Report

of the

Examination of

CMG Mortgage Assurance Company

Madison, Wisconsin

As of December 31, 2010

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

June 5, 2012

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CMG MORTGAGE ASSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of CMG Mortgage Assurance Company (hereinafter also the company or CMGA) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2010, and included a review of such 2011 and 2012 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examinations of PMI Mortgage Insurance Co. (hereinafter also PMI) and CUNA Mutual Insurance Society (hereinafter also CMIS), which are regulated by the Arizona Department of Insurance (hereinafter also AZDOI) and the Iowa Insurance Division (hereinafter also IID), respectively. CMG Mortgage Insurance Company, CMG Mortgage Assurance Company and CMG Mortgage Reinsurance Company (hereinafter collectively the CMG mortgage guaranty insurers) are owned under a 50/50 joint venture between PMI and CMIS. All day-to-day operations of the companies are performed by employees of PMI and CMIS under various affiliated services agreements, which will be discussed in detail later in this report. Representatives of the AZDOI acted in the capacity as the lead state for the coordinated exam of PMI Mortgage Insurance Co. and the CMG mortgage guaranty insurers. It was determined that there would be no exam coordination with the IID; however, representatives of the IID shared work performed as part of their examination of CMIS with this office. Work performed by the AZDOI and IID were reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated in California on March 4, 1969, under the name Investors Mortgage Insurance Company of California, and licensed as a mortgage guaranty insurer. The company was initially established as a subsidiary of Investors Mortgage Insurance Company (hereinafter also IMIC) and wrote mortgage guaranty insurance policies on first mortgages in California. In 1974, IMIC obtained mortgage guaranty insurance authority in California, and the company subsequently ceased writing new business and reinsured all of its then existing insurance risks with IMIC.

The company's articles of incorporation were amended on September 23, 1980, changing the name of the company to Investors Equity Insurance Company, Inc. (hereinafter also IEIC). In connection with the change of name, the company changed its line of business authorization from mortgage guaranty insurance to credit insurance. The company remained a dormant corporation until May 12, 1981, at which time it commenced writing mortgage guaranty insurance on second mortgages.

Ownership of 100% of the capital stock of IEIC was acquired by Investors Mortgage Insurance Holding Company (hereinafter also IMIHC) effective December 31, 1981, when the company's parent merged into IMIHC. IEIC continued writing new business through 1986, at which time it again suspended issuance of new insurance policies. Effective April 14, 1994, CUNA Mutual Investment Corporation (hereinafter also CMIC), a subsidiary of CUNA Mutual Insurance Society, acquired all of the capital stock of IMIHC and thereby indirectly acquired control of the company. On June 1, 1994, IMIHC paid to CMIC an extraordinary dividend consisting of 100% of the capital stock of the company. In 1999, the name of the company was changed to CMG Mortgage Assurance Company, the name presently used by the company. CMGA redomiciled from California to Wisconsin effective June 1, 2000, as a mortgage guaranty insurer.

Effective October 1, 2000, PMI Mortgage Insurance Co., a subsidiary of The PMI Group, Inc. (hereinafter also TPG) purchased 50% of the capital stock of CMGA from CMIC, and CMGA became a jointly owned subsidiary of CMIC and PMI. CMIC and PMI entered into a contractual joint venture to own and operate CMGA as an insurer to write insurance coverages on junior lien second mortgage loans originated by credit unions.

CMIS obtained 50% ownership of CMGA through a stock dividend from CMIC on June 30, 2009. Concurrently CMG Mortgage Reinsurance Company (hereinafter also CMG Re) became a wholly owned subsidiary of CMGA through a stock ownership transfer via capital contributions from CMIS and PMI.

CMIS and PMI each own a 50% interest in the capital stock of CMG Mortgage Insurance Company (hereinafter also CMG MI) and CMGA, while CMG Re is a wholly owned subsidiary of CMGA. The objective of the CMG MI joint venture between CMIS and PMI was to establish a strategic alliance to offer mortgage guaranty insurance products and services to credit unions that originate residential mortgage loans. The strategic alliance was undertaken to combine and employ the expertise of the two parent organizations, with PMI contributing its specialized knowledge and business systems for mortgage guaranty insurance operations, and with CMIS having close business association with and specialized knowledge of the credit union industry. The CMG mortgage guaranty insurers do not have their own employees, and their operating functions are provided by affiliated companies within the two parent holding company organizations, pursuant to several affiliated services agreements. Further discussion of affiliated relationships and affiliated services agreements is included in the section of this report titled "Affiliated Companies."

The business plan of CMGA was to operate as a direct insurer of mortgage guaranty policies covering default risks on junior lien second mortgage loans originated by credit unions. The company is licensed in 46 U.S. states and in the District of Columbia. The company began writing second-lien mortgage business in the third quarter of 2001. The company's board of directors resolved to discontinue writing new business effective in March of 2008 due to concern over the profitability of this line of business. In 2010, the company wrote direct premium in the following states:

Massachusetts	$ 43,767	13.9%
Wisconsin	41,372	13.1
Ohio	36,282	11.5
Iowa	23,093	7.3
Maryland	21,587	6.8
Texas	16,845	5.3
All others	133,055	42.1
Total	$316,001	100.0%

In 2010 the company utilized 12 salespersons, which are employees of CMIS and are licensed agents, to service the runoff of the company's business.

