

REPORT ON EXAMINATION

OF THE

ATRIUM INSURANCE CORPORATION

AS OF

DECEMBER 31, 2001

DATE OF REPORT

FEBRUARY 1, 2003

EXAMINER

GREGG S. BEALUK, CFE

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

February 1, 2003

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21812 dated December 6, 2001 attached hereto, I have made an examination into the condition and affairs of Atrium Insurance Corporation as of December 31, 2001, and submit the following report thereon.

Wherever the designations "the Company" or "Atrium" appear herein without qualification, they should be understood to indicate Atrium Insurance Corporation.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The Company records, which are maintained in New York, were transferred to the Company's administrative offices located at 3000 Leadon Hall Road, Mt. Laurel, New Jersey 08054, for the purpose of this examination.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covered the five-year period from January 1, 1997 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

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

2. DESCRIPTION OF COMPANY

Atrium Insurance Corporation was incorporated under the laws of the State of New York on June 15, 1994 and commenced business on November 9, 1995.

The Company began business with an authorized capital stock of \$1,000,000 consisting of 1,000 shares of common stock of \$1,000 par value per share. On July 17, 1995, the Company issued 1,000 shares of common stock to PHH Holdings Corporation for a consideration of \$5,000,000, of which \$1,000,000 was allocated to paid-in capital and \$4,000,000 to gross paid-in and contributed surplus.

There were no changes in the paid-in capital during the examination period, nor were there any changes in the direct ownership of the Company. During the examination period, the Company received surplus contributions in the form of cash, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
1996	Beginning gross paid in and contributed surplus	\$4,000,000
1999	Surplus contribution- December 1999	\$4,600,000
2000	Surplus contribution- May 2000	17,000,000
2001	Surplus contribution- June 2001	<u>3,000,000</u>
	Total Surplus Contributions	<u>24,600,000</u>
2001	Ending gross paid in and contributed surplus	<u>\$28,600,000</u>

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The shareholders of the Company are required to meet annually on the first Monday in May of each calendar year for the purpose of electing the directors of the Company. Immediately following the annual meeting of the

shareholders, the board is required to meet for the purpose of electing the officers of the Company. The examinations review of the minutes of the shareholders meetings indicates that the shareholders were electing the directors on an annual basis. However, as was also noted in the prior report on examination, the elections were not occurring in accordance with the charter or by-laws. It is again recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its shareholders for the election of its board of directors.

Further, the examiners' review of the minutes of the board of directors indicated that the board was electing the officers of the Company on an annual basis. However, as was also noted in the prior report on examination, the elections were not occurring in accordance with the charter or by-laws. It is again recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its board of directors for the purpose of electing the officers of the Company.

At December 31, 2001, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Eric J. Bock Hoboken, NJ	Executive Vice President, Law and Corporate Secretary, Cendant Corporation
William F. Brown Marlton, NJ	Vice President, Atrium Insurance Corporation
James E. Buckman New York, NY	Director, Vice Chairman, General Counsel, & Asst. Secretary, Cendant Corporation
Duncan H. Cocroft Hoboken, NJ	Executive Vice President and Treasurer, Cendant Corporation
Martin L. Edelman Rye, NY	Director, Cendant Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert E. Groody Glassboro, NJ	Vice President & Treasurer, Atrium Insurance Corporation
Stephen P. Holmes Pompton Plains, NJ	Vice Chairman, Director, Chairman & Chief Executive Officer, Cendant Hospitality Services Division
Mark E. Johnson Maplewood, NJ	Vice President & Treasurer, Cendant Corporation
John T. McClain North Caldwell, NJ	Senior Vice President & Corporate Controller, Cendant Corporation
Henry R. Silverman New York, NY	Director, Chairman, President & Chief Executive Officer, Cendant Corporation
Richard A. Smith Bernardsville, NJ	Senior Executive Vice President & Chief Executive Officer, Cendant Real Estate Division
Joseph Suter Yardley, PA	Director, Atrium Insurance Corporation
Donna A Kolc-Van Osten Voorhees, NJ	Vice President, Atrium Insurance Corporation

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended.

The review of the minutes of the board of directors meetings showed that the securities were purchased without the formal approval of the Company's board. This was also noted in the prior report on examination. Section 1411(a) of the New York Insurance Law provides as follows:

“No domestic insurer shall make any loan or investment...unless authorized or approved by its board of directors or a committee thereof...”

