

REPORT ON EXAMINATION
OF
REPUBLIC MORTGAGE INSURANCE
COMPANY OF FLORIDA
TAMPA, FLORIDA

AS OF
DECEMBER 31, 2004

BY THE
OFFICE OF INSURANCE REGULATION

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January 25, 2006

Honorable Kevin M. McCarty
Commissioner
Office of Insurance Regulation
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Honorable Julie Bowler
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One South Station, 5th Floor
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Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2004, of the financial condition and corporate affairs of:

REPUBLIC MORTGAGE INSURANCE COMPANY OF FLORIDA
190 OAK PLAZA BOULEVARD
WINSTON-SALEM, NC 27105

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2002 through December 31, 2004. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2001. This examination commenced, with planning at the Office, on October 27, 2005, to November 4, 2005. The fieldwork commenced on November 8, 2005, and was concluded as of January 13, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was an association zone statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2004. Transactions subsequent to year-end 2004 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2001, along with resulting action taken by the Company in connection therewith.

Management & Control

No audit or finance committee meetings were held in 2001.

Resolution: The Company has complied with this directive.

Reinsurance

The Company did not maintain the terms of their reinsurance agreement with Republic Mortgage Insurance Company (RMIC) by receiving a detailed billing from RMIC and making timely quarterly payments for those billings.

Resolution: The Company has provided quarterly billings received from RMIC and proof of timely quarterly payments for those billings.

Consolidated Income Tax Return Agreement

The Company filed a consolidated income tax return to the state of Florida with RMIC without the benefit of a tax sharing agreement.

Resolution: The Company entered into a tax sharing agreement with RMIC and its affiliates.

Bonds

All items on Schedule D did not match the bank records of the custodian institution.

Resolution: The bank records of the custodian institution were reconciled to Schedule D.

Surplus

The Company's recorded changes for Common stock and Paid in capital as reported on their 2001 annual statement was incorrect. The error did not affect the amount of surplus as reported on the balance sheet of the filed annual statement.

Resolution: Current accounting changes for Common stock and Paid in capital were recorded correctly.

HISTORY

General

The Company was incorporated in Florida on December 10, 1974, under the laws of the State of Florida, as a stock property and casualty insurer and commenced business on March 10, 1975. In 1980, the Company, along with its parent, became a part of the Old Republic International Corporation (ORIC), a Delaware insurance holding company system. On June 30, 1994, ownership of the Company was transferred from Republic Mortgage Insurance Company (RMIC)

to its current parent Old Republic Mortgage Guaranty Group, Inc. (ORMGG), also a Delaware company, which was 100% owned by ORIC.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	66,667
Number of shares issued and outstanding	66,667
Total common capital stock	\$2,533,346
Par value per share	\$38

Control of the Company was maintained by its parent, ORIC, a Delaware company.

The Company is a wholly owned subsidiary of ORMGG, an insurance holding company domiciled in the State of Delaware.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements of the Company.

	2004	2003	2002
Premiums Earned	5,313,511	5,218,794	5,133,903
Net Underwriting Gain/(Loss)	2,580,340	3,318,763	3,727,189
Net Income	3,294,756	3,951,228	4,138,228
Total Assets	35,845,378	32,949,001	30,269,022
Total Liabilities	25,381,003	22,870,830	20,750,968
Surplus As Regards Policyholders	10,464,375	10,078,171	9,518,053

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder, ORMGG, in 2002, 2003 and 2004, in the amount of \$800,000 per year.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2004, were:

Directors

Name and Location	Principal Occupation
William A. Simpson Pfafftown, North Carolina	President, RMIC of Florida
Jimmy A. Dew Advance, North Carolina	Group Manager of Sales, RMIC
Freeman E. Broadwell, Jr. Asheville, North Carolina	President & CEO, The Hometown Bank
Carl N. Hearne Dallas, Texas	Retired
Gerald J. Levy Foxpoint, Wisconsin	CEO, Guaranty Bank
Michael A. Smilow Washington, D.C.	Retired
Robert T. Waugh Greensboro, North Carolina	President, Eighteen Eighty, Inc. Self-Employed
William G. White, Jr. Pfafftown, North Carolina	Retired
Aldo C. Zucaro Barrington, Illinois	CEO, ORIC

Arnold L. Steiner
Birmingham, Alabama

Retired

Leo E. Knight, Jr.
Miamisburg, Ohio

President & CEO, National City Mortgage
Company

Fredricka Taubiz
San Diego, California

Director

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
William A. Simpson	President
Elizabeth Chambers Dixon	Secretary
David C. Cash	Treasurer
Joel H. Pasternak	Vice President
*Christopher S. Nard	Vice President
Jimmy A. Dew	Vice President
John E. Gerke	Vice President

* Christopher S. Nard was appointed President of the Company as of March 23, 2005.