The following table is a summary of the net insurance premiums written by the company in 2010. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	$316,001	$0	$0	$316,001
Total All Lines	$316,001	$0	$0	$316,001

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of ten members who are elected annually to serve a one-year term. Each member of the CMGA board of directors is a senior executive in one of the two immediate parent companies, CMIS and PMI, and may also serve as an executive or a director of one or more additional companies within their respective holding company systems. CMIS and PMI each have the right to designate the same number of directors to the board of CMGA and to vote their respective shares in favor of their respective designees. As provided in the CMG MI, CMG Re, and CMGA Shareholders Agreements, each director of CMG MI also serves as a director of CMG Re and of CMGA, and the boards of directors of the three CMG mortgage guaranty insurers have common membership. As inside directors, the board members currently receive no compensation specific to their service on the board.

As of December 31, 2010 the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Michael T. Defnet Waunakee, Wisconsin	CMIS Senior Vice President of Sales	2011
Joseph F. Dillon, Jr. Novato, California	CMG Senior Vice President and General Manager	2011
G. Michael Edwards San Francisco, California	CMG Senior Vice President and General Manager	2011
Leslie R. Marquart Walnut Creek, California	PMI Vice President of Financial Planning and Analysis	2011
Thomas J. Merfeld Fitchburg, Wisconsin	CMIS Senior Vice President, Chief Risk Officer	2011
Peter C. Pannes San Anselmo, California	PMI Senior Vice President of Sales	2011
Lloyd A. Porter San Rafael, California	PMI Executive Vice President, Chief Risk Officer	2011
James M. Power Middleton, Wisconsin	CMIS Senior Vice President, Chief Products Officer	2011
Alastair C. Shore Madison, Wisconsin	CMIS Senior Vice President, Chief Actuary	2011
Janet A. Walker Lafayette, California	PMI Senior Vice President of Product Development and Marketing	2011

Officers of the Company

The officers of CMG Mortgage Assurance Company are appointed by the directors at the annual meeting of the CMGA board of directors to serve a one-year term. Each officer of CMGA is an officer in one of the two immediate parent companies, CMIS and PMI, and may also serve as an officer of one or more additional companies within their respective holding company systems. Each officer of CMGA also holds the corresponding office in CMG MI and in CMG Re, and the three CMG mortgage guaranty insurers have a shared corps of executive officers.

As provided in the CMG MI, CMG Re, and CMGA Shareholders Agreements, the chairman of the board of directors of CMG MI also serves as the chairman of the boards of CMG Re and CMGA. The shared board chairmanship of CMG MI, CMG Re, and CMGA rotates annually between CMIS and PMI designees, and the president of the boards of directors of the CMG mortgage insurance companies shall be a person designated by CMIS.

The officers serving as of December 31, 2010, are as follows:

Name	Office	2010* Compensation
Alastair C. Shore	President and Chairman of the Board	$100,001
Earl W. Sealy	Secretary	169,538
Ray D. Chang	Treasurer	19,364
Kenneth S. Dailey	Actuary	35,310
Joseph F. Dillon, Jr.	Senior Vice President and General Manager	208,947
George M. Edwards	Senior Vice President and General Manager	137,333
Lloyd A. Porter	Vice Chairman	40,392

* Amount of each officer’s compensation allocated to the CMG mortgage guaranty insurers in 2010 by their parent companies.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees as of December 31, 2010, are listed below:

Audit Committee
Alastair C. Shore, Chair
Leslie R. Marquart
Thomas J. Merfeld
Janet A. Walker

Investment and Finance Committee
Leslie R. Marquart, Chair
Thomas J. Merfeld
Peter C. Pannes
Alastair C. Shore
Janet A. Walker

IV. AFFILIATED COMPANIES

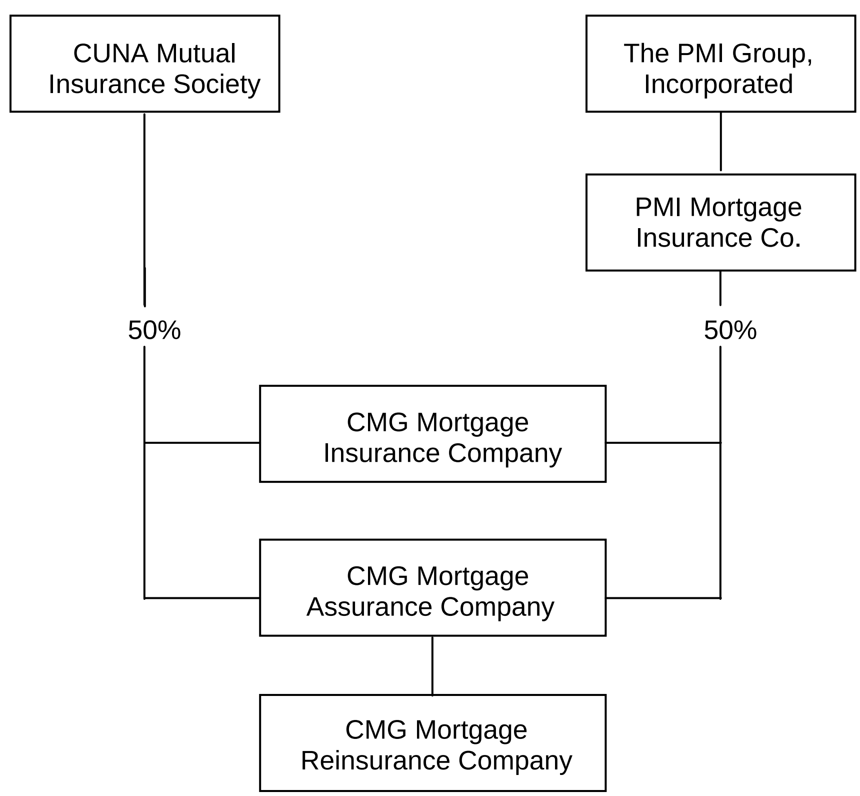
CMG Mortgage Assurance Company is a joint venture enterprise and is a member of two independent holding company systems. The company is jointly owned and controlled by CUNA Mutual Insurance Society and PMI Mortgage Insurance Co. CMIS is a mutual life insurance company domiciled in Iowa and is the holding company parent for the CUNA Mutual Group. PMI is a wholly owned subsidiary in the insurance holding company led by The PMI Group, Inc., a corporation domiciled in Delaware that formerly was publicly traded on the New York Stock Exchange but was delisted in November of 2011. There were a number of events that occurred subsequent to December 31, 2010, which impacted members of PMI's and CMIS's respective holding company structures that are discussed further in the appendix section of the report entitled "Subsequent Events."

