been soft. It's been soft for the last three years. Perhaps, I would hazard a guess that what you're talking about is maybe a 10% or 15% cumulative drop in pricing from its high three years, four years ago. So it's not been substantial, but it's been of some significance, and we believe that we are reflecting that effect in the reserving structure that we impose on ourselves.

Finally, when you look at some other lines like our general aviation business, our E&O business, and what have you, those lines to some degree have been affected by new competition coming in and there's been a greater level of price deterioration in addition to the economic situation generally that have affected volume in a downward manner. And then you have some odds and ends in our business like our automobile warranty business, which reason we'll tell you, pricing there has not been an issue but the issue has been the lack of automobile sales, reduced financing of those sales by virtue of the economy, which has impacted.

So you have all those variables, and I'm sure I'm not addressing to your question as specifically as you would like, but it's the best answer we can give you. That you have all those variables coming together, which are affecting the volume of business we've been reporting in the last two or three years.

Going forward, right now, we don't see the makings of any price increase, and particularly in the commercial lines in which we are involved. And we believe that any price increase would be further delayed if, as some expect, interest rates should spike up next year or whenever, because then there would be less interest on the underwriting side and more of an interest on what can be done on the investing side of the income statement.

Stephen Mead
Anchor Capital Advisors LLC

On just your investment sort of decision on taking the gains, how much of that was a credit consideration on the municipal side and how much of it was just pure kind of yield on the asset?

Aldo Charles Zucaro
Chairman & CEO

It was mostly yield on the assets and the fact that particularly when you are in a consolidated underwriting loss situation, as Old Republic is, when you consider its title business, its mortgage guaranty business and to some degree our general insurance business, that taxable income securities are a better deal to offset the underwriting account. I will say to you that there were some considerations in terms of asset quality on the munis. But our muni portfolio at Old Republic has always been a very good quality now.

Admittedly, in the types of economic straits in which we and the rest of the American industry finds itself, things have changed to a large degree. I don't need to tell you relative to the credit worthiness of many municipalities and states. But that was not the main consideration. The main consideration was improving the overall yield on all the proceeds we received and gaining better tax efficiency from a consolidated standpoint.

Stephen Mead
Anchor Capital Advisors LLC

And then I got this on the PMA acquisition, the senior people at PMA that are resigning from the company, what's the rough kind of overhead number or savings associated with their departure?

Aldo Charles Zucaro
Chairman & CEO

Well, you are making an assumption which is not there, and that is that top people are resigning. Nobody is resigning. We certainly are going to be looking at the joint businesses down the road and that we may take some actions to gain efficiencies, but those actions could affect both the Old Republic as well as the PMA side. But at this point in time, Steve, we don't have any expectation that you're going to see, the type of upheaval when it comes to people that you may typically see in other situations.

Stephen Mead
Anchor Capital Advisors LLC

Then I'm misreading it.

Aldo Charles Zucaro
Chairman & CEO

I think what you may be referring to, the fact that the Board…

Stephen Mead
Anchor Capital Advisors LLC

The Board's and the contracts. The Board's resigning, right?

Aldo Charles Zucaro
Chairman & CEO

Yes.

Stephen Mead
Anchor Capital Advisors LLC

But senior management?

Aldo Charles Zucaro
Chairman & CEO

Is giving up, you know, its severance agreements.

Stephen Mead
Anchor Capital Advisors LLC

Okay.

Aldo Charles Zucaro
Chairman & CEO

And the rationale for that is that simply we do not have those at Old Republic as a matter of corporate policy, and they're just adopting that policy going forward.

Operator

(Operator Instructions) Our next question comes from Bill Clark, KBW.

Bill Clark
Keefe Bruyette & Woods, Inc.

Any idea what percent of your revenues in the title insurance segment are now coming from the Florida market?

Aldo Charles Zucaro

Chairman & CEO

I don't have that number for you, Bill. Obviously, it is of some significance because we did buy, effect a joint venture for a book of business which at one time was accounting as we understand it for some 30% of the Florida market. Now, of course that Florida market is, and therefore even if we have kept 30%, I think we have, it is much smaller portion of the overall book at this point in time. But I don't have a specific answer for you, Bill.