It is again recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law and have its board of directors approve all investment purchases.

As of December 31, 2001, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Terry Edwards	President
Robert E. Groody	Vice President & Treasurer
Donna A. Kolc-Van Osten	Vice President
William F. Brown	Vice President

B. Territory and Plan of Operation

As of December 31, 2001, the Company was licensed to write business in the State of New York only. The Company is licensed pursuant to Article 65 of the New York Insurance Law, as a mortgage guaranty insurer, to transact only the business of mortgage guaranty insurance and reinsurance as described in paragraph 23 of Section 1113(a) of the New York Insurance Law.

The Company did not write any direct premiums in the State of New York or any other State during the period under examination. All of the Company's gross premiums written consisted of premiums assumed from two non-affiliated insurers that write mortgage guaranty insurance on a direct basis. The Company assumes mortgage guaranty premiums applicable only to mortgage loans originated by one or more of the Company's affiliates (Cendant Mortgage Corporation and its affiliates.). The Company maintains no agency system and does not solicit business on the open market (see "Reinsurance" below for additional details).

Based on the line of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 65 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,500,000.

C. Reinsurance

Assumed Agreements

In 2001, the Company's assumed premiums represented 100% of its total book of business. All of the Company's assumed premiums written were derived from two reinsurance agreements whereby Atrium assumed, on an excess of loss basis, mortgage guarantee insurance. All business assumed by the Company relates to mortgage guaranty insurance on loans originated by Cendant Mortgage Corporation and its affiliates. Atrium is a member of the Cendant Corporation Holding Company System.

The examinations review of the assumed reinsurance contracts in place as of the examination date showed that the contracts contained the required clauses, including the insolvency clauses, meeting the requirements of Section 1308 of the New York Insurance Law.

The two assumed reinsurance agreements are similar in nature. Under the terms of one agreement, the ceding company retains an amount up to a cumulative loss ratio of 75%. The reinsurance coverage provided by Atrium provides for 100% assumption when the cumulative loss ratio is over 75% up to a maximum 120%. Reinsurance coverage stops at a cumulative loss ratio of 120%. The reinsurance premium for 2001 was 15% of gross premiums written (on applicable business) with an 11.1% ceding commission on ceded premiums written. Assumed premiums under this agreement totaled \$43,688,000 for calendar year 2001.

Under the terms of the other agreement, the ceding company retains up to 4% of the aggregate net losses (on applicable business). Reinsurance coverage provided by Atrium provides for 100% assumption of aggregate net losses in excess of 4% up to aggregate net losses of 14%. Reinsurance coverage stops at aggregate net losses in excess of 14% of the applicable book of business. The reinsurance premium for

2001 was 45% of gross premiums written (on applicable business) with an 11.1% ceding commission on ceded premiums written. Assumed premiums under this agreement totaled \$2,171,000 in 2001.

Pursuant to an opinion issued by this Department's Office of General Council dated February 26, 2002 ("OGC Opinion No. 2002-60"), no reinsurance agreement can include indemnification of a ceding insurer's extra contractual obligations unless the reinsurance agreement contains a savings clause stating that "in no event shall coverage be provided to the extent that such coverage is not permitted under New York law." Upon review, it was noted that the Company's assumed reinsurance contracts contained coverage for extra-contractual liability obligations without having the required savings clause. It is noted that the agreements were entered into prior to the issuance of OGC Opinion No. 2002-60. It is recommended that the Company amend its assumed reinsurance contracts to include the necessary language to comply with the OGC Opinion No. 2002-60.

Ceded

The Company did not cede any business during the examination period.

D. Holding Company System

The Company is a wholly-owned subsidiary of PHH Holding Corporation ("Parent"), which is ultimately owned by Cendant Corporation ("Cendant"), the ultimate parent.

The following is an abbreviated chart of the holding company system at December 31, 2001:

Cendant Corporation (DE)

 Cendant Finance Holding Corporation (DE)

 PHH Corporation (MD)

 PHH Holdings Corporation (TX)

 Atrium Insurance Corporation (NY)

During the review of the Company's 2001 annual statement it was noted that the Company included an incomplete holding company chart in Schedule Y-Part 1.

It is recommended that the Company comply with the NAIC's Annual Statement Instructions with regards to the completion of Schedule Y- Part 1- Organizational Chart in all future annual statements.