CMIS and PMI each own 50% of the capital stock of CMG MI and CMGA, and collectively hold 100% of the equity ownership of each company. CMIS obtained 50% ownership of both CMG MI and CMGA through stock dividends from CUNA Mutual Investment Corporation on June 30, 2009. CMG Re became a wholly owned subsidiary of CMGA on June 30, 2009, through a stock ownership transfer via capital contributions from CMIC and PMI. Concurrently CMIS, PMIC, CMIC and the CMG mortgage guaranty insurers entered into an assignment agreement, which reassigned CUNA Mutual Investment Corporation's interests, rights, responsibilities and duties under existing agreements with the CMG mortgage guaranty insurers to CMIS.

CMGA's management and operations are conducted pursuant to a joint venture of CMIS and PMI, established by the CMG MI Shareholders Agreement effective September 8, 1994, and restated June 1, 2003, by the CMG Re Shareholders Agreement effective May 27, 1999, and by the CMGA Shareholders Agreement effective October 1, 2000. All of the business operation functions of the CMG mortgage guaranty insurers, including personnel, legal and administrative services, premium billing and receipt, policy issuance and administration, claims processing and adjudication, asset management and investment, and general accounting and financial reporting operations, are provided to the companies by affiliates from within the CMIS and TPG holding companies, through the provisions of various affiliated services agreements.

The following organizational chart depicts the holding company relationships among the significant affiliates of the company as of December 31, 2010. A brief description of the significant affiliates of CMGA follows the organizational chart, which is followed by a summary of the service agreement relationships between the company and its affiliates.

Organizational Chart
As of December 31, 2010



CUNA Mutual Insurance Society

CUNA Mutual Insurance Society and its affiliates provide group and individual life insurance products, accident and health insurance products, and other financial products and services to credit unions, credit union service organizations, and credit union members. CMIS business activities are conducted in all U.S. states, the District of Columbia, and in countries and political jurisdictions throughout the world.

As of December 31, 2010, CMIS's audited financial statements reported total admitted assets of $13,330,405,751, total liabilities of $11,975,589,106 and policyholders' surplus of $1,354,816,645. Operations for 2010 produced net income of $33,437,012.

The PMI Group, Inc.

The PMI Group, Inc., is an insurance holding company organized in December 1993 pursuant to the laws of the state of Delaware. TPG was originally a wholly owned subsidiary of Allstate Insurance Company (hereinafter also Allstate), an insurance subsidiary of The Allstate Corporation. In an April 18, 1995, initial public offering, Allstate sold 36.75 million shares of TPG common stock, representing a 70% ownership interest of TPG. Subsequent to the 1995 public offering of TPG, Allstate divested all of its remaining 30% ownership interest in TPG through an exchange of 12.9 million shares of TPG common stock to redeem outstanding Allstate exchangeable notes and through the sale of 2.8 million shares of TPG common stock that remained in Allstate ownership following the Allstate exchange note redemptions.

Through its subsidiary, PMI Mortgage Insurance Co., TPG primarily provided private mortgage guaranty insurance to mortgage lenders in the United States. Other TPG subsidiaries provide mortgage guaranty reinsurance, home finance industry risk management products and services, and title insurance.

As of December 31, 2010, TPG's GAAP audited financial statements reported total assets of $4,218,987,000, total liabilities of $3,803,717,000, and shareholders' equity of $415,270,000. Operations for 2010 produced a net loss of $773,028,000 on premium revenues of $577,372,000.

PMI Mortgage Insurance Co.

PMI Mortgage Insurance Co. was incorporated November 10, 1972, as an Arizona stock mortgage guaranty insurance company. From 1973 until 1994, PMI was a wholly owned subsidiary of Allstate Insurance Company. Effective November 28, 1994, Allstate contributed all of the outstanding capital stock of PMI to TPG.

PMI writes residential mortgage guaranty insurance, providing primary insurance coverage on first-lien mortgage loans and, beginning in 1997, providing a government-sponsored mortgage pool insurance product that is used as an element of credit enhancement for secondary market mortgage loan securities transactions. PMI holds mortgage guaranty insurance licenses in all 50 U.S. states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.

As of December 31, 2010, PMI's audited statutory financial statements reported total admitted assets of $3,132,212,478, total liabilities of $2,392,735,378, and policyholders' surplus of $739,477,100. Operations for 2010 produced a net loss of $551,819,341 on premium revenues of $512,265,069.

CMG Mortgage Insurance Company

CMG Mortgage Insurance Company was originally incorporated in 1980 as an Illinois-domiciled mortgage guaranty insurer. On April 14, 1994, CUNA Mutual Investment Corporation purchased 100% of the capital stock of CMG MI. On June 23, 1994, PMI purchased from CMIC 45% of the issued and outstanding stock of CMG MI, and on September 8, 1994, CMIC and PMI executed the CMG MI Shareholders Agreement that established a contractual joint venture arrangement and joint management of CMG MI under a strategic alliance of CMIC and PMI.