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2004:

Executive Committee

William G. White, Jr.
Carl N. Hearne
Leo E. Knight, Jr.
Michael A. Smilow
Arnold L. Steiner

Audit Committee

William G. White, Jr.
Leo E. Knight, Jr.
Arnold L. Steiner
Fredricka Taubitz
Robert T. Waugh

Investment Committee

William A. Simpson
Freeman E. Broadwell, Jr.
Jimmy A. Dew
Carl N. Hearne
Gerald J. Levy
Michael A. Smilow
Aldo C. Zucaro

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, Florida Statutes. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committee were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

There were none during the examination period.

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on April 11, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company filed a consolidated federal income tax return with its ultimate parent, Old Republic International Corporation (ORIC), and its various other affiliates pursuant to a written tax allocation agreement. The method of allocation between the Company and its parent was computed on a separate return basis as if the affiliates were not consolidated.

Management Services Agreement

The Company entered into a management services agreement with RMIC Corporation, Republic Mortgage Insurance Company and Republic Mortgage Insurance Company of North Carolina. In accordance with the terms of the agreement, the companies agreed to provide certain management services as requested by each with costs allocated in a manner agreed in accordance with SSAP No. 70. Examples of management services include but are not limited to financial services, executive management, marketing, treasury, personnel, legal, accounting and finance, regulatory compliance, and other administrative and support services as deemed necessary.

Investment Counsel Services Agreement

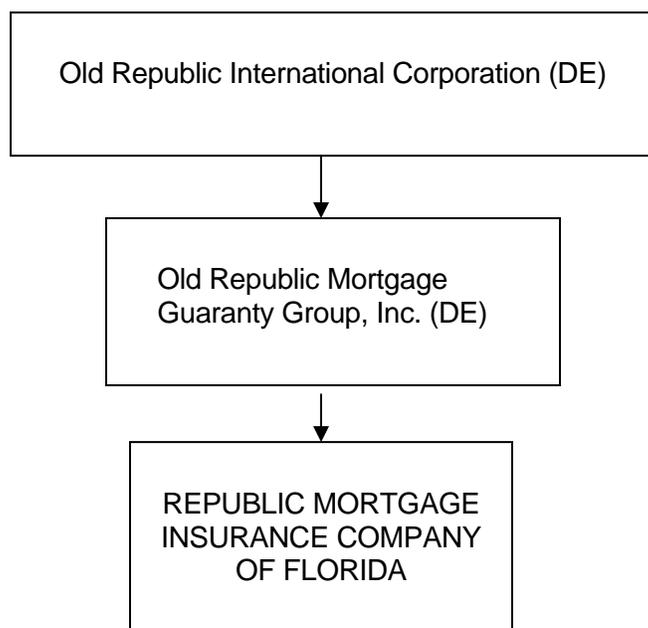
The Company executed an investment counsel services agreement with Old Republic Asset Management Corporation (ORAM). Services provided by ORAM included monitoring the value of the invested assets, advising the Company regarding the proper investment policy and preparing investment accounting statements for insurance regulatory purposes on a quarterly basis. ORAM also executed the purchase and sales of investments only under the written instructions of the

Company. In consideration for the services rendered, the Company paid ORAM an annual fee in quarterly installments in accordance with terms listed in the agreement.

A simplified organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

**REPUBLIC MORTGAGE INSURANCE COMPANY OF FLORIDA
ORGANIZATIONAL CHART**

DECEMBER 31, 2004



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$40,000,000 with a deductible of \$500,000 written in the name of ORIC. The Company was added to this policy by the means of an endorsement. This insurance adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	USTNTS, 5.75% 8/15/10	\$ 100,000	\$ 110,093
FL	USTNTS, 5.5% 2/15/08	200,000	213,125
FL	USTNTS, 5.625% 5/15/08	700,000	750,750
FL	USTNTS, 5.75% 8/15/10	500,000	550,470
FL	USTNTS, 5.00% 2/15/11	<u>200,000</u>	<u>212,750</u>
TOTAL FLORIDA DEPOSITS		\$ 1,700,000	\$ 1,837,188
AR	USTNTS, 5% 2/15/11	\$ 100,000	\$ 106,375
GA	USTNTS, 7% 7/15/06	30,000	31,809
IN	USTNTS, 5% 2/15/11	125,000	132,969
LA	USTNTS, 5% 2/15/11	70,000	74,463
MA	USTNTS, 6% 8/15/09	500,000	551,406
NH	USTNTS 4.375% 8/15/12	500,000	511,875
NV	USTNTS, 5.75% 8/15/10	225,000	247,711
NM	USTNTS, 5% 2/15/08	100,000	106,563
NC	USTNTS, 5% 8/15/11	150,000	159,703
NC	USTNTS, 5.75% 8/15/10	50,000	55,047
OK	USTNTS, 5.5% 2/15/08	200,000	213,125
OK	USTNTS, 5.75% 8/15/10	125,000	137,617
OR	USTNTS, 5%, 8/15/11	515,000	548,314