The Company has entered into the following agreements with members of its holding company system:

1. Expense Allocation Agreement

In accordance with the terms of the expense allocation agreement, PHH has agreed to provide office space and furnishings suitable for the professional and support personnel of the Company. PHH has also agreed to provide such systems, personnel and equipment support as will be reasonably necessary for the operation of the Company's business. These services are provided on an actual cost basis.

2. Service Allocation Agreement

Under the terms of the service allocation agreement, PHH US Mortgage has agreed to provide accounting, information systems, bookkeeping, account analysis, bank reconciliation work and investment services to the Company.

3. Tax Sharing Agreement

In accordance with the terms of the tax sharing agreement, the Company shall be included in the consolidated federal income tax return of Cendant Corporation, but shall file separate state income tax returns. The tax charge or refund to the Company under the tax sharing represent an amount that would have been paid by or received if it had filed a separate return with the Internal Revenue Service. The

review of the intercompany transactions indicated that the Company is not settling its intercompany tax liability with Cendant as is required by New York Circular Letter No. 15(1975). It is recommended that the Company comply with Circular Letter No. 15(1975) and settle its intercompany tax liability within 90 days due.

4. Sublease Agreement

In order to comply with Section 325(a) of the New York Insurance Law, which requires that certain Company records and books of account be maintained within the State of New York, the Company has entered into a sublease agreement with Cendant Operations Inc. whereby Atrium subleases office space at Cendant's corporate headquarters in New York City for the purpose of maintaining its permanent records (by-laws, charter, etc.) and its books of account. Fees paid under this agreement are not material to the Company's surplus.

All of the above agreements were approved by the Department in accordance with Article 15 of the New York Insurance Law.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the Comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company did not file any abandoned property reports for the period of this examination. The prior report on examination noted similar non-compliance. It is again recommended that the Company

file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	1.4 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	86%
Premiums in course of collection to surplus as regards policyholders	46%*

The third ratio falls outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The upper limit of the benchmark range is 40%. The Company's result of 46% was caused by the Company's significant increase in assumed premiums written during 2001. The increase in premiums receivable is consistent with the Company's premium growth. The remaining two ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Loss & loss adjustment expenses incurred	\$11,576,824	9.55%
Other underwriting expenses incurred	21,263,729	17.54
Net underwriting gain	<u>88,415,192</u>	<u>72.91</u>
Premiums earned	<u>\$121,255,745</u>	<u>100.00%</u>

G. Accounts and Records

i. Investments

In the course of this examination, a review was made of the investment portfolio of the Company. The Company invests solely in cash and short-term U.S. Government securities. Atrium is party to two custody and or trust agreements. The trust agreements are applicable to the two assumed reinsurance agreements described in Section 2C herein.

The trust agreement among Atrium (“Grantor”), United Guaranty Residential Insurance Company (“Beneficiary”) and Wachovia Bank of North Carolina (“Trustee”) (the “UGRIC Trust Agreement”) does not provide that the trustee must notify the grantor of any withdrawals from the trust account. Appendix A-785 (Credit for Reinsurance) Paragraph 22(d) of the NAIC Accounting Practices and Procedures Manual provides that trust agreements shall require the trustee to “notify the grantor and the beneficiary within 10 days, of any deposits or withdrawals from the trust account.” It is recommended that the UGRIC Trust Agreement be amended to require that the Company and beneficiary be notified by the trustee within 10 days of any deposits or withdrawals from the trust account, pursuant to the provisions of Appendix A-785 of the NAIC Accounting Practices and Procedures Manual.

Further, neither trust/custody agreement includes the Indemnification Clause required pursuant to NAIC Model Law 298. It is recommended that the trust/custody agreements be amended to include the NAIC Indemnification Clause.

In addition, the assets that were pledged as part of the Company’s assumed reinsurance agreements were not disclosed in Schedule E–Part 2 of the Company 2001 annual statement. It is recommended that the Company comply with NAIC Annual Statement Instructions and disclose these pledged assets in future filed annual statements.

ii. Minimum Capital Investments

Section 1402(a) of the New York Insurance Law requires that every domestic insurer, prior to investing in other funds must invest and maintain an amount equal to the greater of its minimum capital or minimum surplus to policyholders required to maintain by law. Additionally, Section 1402(a) requires that such amount :

“...shall at all times be maintained free and clear from any security interest...”