CMG MI resumed writing new business in 1994 and redomiciled to Wisconsin effective November 30, 1994. PMI's ownership interest in CMG MI increased to 50% in 1998 through PMI's purchase of 200,000 additional shares of CMG MI capital stock and after that transaction CMIC and PMI each held equal 50% ownership interests in the capital stock of CMG MI. As mentioned earlier in this section of the report, CMIC transferred its 50% ownership in CMG MI to CMIS through a stock dividend on June 30, 2009. CMG MI is licensed in all 50 U.S. states, the District of Columbia and Puerto Rico, and issues mortgage guaranty insurance policies on first-lien residential mortgage loans originated by credit unions.

As of December 31, 2010, CMG MI's audited statutory financial statements reported total admitted assets of $392,627,164, total liabilities of $287,156,717, and policyholders' surplus of $105,470,447. Operations for 2010 produced net income of $3,368,354.

CMG Mortgage Reinsurance Company

CMG Mortgage Reinsurance Company was incorporated on May 27, 1999, as a jointly owned subsidiary of CMIC and PMI. On June 30, 2009, it became a wholly owned subsidiary of CMGA as mentioned earlier in this section of the report and received $5.5 million in capital contributions from CMGA in 2009 after the ownership transfer. CMG Re is authorized as a mortgage guaranty insurer, licensed solely in the state of Wisconsin. CMIC and PMI each contributed initial capital of $1.5 million to CMG Re in 1999, and CMG Re commenced business August 26, 1999. CMG Re was established to assume from CMG Mortgage Insurance Company mortgage loan reinsurance coverages of up to 25% of individual mortgage loans written on a direct basis by CMG MI, the CMG Re coverages being excess of coverage for up to 25% of each insured mortgage loan that is retained by CMG MI.

As of December 31, 2010, CMG Re's audited statutory financial statements reported total admitted assets of $48,671,945, total liabilities of $28,014,673, and policyholders' surplus of $20,657,272. Operations for 2010 produced net income of $303,553.

Agreements with Affiliates

As previously described, each of the three CMG mortgage guaranty insurers was organized as a joint venture enterprise by CMIS and PMI, with each parent organization having responsibility for specified portions of the operations and management of CMG MI, CMG Re, and CMGA. The rights and responsibilities of affiliates who participate in the joint venture are formalized in agreements between CMIS and PMI (and their affiliates) and each respective CMG mortgage insurance company. A brief summary of CMGA's affiliated agreements and undertakings follows arranged by effective date.

PMI Services Agreement

CMG Mortgage Assurance Company and PMI Mortgage Insurance Co. entered into a services agreement effective October 1, 2000, which was restated effective September 3, 2003, and last amended on January 1, 2007. Pursuant to the agreement, PMI is to provide services essential to the day-to-day operation of CMGA, which include:

1. General Management—management assistance in accordance with the Shareholders Agreement, including, but not limited to, services of specified management personnel;
2. Actuarial Services;
3. Accounting Services;
4. Federal Income Tax Return;

5. Legal and Government Relations;
6. Special Reports;
7. Bank, Cash/Liquidity Management and Cash Forecasting;
8. Human Resource Management; and
9. Pricing Support and Product Analytics.

In consideration of the services provided to CMGA under this agreement, CMGA agrees to pay to PMI a monthly service fee based on the actual cost of services. Payments are to be made within 30 days of the end of each month. The agreement is continuous until the termination of the Restated CMGA Shareholders Agreement. This agreement may be terminated if the other party has materially defaulted under the terms and conditions of the agreement and such default has not been cured within 60 days of receipt of written notice.

CMIS Services Agreement

Effective October 1, 2000, CMG Mortgage Assurance Company and CUNA Mutual Investment Corporation entered into a services agreement, which was restated effective September 3, 2003, and last amended on November 29, 2005. As described earlier in this section of the examination report CMIC reassigned its interests, rights, responsibilities and duties under this agreement to CMIS effective June 30, 2009. Pursuant to the agreement, CMIS is to provide services essential to the day-to-day operation of CMGA, which include:

1. General Management—management assistance in accordance with the Shareholders Agreement, including, but not limited to, services of specified management personnel;
2. Purchase of insurance coverages, including coverages for directors, officers and employees;
3. Investment Accounting Services;
4. Legal and Government Relations, including, but not limited to, those generally related to maintenance of insurance licenses, corporate transactions, general corporate governance, review/identification of proposed laws and regulations related to state and federal regulation of credit unions which may affect the company’s business, and regulatory filings;
5. Facilities Management/Administration;
6. Special Reports; and
7. Agent and Agency Licensing.

In consideration of the services provided to CMGA under this agreement, CMGA agrees to pay to CMIS a monthly service fee based on the actual cost of services. Payments are to be made within 30 days of the end of each month. The agreement is continuous until the termination of the Restated CMGA Shareholders Agreement. This agreement may be terminated if the other party has materially defaulted under the terms and conditions of the agreement and such default has not been cured within 60 days of receipt of written notice.

Investment Advisory Agreement

CMG Mortgage Assurance Company and MEMBERS Capital Advisors, Inc. (hereinafter also MCA) entered into an investment advisory agreement effective October 1, 2000, and restated as of July 3, 2008. Pursuant to the Investment Advisory Agreement, CMGA appointed MCA to act as CMGA's sole investment advisor and investment portfolio manager. MCA, a duly licensed registered investment advisor domiciled in the state of Iowa, is 100% owned by CMIC. Specific services provided to CMGA by MCA are the following:

1. Makes investment decisions and is responsible for investment and reinvestment of the CMGA investment securities portfolio;
2. Performs research, statistical analysis and continuous supervision of the CMGA portfolio;
3. Provides to CMGA the data and information required to prepare and file all necessary statutory statements, tax returns, and any other reports or returns of a regulatory nature;
4. Monitors systems and procedures for proper functioning of all investment activities to ensure compliance with the requirements of applicable federal and state laws, rules, and regulations;
5. Renders any periodic and special reports reasonably requested.