RI	USTNTS, 5.75%, 8/15/10	100,000	110,094
SC	USTNTS, 7%, 7/15/06	150,000	159,047
VA	USTNTS, 7%, 7/15/06	<u>220,000</u>	<u>233,269</u>
TOTAL OTHER DEPOSITS		<u>\$ 3,160,000</u>	<u>\$ 3,379,387</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 4,860,000</u>	<u>\$ 5,216,575</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

In accordance with Section 635.021, Florida Statutes, the Company was authorized to transact mortgage guaranty business, in the State of Florida, on December 31, 2001. As of December 31, 2004, the Company held certificates of authority (COA) in all states including the District of Columbia, except California, Minnesota, New York and Wyoming. At December 31, 2004, the Company was authorized to transact insurance in the State of Florida.

The Company did not write any direct premium; it only assumed premiums from RMIC, an affiliate.

Treatment of Assumed Business

As of December 31, 2004, all business was assumed from RMIC pursuant to reinsurance agreements. The ceding company paid all claims directly to the policyholders and received reimbursements from the Company on the paid claims on or before the 25th day after the end of the each calendar quarter. The ceding company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed risk on a quota share and excess of loss basis from its affiliate, RMIC. The excess of loss treaties were in a run-off mode.

Ceded

The Company did not cede any risk. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2002, 2003 and 2004, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Office approved the Company to maintain its principal operational offices in Winston-Salem, North Carolina, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company held a custodial agreement with The Northern Trust Company. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Information Technology (IT) Report

Dixon Hughes, PLLC, performed a computer systems evaluation of the Company. Results of the evaluation were noted in the IT report provided to the Company. No significant deficiencies were noted.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2004, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

REPUBLIC MORTGAGE INSURANCE COMPANY OF FLORIDA
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$33,549,408		\$33,549,408
Cash:			
On deposit	32,121		32,121
Short-term investments	613,072		613,072
Interest and dividend income due & accrued	417,630		417,630
Agents' Balances:			
Uncollected premium	1,201,324		1,201,324
Current federal & foreign income tax recoverable & interest thereon	7,287		7,287
Net deferred tax asset	24,536		24,536
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Totals	\$35,845,378		\$35,845,378
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REPUBLIC MORTGAGE INSURANCE COMPANY OF FLORIDA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$2,528,386		\$2,528,386
Reinsurance payable on paid loss and Lae	439,619		439,619
Loss adjustment expenses	20,190		20,190
Other expenses	40,612		40,612
Unearned premium	226,959		226,959
Payable to parent, subsidiaries and affiliates	34,832		34,832
Aggregate write-ins for liabilities	22,090,405		22,090,405
Total Liabilities	\$25,381,003		\$25,381,003
Common capital stock	\$2,533,346		\$2,533,346
Gross paid in and contributed surplus	286,659		286,659
Unassigned funds (surplus)	7,644,370		7,644,370
Surplus as regards policyholders	\$10,464,375		\$10,464,375
Total liabilities, capital and surplus	\$35,845,378		\$35,845,378

REPUBLIC MORTGAGE INSURANCE COMPANY OF FLORIDA
Statement of Income

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$5,313,511
DEDUCTIONS:	
Losses incurred	1,906,290
Loss expenses incurred	76,550
Other underwriting expenses incurred	750,331
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$2,733,171</u>
Net underwriting gain or (loss)	\$2,580,340

Investment Income

Net investment income earned	\$1,171,609
Net realized capital gains or (losses)	109
Net investment gain or (loss)	<u>\$1,171,718</u>

Other Income

Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	\$3,752,058
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$3,752,058</u>
Federal & foreign income taxes	457,302
Net Income	\$3,294,756

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$10,078,171
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Gains and (Losses) in Surplus

Net Income	\$3,294,756
Change in non-admitted assets	(3,323)
Change in net deferred income tax	1,267
Dividends to stockholders	(800,000)
Aggregate write-ins for gains and losses in surplus	(2,106,496)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$386,204</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$10,464,375</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	<u>\$2,548,576</u>
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An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2004, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**REPUBLIC MORTGAGE INSURANCE COMPANY OF FLORIDA
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2004

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2004, Annual Statement	\$10,464,375
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			No adjustment
LIABILITIES:			No adjustment
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2004, Per Examination			\$10,464,375

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2001 examination report issued by the Office.

Current examination comments and corrective action

There were no items of interest and corrective action to be taken by the Company regarding findings of the examination as of December 31, 2004.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Republic Mortgage Insurance Company of Florida**, as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$10,464,375, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, and Joe Boor, FCAS, Office Actuary, participated in the examination. We also recognize Charlie Diaz, CISA, CISM, ABCP, of Dixon Hughes, PLLC participation in the IT examination.

Respectfully submitted,

Samita Lamsal
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

Mary James, CFE, CPM
Deputy Director
Florida Office of Insurance Regulation