Chris Nard

The real opportunity there is when Florida [recovers] from its current state.

Bill Clark
Keefe Bruyette & Woods, Inc.

Okay. And second question, I think last quarter you gave a range of about 18% to 20% of your delinquent loans. In MI that were in the HAMP trial. Given the cancellations and as you said the purging of some trials that probably weren't going to make it to a permanent mod, do you know what either number or percent of your delinquent loans are still in the HAMP trial as of quarter end?

Aldo Charles Zucaro
Chairman & CEO

My guess is that purge of essentially non-active HAMPs, probably knocked out about half of them, but I don't think that has any material impact. As we've always said, we've never booked any recognition of any benefits from these HAMP programs, and we always assumed a low level of conversion of the ones in the delinquent population. But what we do think will occur is those that do convert and actually become essentially a cured HAMP, we think there's a high probability that those will stick or a significant will stick, because the borrower really did have to go through quite a process to qualify for that modification.

Bill Clark
Keefe Bruyette & Woods, Inc.

Okay. Rough guess, would it be in the range of maybe 10,000 that are still…

Aldo Charles Zucaro
Chairman & CEO

Yes, it might be a little less. Again, I think it about it, knocked out about half of them, so it was in that 18% to 20% range, which it was towards the end of the year, it's probably closer to the 9% range, plus or minus now.

Now some of those have merged into these other modification programs that Fannie and others have come out with, but I don't have any numbers on that, unfortunately.

Operator

Our next question comes from Mike Randall with Northland Capital Markets.

Mike Randall
Northland Capital Markets

Yes. Thanks for taking my call guys. Just a couple of questions. One, delinquencies at the end of March were about 112,000 and they fell to 96,000 at the end of June. I think you mentioned a commutation or something, but can you just, what was the core drop if you back out the number that dropped based on the cleanup?

Chris Nard

Yes. I think the way to look, the best way to look at that is in the press release and the supplemental data when we show you the delinquency statistics, is really the core trend that you have to look at is in the traditional primary line. And you can see that it dropped from about 86,500 in the fourth quarter, to

84,500, to about 80,300. Now, the reference to the cancellation of the pool contracts is a big piece of the drop in the bulk delinquents that you see there. So a significant portion of those have come out with the cancellation of these contracts.

You might imagine the cancellation of the contracts are generally on the highest risk pools, so you get a big chunk of the delinquents out. I think the embedded second quarter delinquencies on the pools that remain were down just ever so slightly. So there was no unusual movement underneath there.

Mike Randall
Northland Capital Markets

Okay. And do you have any estimate of what percent of your delinquent program would be in a non-HAMP modification program?

Chris Nard

No. I wish I did but there's just not, it was a real effort for the industry and lenders to get good reporting on the HAMP modifications. I don't have any real way to estimate what percentage. I would hope it's a large percentage given all the modification talk, but there's nothing I could estimate for you.

Mike Randall
Northland Capital Markets

Okay. And then Al, quick question for you, I think you mentioned in your prepared remarks that you sold part of your interest in one of the other mortgage guaranty companies. Did you guys disclose which company you sold that in?

Aldo Charles Zucaro
Chairman & CEO

No, we did not.

Mike Randall
Northland Capital Markets

Do you intend to disclose that?

Aldo Charles Zucaro
Chairman & CEO

Well, I think it's going to be a matter of record. It happened to have been MGIC.

Operator

At this time we have no further questions. I would like to turn the call back to our speakers, Mr. Zucaro and Mr. Nard, for any additional or closing remarks.

Aldo Charles Zucaro
Chairman & CEO

Chris, I think we have covered the waterfront as to all the key variables and the key points about our business, so unless there are other questions, we have no further comment. And, again, as always, we appreciate your interest in joining us for yet another quarter's review.

Operator
Thank you, sir. With that we will conclude today's conference. Thank you for your participation. You may now disconnect.