In consideration of the services provided to CMGA under this agreement, CMGA agrees to pay to MCA a monthly management fee equivalent to one-twelfth of 15 basis points of the end of month value of securities and cash managed by the advisor. Payments are to be made within 30 days of the end of each month. The agreement is continuous until the termination of the Restated Services Agreement between CMGA and CMIS. This agreement may be terminated if the other party has defaulted under the terms and conditions of the agreement and such default has not been cured within 60 days of receipt of written notice. This agreement may also be terminated if MCA fails to meet the performance standards of the contract, by 30 days' written notice to MCA given either by CMGA or by CMIS.

Trade Name License Agreement

Effective October 1, 2000, and restated as of June 1, 2003, CMG Mortgage Assurance Company and CUNA Mutual Insurance Society entered into a trade name license agreement. Pursuant to this agreement, CMIS granted to CMGA a royalty-free, non-exclusive right and license in the United States to use the term “CMG,” a CUNA Mutual Group trade name, as part of CMGA’s corporate name, corporate trade name, and corporate trademarks and service marks. The agreement establishes requirements and prohibitions on CMGA’s authority to use the term “CMG.” The agreement provides that any use of the mark by CMGA shall inure for the benefit of CUNA Mutual Group and provides that the company acknowledges the validity of the mark “CMG” and CUNA Mutual Group’s exclusive right, title, and interest in the mark. So long as CMGA shall make regular commercial use of the authorized trademark, the agreement is continuous until the termination of the CMGA Shareholders Agreement or upon CMGA’s violation of the contract provisions for CMIS’s exclusive rights under the contract, CMGA’s assignment of the contract, or CMGA’s improper use of the trademark. CMGA may terminate the contract upon 30 days’ written notice.

CMG MI Services Agreement with CMGA

CMG Mortgage Insurance Company and CMG Mortgage Assurance Company entered into a services agreement effective October 1, 2000, concurrent with the adoption of the CMGA Shareholders Agreement between CMIC and PMI (currently between CMIS and PMI). This agreement has been restated as of November 2, 2004. Pursuant to this agreement, CMG MI provides to CMGA various policy administration services pertaining to the insurance policies written and issued by CMGA. Services provided by CMG MI under the agreement include the following:

1. Issue CMGA certificates of insurance for new business and bill insured for initial premium due;

2. Send renewal notices to CMGA insureds;

3. Collect all CMGA renewal premium checks and supporting materials mailed by insureds, remitting checks to CMGA, and directing CMGA to return to insureds any overpayments, mistaken payments and refunds due to cancellations. CMGA premium collected by CMG MI is held by CMG MI as a fiduciary for CMGA;

4. Monitor defaults, mitigate losses utilizing mitigation practices and philosophy in effect, review claims for fraud indicators prior to CMGA payment, and direct CMGA to pay claims;

5. Supply CMGA with monthly reports, including reports of policyholder count showing loans in default and loans current, and claims paid during the month and inception-to-date; and

6. Supply CMGA with all information necessary for preparation of periodic financial statements and for the payment of premium taxes.

The agreement provides that the performance standards for CMG MI services shall be that of best efforts and the exercise of the highest degree of professional competence. In consideration of the services provided to CMGA under this agreement, CMGA agrees to pay to CMG MI a monthly service fee based on the actual cost of services. Payments are to be made within 30 days of the end of each quarter. The agreement may be terminated by either party providing 60 days' written notice. This agreement may also be terminated if the other party has materially defaulted under the terms and conditions of the agreement and such default has not been cured within 60 days of receipt of written notice.

CMIS Procurement and Disbursement and Billing and Collection Services Agreement

Effective December 20, 2007, CMIS and its affiliates entered into a procurement and disbursement and billing and collection services agreement. Under this agreement, CMIS will perform certain services relating to procurement activities, disbursement activities, and billing and collection activities, not provided by other affiliated entities under separate services agreements. In consideration of the services provided to CMGA under this agreement, CMGA agrees to pay to CMIS a quarterly service fee based on the actual cost of services. Payments are to be made within 15 days of the end of each quarter. This agreement is continuous and may be terminated by either party providing 30 days' notice.

Tax-Sharing Agreement

Effective June 30, 2009, CMG Mortgage Assurance Company and CMG Mortgage Reinsurance Company entered into a tax-sharing agreement. Under this agreement, CMGA files a consolidated U.S. Federal Income Tax Return that includes CMG Re. The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of the companies' consolidated U.S. federal income tax liability in accordance with a rational, systematic formula. The agreement provides for computation of tax, settlement of balances between the two entities, tax-sharing, filing the return, audits and other adjustments, dispute resolution and other administrative requirements. The agreement calls for the settlement of quarterly estimated federal tax payments and final year-end calculated adjusted payments within 30 days' written notification. The agreement has provisions that address members entering or departing the group and provides for successors.

