



Illinois Department of Insurance

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Q & A FOR POLICYHOLDERS OF TRIAD GUARANTY INSURANCE CORPORATION (TRIAD)
FROM THE ILLINOIS DEPARTMENT OF INSURANCE (IDOI)

In relation to the recent hearing regarding Triad's Order some general questions from policyholders were received by the IDOI concerning the Order. The following Q & A's may be helpful to all Triad policyholders:

- Q:** Why did the IDOI decide to implement the DPO corrective order?
A: Triad reported in late 2008 to the IDOI that it expected to experience what it believed to be a temporary surplus deficiency beginning some time in 2009. The measures in the Order allow Triad to remedy that situation.
- Q:** What were the factors used that lead to the decision?
A: Financial projections were prepared by Triad and by an independent actuarial firm and reviewed by the IDOI analysis staff. Based on reviews of the projections, it was concluded that the conversion of a portion of Triad's claim payments to short-term subordinated debt obligations offered the best probability for Triad to ultimately pay all of its claim losses in a way that resulted in no economic loss to policyholders. This option yields such a result because the continued runoff under IDOI supervision allows Triad's premium revenue stream to continue to its normal conclusion. In later "seasoned" years, the nature of the mortgage insurance business is for losses to decline, thereby making available in future years the funds necessary to meet all claim obligations. Any other type of formal actions by IDOI would likely disrupt and/or completely cut off the future premium flow which would make it unlikely that Triad could fully pay all claims. Importantly and in order to provide greater security to policyholders, IDOI is requiring Triad to set up an escrow account that supports the debt obligations plus carrying charges for the future repayments to policyholders. Additionally, reinsurance collected by Triad for the portion of Triad's claims paid in the form of DPO's will be segregated in the escrow in the name of the associated policyholder.
- Q:** Were any policyholders contacted prior to the decision being made?
A: Yes. Policyholders were notified of a public hearing held by IDOI on May 8, 2009. The actual implementation of the change in claim payment method was intentionally delayed until input from policyholders could be obtained through this hearing process.

4. **Q:** What is the applicable legal citation for the IDOI's authority to issue such an Order?
A: Primarily 215 ILCS 5/186.1 which authorizes the Director to require, prohibit or permit certain actions by an insurance company under a corrective order. Although the statute includes a list of five example actions, that list is by no means all-inclusive or exhaustive. The requirement that Triad satisfy a portion of future claims in the form of subordinated debt is actually included among the actions listed in Section 186.1 as a type of borrowing. When Triad pays a claim using a percentage in cash and a percentage in issuance of debt, the claim is reflected on Triad's books as having been paid-in-full and the claim is extinguished. Hence, any reinsurance applicable to that claim becomes fully due and payable to Triad.
5. **Q:** Going forward, how will the IDOI be evaluating the current status of DPO's for changes?
A: By quarterly analysis of Triad's financial condition.
6. **Q:** How frequently will a financial review of Triad be done?
A: Quarterly, although IDOI is continuously monitoring Triad's condition, reviewing certain transactions and having discussions with Triad's executive management.
7. **Q:** How are future notifications/discussions with policyholders being handled?
A: Triad must send quarterly reports to policyholders with DPO's. Policyholders can contact IDOI at any time. Other notifications may come through Triad either by mail or on Triad's website.
8. **Q:** Are there benchmarks or thresholds for actions to change the DPO percentage?
A: Yes. If the risk-to-capital ratio is over 15:1 but less than 25:1 and surplus is greater than \$500M, or, the risk-to-capital ratio is less than 15:1 and surplus is greater than \$250M, then the Director may reduce the deferred % and allow partial repayment of the deferred amounts. Also, if these benchmarks are never reached the Director has discretion to reduce the deferred % and allow a partial repayment. In any event, the Director must give consideration to reducing the DPO percentage and allowing payment of a portion of the deferred amounts at least by December 31, 2010. Quarterly results (both GAAP and Statutory) will be posted on Triad's website in accordance with the Order enabling policyholders to determine Triad's status relative to the above Benchmarks.
9. **Q:** Will there be any third party reviews of IDOI and/or Triad models and data?
A: An independent actuary will review the data and modeling at least annually, plus IDOI may utilize examiners or others as needed. Triad must also undergo an annual independent audit review by an accounting firm acceptable to the IDOI.
10. **Q:** Who are the contacts at Triad and IDOI for ongoing DPO management questions / issues?
A: For Triad: accounting questions go to Mr. Ken Dwyer (kdwyer@tgic.com) and other questions go to Mr. Earl Wall (ewall@tgic.com) . For IDOI: contact Mr. Dan Sparks (Dan.Sparks@illinois.gov)

11. **Q:** How is the DPO redemption process going to work?

A: Once a payment is approved or required by IDOI, Triad must promptly make a payment of the appropriate approved amount to all insureds plus a corresponding amount of carrying charges.

12. **Q:** What is the payment method?

A: Cash

13. **Q:** Are there provisions for dispute resolution?

A: Policyholders should simply contact Triad first and then, if not satisfied, contact IDOI at any time concerning disputes. IDOI will do its utmost to protect policyholders and assure that Triad is meeting its obligations fairly and equitably.

14. **Q:** Why are DPO's non-transferable?

A: Transfers are permitted under certain conditions and with proper advance notice to Triad. Such limitations exist so that when the DPO's are repaid Triad will avoid delays, mistakes, and disputes over the entity entitled to receive payment. Limiting transfers of DPO's also precludes the selling of DPO's by insureds to unrelated third parties. Tracking and recording such transactions would make the administration of the runoff more complicated and costly for Triad.