At the December 31, 2001 examination date, the Company had \$788,887 in cash. The remainder of its invested assets were held in trust accounts with control of the assets placed with the beneficiaries as previously described in Section 2G herein. It is recommended that the Company comply with Section 1402(a) of the New York Insurance Law by maintaining an amount equal to the greater of minimum capital and surplus requirements.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2001 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Common stocks (stocks)	\$6,063,114	\$	\$6,063,114
Cash and short-term investments	123,153,302		123,153,302
Premiums and agents' balances in course of collection	15,701,035		15,701,035
Interest, dividends and real estate income due and accrued	<u>931,336</u>	<u>0</u>	<u>931,336</u>
Total Assets	<u>\$145,848,787</u>	<u>\$0</u>	<u>\$145,848,787</u>

Liabilities

Losses and loss adjustment expenses		\$11,801,916
Commissions payable, contingent commissions and other similar charges		2,799,266
Other expenses (excluding taxes, licenses and fees)		61,997
Federal and foreign income taxes		35,396,315
Unearned premiums		622,277
Aggregate write-ins for liabilities		<u>61,355,889</u>
Total liabilities		\$112,037,660

Surplus and Other Funds

Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	28,600,000	
Unassigned funds (surplus)	<u>4,211,127</u>	
Surplus as regards policyholders		<u>33,811,127</u>
Total liabilities, surplus and other funds		\$ <u>145,848,787</u>

NOTE: The Internal Revenue Service has never audited the Company's federal income tax returns through the examination date. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$28,910,992 during the five-year examination period January 1, 1997 through December 31, 2001, detailed as follows:

Underwriting Income

Premiums earned		\$121,255,745
Deductions:		
Losses incurred and loss adjustment expenses incurred	\$11,576,824	
Other underwriting expenses incurred	<u>21,263,729</u>	
Total underwriting deductions		<u>32,840,553</u>
Net underwriting gain or (loss)		\$88,415,192

Investment Income

Net investment income earned	\$10,806,734	
Net investment gain or (loss)		<u>10,806,734</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$99,221,926
Federal and foreign income taxes incurred		<u>34,322,588</u>
Net Income		<u>\$64,899,338</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 1996			\$4,900,135
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$64,899,338	\$	
Change in non-admitted assets	42,944		
Surplus adjustments paid in	24,600,000		
Aggregate write-ins for gains and losses in surplus (Contingency Reserve)	<u> </u>	<u>60,631,290</u>	
Total gains and losses	<u>\$89,542,282</u>	<u>\$60,631,290</u>	
Net increase (decrease) in surplus			<u>28,910,992</u>
Surplus as regards policyholders per report on examination as of December 31, 2001			<u>\$33,811,127</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$11,801,916 is the same as reported by the Company as of December 31, 2001. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

Based upon a review of the Company's reserving methods and a review of the Company's Actuarial Report and supporting documentation therein, it was concluded that the Company's reserves were adequate.

5. SUBSEQUENT EVENTS

In December 2002, the Company received a surplus contribution from its parent in the amount of \$32.8 million. Also, in December 2002 the Company withdrew \$17.5 million from its trust accounts. The primary purpose of the surplus contribution and the trust account withdrawals was to comply with this report on examination with regards to the settlement of Atrium's December 31, 2001 intercompany tax liability. The majority of the funds noted above (\$32.4 million and \$16.0 million, respectively) are being utilized for the settlement of Atrium's December 31, 2001 tax liability along with the subsequent tax liability that has arisen during the first three quarters of 2002.

One and a half million dollars of the remaining funds are being held separately by the Company in its money market demand account (excluded from the Trusteed Assets) in order to comply with the recommendation included within this report on examination pertaining to minimum capital and surplus

that must be held free and clear of security interest in accordance with Section 1402(a) of the New York Insurance Law (see Section G(ii) for additional details).

Section 1402 provides that:

“(b) Not less than sixty percent of the amount of the required minimum capital or surplus to policyholder investments shall consist of the types specified in paragraphs one and two hereof: (1) Obligations of the United States or of any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States. (2) Direct obligations of this state or of any county, district or municipality thereof. (3) Direct obligations of any state of the United States. (4) Obligations secured by first mortgage loans which meet the standards specified in paragraph four of subsection (a) of section one thousand four hundred four of this article on property located in this state.”