V. REINSURANCE

The company does not cede or assume insurance risks and is not party to any reinsurance treaties.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2010, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the minimum policyholders' position calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

CMG Mortgage Assurance Company
Assets
As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 3,301,898	$0	$ 3,301,898
Common stocks	10,657,273	0	10,657,273
Cash, cash equivalents, and short-term investments	1,100,383	0	1,100,383
Receivables for securities	3,140	0	3,140
Investment income due and accrued	18,871	0	18,871
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	31,999	0	31,999
Total Assets	$15,113,564	$0	$15,113,564

CMG Mortgage Assurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2010

Losses		$ 715,000
Loss adjustment expenses		40,800
Other expenses (excluding taxes, licenses, and fees)		81,944
Taxes, licenses, and fees (excluding federal and foreign income taxes)		(2,575)
Current federal and foreign income taxes		53,962
Net deferred tax liability		33,075
Unearned premiums		13,810
Payable to parent, subsidiaries, and affiliates		943,284
Total liabilities		1,879,300
Common capital stock	$2,000,000	
Gross paid in and contributed surplus	7,796,933	
Unassigned funds (surplus)	3,437,331	
Surplus as regards policyholders		13,234,264
Total Liabilities and Surplus		$15,113,564

CMG Mortgage Assurance Company
Summary of Operations
For the Year 2010

Underwriting Income		
Premiums earned		$ 319,043
Deductions:		
Losses incurred	$1,056,399	
Loss adjustment expenses incurred	41,490	
Other underwriting expenses incurred	133,766	
Write-ins for underwriting deductions:		
Increase of contingency reserve	159,521	
Withdrawal of contingency reserve	(730,139)	
Total underwriting deductions		661,037
Net underwriting gain (loss)		(341,994)
Investment Income		
Net investment income earned	48,199	
Net realized capital gains (losses)	175	
Net investment gain (loss)		48,374
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(293,620)
Federal and foreign income taxes incurred		1,094
Net Loss		$(294,714)

CMG Mortgage Assurance Company
Cash Flow
For the Year 2010

Premiums collected net of reinsurance			$ 324,029
Net investment income			73,711
Total			397,740
Benefit- and loss-related payments		$626,399	
Commissions, expenses paid, and aggregate write-ins for deductions		251,925	
Federal and foreign income taxes paid (recovered)		(457,465)	
Total deductions			420,859
Net cash from operations			(23,119)
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 45,207		
Miscellaneous proceeds	891		
Total investment proceeds		46,098	
Cost of investments acquired (long-term only):			
Bonds	544,299		
Total investments acquired		544,299	
Net cash from investments			(498,201)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		907,528	
Net cash from financing and miscellaneous sources			907,528
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			386,208
Cash, cash equivalents, and short-term investments:			
Beginning of year			714,174
End of Year			$1,100,382

CMG Mortgage Assurance Company
Policyholders' Position Calculation
December 31, 2010

Surplus as regards policyholders		$13,234,274	
Contingency reserve		0	
Total policyholders' position			$13,234,274
Net minimum policyholders' position:			
Junior liens—individual loans:			
Loan-to-value more than 75%	$521,226		
Total individual loans		521,226	
Deduct aggregate minimum policyholder position for certain loans with established reserves		(18,319)	
Total minimum policyholders' position			502,907
Excess of Total Policyholders' Position over Minimum Policyholders' Position			$12,731,367

CMG Mortgage Assurance Company
Reconciliation and Analysis of Surplus
For the Three-Year Period Ending December 31, 2010

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2010	**2009**	**2008**
Surplus, beginning of year	$14,018,877	$ 7,702,782	$7,299,115
Net income	(294,714)	668,911	402,849
Change in net unrealized capital gains/losses	(967,865)	2,088,202	0
Change in net deferred income tax	477,694	(1,169,505)	(136,419)
Change in nonadmitted assets	272	659,553	137,237
Surplus adjustments:			
Paid in	0	4,036,935	0
Write-ins for gains and (losses) in surplus:			
Surplus adjustment	0	31,999	0
Surplus, End of Year	$13,234,264	$14,018,877	$7,702,782

CMG Mortgage Assurance Company
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2010

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2010**	**2009**	**2008**
#1	Gross Premium to Surplus	2%	3%	6%
#2	Net Premium to Surplus	2	3	6
#3	Change in Net Premiums Written	(18)	(21)	(32)
#4	Surplus Aid to Surplus	0	0	0
#5	Two-Year Overall Operating Ratio	133*	50	126*
#6	Investment Yield	0.3*	2.1*	3.4
#7	Gross Change in Surplus	(6)	82*	6
#8	Change in Adjusted Surplus	(6)	30*	6
#9	Liabilities to Liquid Assets	42	45	17
#10	Agents' Balances to Surplus	0	0	1
#11	One-Year Reserve Development to Surplus	3	4	(3)
#12	Two-Year Reserve Development to Surplus	3	(2)	2
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0

Ratio No. 5, "Two-Year Overall Operating Ratio," measures the company's profitability over the previous two-year period and was exceptional in 2008 and 2010. The exceptional ratio in 2008 was primarily affected by 2007 results, which was mostly due to increased losses and underwriting expenses. The contingency reserve is a component of underwriting expenses and is a large liability that is required for writing mortgage insurance business. The contingency reserve is based on earned premium, which increased by 23.6% compared to the previous year (2006). The exceptional ratio in 2010 was primarily impacted by a large increase in losses incurred, which supports the company's management's concerns that the second-lien mortgage business being written was unprofitable, and significant decreases in premium volume in 2009 and 2010 due to the company discontinuing writing new business in 2008.

Ratio No. 6, "Investment Yield," measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets and was considered exceptional in 2009 and 2010. The exceptional ratios are primarily a result of low returns on its common stock portfolio those two years. The company's wholly owned affiliated stock company (CMG Re), which comprised 100% of its stock portfolio in 2009 and 2010, did not pay any dividends in those years and therefore were not large contributors towards CMGA's net investment income even though they are a significant portion of the company's investment holdings. Also contributing to the company's low investment returns was limited investment income from bond holdings in 2009 and 2010 that was affected by the low interest rate bond market during those years, where the company sold higher interest bearing bonds and reinvested proceeds in bonds that had lower returns.

Ratio No. 7, "Gross Change in Surplus," was considered exceptional in 2009. The exception is primarily due to the acquisition of CMG Re through capital contributions from CMIC and PMI on June 30, 2009, which significantly increased the company's policyholders' surplus and was discussed earlier in this report.

Ratio No. 8, "Net Change in Adjusted Surplus," was also exceptional in 2009 for the same reasons as Ratio No. 7.

Growth of CMG Mortgage Assurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2010	$15,113,564	$1,879,300	$13,234,264	$(294,714)
2009	15,634,980	1,616,103	14,018,877	668,911
2008	9,285,267	1,582,485	7,702,782	402,849
2007	9,308,403	2,009,288	7,299,115	(730,052)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2010	$316,001	$316,001	$319,043	344.1%	(138.2)%	205.9%
2009	385,500	385,500	395,049	157.2	(4.7)	152.5
2008	485,745	485,745	505,050	52.1	29.8	81.9
2007	716,066	716,066	719,739	111.9	143.4	255.3

The company has experienced surplus growth of 81.3% over the three-year period beginning in 2008 to 2010 and is primarily attributable to the acquisition of CMG Re through a capital contribution from its parent companies in 2009, which was mentioned in the explanation of exceptional IRIS Ratio No. 5. Gross and net premium volume has decreased significantly during the period under examination primarily due to the company's management's decision to discontinue writing new business effective in March of 2008 over concerns of profitability insuring junior lien second mortgage loans. The company's loss ratio has exceeded 100% the previous two consecutive years, which can be attributable to poor housing market conditions and poor economic conditions coupled with the significant decrease in premium volume over this period. The company's expense ratio decreased significantly in 2008 and was negative in 2009 and 2010, which was mainly attributable to the company being approved by this office to make provisional withdrawals of funds from its contingency reserves in those years. Negative operational results should continue as the company runs off its business.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus of $13,234,264 reported by the company as of December 31, 2010, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Executive Compensation—It is again recommended that the company complete the Report on Executive Compensation in compliance with s. 611.63 (4), Wis. Stat., and as further defined in the report form as included in the Property and Casualty Annual Statement Packet, which includes the disclosure of compensation relating to the companies' CEO, the four most highly paid officers or employees (other than the CEO), and any other employees who meet the threshold as calculated in the schedule on that form.

   Action—Compliance.

2. Conflict of Interest—It is recommended that annually each director, officer, and key employee of the company complete a conflict of interest disclosure as required by the Commissioner's directive, and that the company retains copies of each year's disclosure forms with company records so that they may be available for review by this office.

   Action—Compliance.

3. Schedule P—It is recommended that the company report loss payments in the years the related losses were incurred in Schedule P, Part 1 – Summary, in accordance with the NAIC Annual Statement Instructions-Property and Casualty.

   Action—Noncompliance; see comments in the "Summary of Current Examination Results."

4. Remittances and Items Not Allocated—It is again recommended that the company record its suspense premiums as remittances and items not allocated according to the NAIC Annual Statement Instructions-Property and Casualty.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Schedule P

The previous examination determined that the company allocated paid losses in Schedule P - Part 1 - Summary, based on an internally derived allocation methodology by year versus reporting paid losses based on the year the actual loss occurred. The NAIC Annual Statement Instructions - Property and Casualty state that loss payments in Schedule P - Part 1 - Summary should be recorded based on the cumulative amount paid for a specific year. The current examination performed a reconciliation of 2010 paid claims detail, reported in a data file provided by the company, to the 2010 annual statement, Schedule P - Part 1 – Summary, and noted that the paid claims traced to the annual statement on an aggregate basis, but they did not trace to the schedule by accident year. According to the company the calculated differences for each year were caused by one or a combination of the following:

- Schedule P was generated utilizing the original default date of a loan rather the most recent default date of a loan in those instances where loan defaults were cured;
- The data pulled into the company's Schedule P spreadsheet had some errors in the reported default dates of certain certificates;
- There was change in risk for certificates that had reported loan in default; and
- There was a misallocation in LAE.

It is again recommended that the company report loss payments based on the actual year of loss in Schedule P - Part 1 - Summary in accordance with the NAIC Annual Statement Instructions - Property and Casualty.

VIII. CONCLUSION

The company reported assets of $15,113,564, liabilities of $1,879,300, and policyholders' surplus of $13,234,264 for 2010. Operations for 2010 produced a net loss of $294,714. Over the three-year period under examination the company's reported policyholders' surplus increased by approximately 81.3%, primarily due to the acquisition of CMG Re in 2009 through capital contributions from CMIS and PMI. Premium volume has decreased significantly over the period under examination as a result of the company discontinuing writing new business in 2008 over concerns of the profitability of insuring junior lien second mortgage loans. The company reported net losses in two of the last four years and operational results should continue to be negative as the company runs off its business. During the period under examination the company's net loss and loss adjustment expense ratio has averaged 184.5% with the highest being recorded in 2010 of 344.1%. The results for the period under examination are primarily attributable to poor housing market conditions and poor economic conditions.

The examination verified the financial condition of the company as reported in its annual statement as of December 31, 2010. The examination of CMGA resulted in one recommendation, which was considered a repeat recommendation, no adjustments to surplus and no reclassifications. The repeat recommendation pertains to the company not complying with an examination report recommendation in regard to the proper completion of its annual statement, Schedule P - Part 1 - Summary, so that paid losses are reported in the years that the loss is incurred.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - Schedule P—It is again recommended that the company report loss payments based on the actual year of loss in Schedule P - Part 1 - Summary in accordance with the NAIC Annual Statement Instructions - Property and Casualty.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Ana J. Careaga	Insurance Financial Examiner
Randy F. Milquet	IT Specialist
Jerry C. DeArmond	Reserve Specialist
Frederick H. Thornton	Exam Planning & Quality Control Specialist

Respectfully submitted,

John E. Litweiler
Examiner-in-Charge

XI. APPENDIX—SUBSEQUENT EVENTS

There were a number of events that transpired subsequent to December 31, 2010, which significantly impacted members of the company's holding company structure. A brief summary of those events follows, arranged by joint venture partner of the CMG mortgage guaranty insurers to which they relate. Also reported in this section are updated listings of the company's board of directors and officers due to the numerous changes in appointments subsequent to December 31, 2010.