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained six recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i.	<p>It was recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its shareholders for the election of its board of directors.</p> <p style="text-align: right;">6</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>
ii.	<p>It is recommended that the Company comply with the provisions of its by-laws with regard to having an annual meeting of its board of directors to elect the officers of the Company, as well as to have regularly scheduled board meetings.</p> <p style="text-align: right;">7</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>
iii.	<p>It is recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law and have its board of directors approve all investment transactions.</p> <p style="text-align: right;">7</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>
B. <u>Abandoned Property Law</u>	
i.	<p>It is recommended that the Company file an abandoned property report to the state. Insurance companies which neither hold nor own abandoned property are nevertheless required to file accordingly.</p> <p style="text-align: right;">13</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>
C. <u>Accounts & Records</u>	
i.	<p>It is recommended that the Company's board of director's members and officers fill out yearly updated conflict of interest statements.</p> <p style="text-align: right;">13</p> <p>The Company has complied with this recommendation.</p>

<u>ITEM</u>		<u>PAGE NO.</u>
D.	<u>Investments</u>	
i.	It is recommended that the Company secure a custodian agreement with Bankers Trust for the safeguard of its securities.	17

The Company has complied with this recommendation in that they have secured a custodian agreement, however the agreement does not include the NAIC's indemnification clause. A recommendation has been made to address this issue within this Report.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
i.	It is again recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its shareholders for the election of its board of directors.	4
ii.	It is again recommended that the Company comply with the provisions of its charter and by-laws with regard to its annual meeting of its board of directors for the purpose of electing the officers of the Company.	4
iii.	It is again recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law and have its board of directors approve all investment purchases.	5
B.	<u>Reinsurance</u>	
	It is recommended that the Company amend its assumed reinsurance contracts to include the necessary language to comply with the OGC Opinion No. 2002-60.	8
C.	<u>Holding Company System</u>	
i.	It is recommended that the Company comply with the NAIC's Annual Statement Instructions with regards to the completion of Schedule Y-Part 1- Organizational Chart in all future annual statements.	9
ii.	It is recommended that the Company comply with Circular Letter 15(1975) and settle its intercompany tax liability within 90 days due.	10

ITEMPAGE NO.

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|-----|---|----|
| D. | <u>Abandoned Property Law</u> | |
| i. | It is again recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law. | 10 |
| E. | <u>Accounts and Records</u> | |
| i. | <u>Investments</u> | |
| | It is recommended that the UGRIC Trust Agreement be amended to require that the Company and beneficiary be notified by the trustee within 10 days of any deposits or withdrawals from the trust account, pursuant to the provisions of Appendix A-785 of the NAIC Accounting Practices and Procedures Manual. | 12 |
| | It is recommended that the trust/custody agreements be amended to include the NAIC Indemnification Clause. | 12 |
| | It is recommended that the Company comply with the NAIC Annual Statement Instructions and disclose pledged assets in future filed annual statements. | 12 |
| ii. | <u>Minimum Capital Investments</u> | |
| | It is recommended that the Company comply with Section 1402(a) of the New York Insurance Law by maintaining an amount equal to the Company's minimum capital and surplus requirements held free and clear of any or all security interests. | 13 |

Respectfully submitted,

_____/S/
Gregg S. Bealuk, CFE
Examiner-In-Charge

STATE OF PENNSYLVANIA)
)SS:
)
COUNTY OF BUCKS)

GREGG S. BEALUK, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/
Gregg S. Bealuk

Subscribed and sworn to before me

this 1st day of February, 2006.

Appointment No. 21812

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Gregg Bealuk

as proper person to examine into the affairs of the

ATRIUM INSURANCE COMPANY

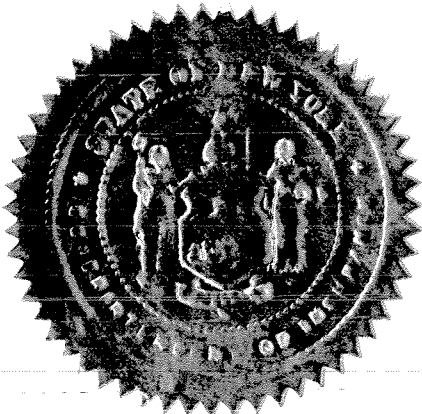
and to make a report to me in writing of the condition of the said

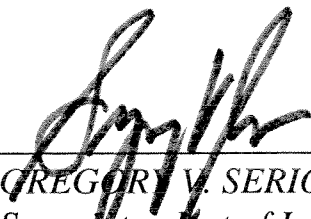
Company

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 6th day of December, 2001





GREGORY V. SERIO
Superintendent of Insurance