CUNA Mutual Insurance Society

On September 7, 2011, CMIS's policyholders approved a plan of reorganization, where CMIS would reorganize by forming a mutual insurance holding company named CUNA Mutual Holding Company (hereinafter also CMHC) and continuing its corporate existence as a stock life insurance company subsidiary of a newly formed intermediate stock holding company named CUNA Mutual Financial Group, Inc., that would be a subsidiary of CMHC. CMIS's name would concurrently change to CMFG Life Insurance Company. Under the new structure, insurance policies and annuity contracts would remain the same and policyholder benefits and rights would not be reduced or altered in any way. On October 7, 2011, the Iowa Insurance Commissioner approved the plan for the new mutual ownership structure, which became effective on January 31, 2012.

PMI Mortgage Insurance Co.

On August 19, 2011, PMI and its wholly owned subsidiary PMI Insurance Co. (hereinafter PIC) were placed under a supervisory order by the Arizona Director of Insurance (hereinafter Director) as a result of the Arizona Department of Insurance's determination of a hazardous financial condition under Arizona insurance laws and regulations relating to PMI's June 30, 2011, operational results. The order required the two companies to cease issuing new mortgage guaranty insurance commitments at close of business on August 19, 2011, and to cease issuing mortgage insurance certificates under pending commitments at the close of business on September 16, 2011. Mr. Truitte D. Todd of Tharp and Associates, Inc. (hereinafter Supervisor) was appointed by the Director as the interim supervisor of PMI and PIC.

Effective August 22, 2011, Fannie Mae and Freddie Mac each suspended PMI, PIC and PMI Mortgage Assurance Co. from its list of approved mortgage insurers.

On October 20, 2011, the Director requested and received an order (hereinafter the Possession Order) to take full and exclusive possession and control of PMI by the Superior Court of Maricopa County, Arizona (hereinafter the AZ Court) as a result of the AZDOI's determination that PMI did not meet certain capital requirements under Arizona law as of the third quarter of 2011. Concurrent with the granting of the Possession Order, the Director filed a Complaint for the Appointment of Receiver and Injunction to place PMI into rehabilitation.

Concurrent with the granting of the Possession Order, the Director also issued a Notice of Determination, Order of Supervision and Notice of Appeal Rights to the principal regulated reinsurance subsidiaries of The PMI Group, Inc. These companies are PMI Reinsurance Co., PMI Mortgage Guaranty Co. and Residential Insurance Co. Truitte D. Todd was appointed Supervisor by the Director with full authority to supervise the TPG-controlled PMI insurance companies on the Director's behalf under the relevant supervision order.

TPG management filed a formal objection to the Possession Order and the Complaint for the Appointment of Receiver in the AZ Court on October 28, 2011. The AZ Court upheld the Possession Order on November 22, 2011, and a receivership hearing was scheduled for January 10, 2012. However, on November 23, 2011, TPG filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware, which resulted in the postponement of the receivership hearing.

On February 6, 2012, TPG and the AZDOI filed with the AZ Court a joint stipulation, where TPG withdrew its opposition to the AZDOI's request for the appointment of a receiver.

On March 14, 2012, the AZ Court issued an Order for Appointment of Receiver and Injunction placing PMI into rehabilitation. The Director named Mr. Truitte D. Todd as the Special Deputy Receiver of PMI.

Subsequent to the date of this report, CMGA voluntarily forfeited its licenses in the states of Virginia, Oregon, and North Carolina and is in discussions with other states at the current time. These actions were done primarily in an attempt to recapture the amounts held on deposit in each state for use in the entity's daily operations. As CMGA is in runoff reactivation of these licenses was remote.

Name and Residence	Principal Occupation	Term Expires
Andrew D. Cameron Berkeley, California	PMI President and General Counsel	2013
Michael T. Defnet Waunakee, Wisconsin	CMIS Senior Vice President of Sales	2013
Sean A. Dilweg Madison, Wisconsin	CMIS Vice President, Product Executive	2013
Thomas H. Jeter Mill Valley, California	PMI Chief Financial Officer and Chief Administrative Officer	2013
Leslie R. Marquart Walnut Creek, California	PMI Senior Vice President and Corporate Controller	2013
Thomas J. Merfeld Fitchburg, Wisconsin	CMIS Senior Vice President, Chief Risk Officer	2013
Andrew J. Michie Middleton, Wisconsin	CMIS Senior Vice President, Chief Accounting Officer	2013
Janet W. Parker Oakland, California	PMI Senior Vice President, General Manager of CMG	2013
Kimberly A. Shaul Madison, Wisconsin	CMIS Senior Vice President, General Manager of CMG	2013
Truitte D. Todd Glendale, Arizona	Special Deputy Receiver, PMI Mortgage Insurance Company	2013

Updated List of Principal Officers

Name	Office
Sean A. Dilweg	President and Chairman of the Board of Directors
Nicole C Sanchez	Secretary
Ray D. Chang	Treasurer
Janet W. Parker	Senior Vice President and General Manager
Kimberly A. Shaul	Senior Vice President and General Manager
Thomas H. Jeter	Vice Chairman