

REPORT ON EXAMINATION

OF THE

ATRIUM INSURANCE CORPORATION

AS OF

DECEMBER 31, 2012

DATE OF REPORT

DECEMBER 5, 2013

EXAMINER

LAMIN JAMMEH

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawskey  
Superintendent

December 5, 2013

Honorable Benjamin M. Lawskey  
Superintendent of Financial Services  
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 31029 dated August 16, 2013, attached hereto, I have made an examination into the condition and affairs of Atrium Insurance Corporation as of December 31, 2012, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it 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 State Department of Financial Services.

The examination was conducted at the Department’s office located at One State Street, New York, NY 10004.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2007. This examination covered the five year period from January 1, 2008 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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 that involve departures from laws, regulations or rules, or that 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 is a wholly-owned subsidiary of PHH Corporation (“PHH”). On January 31, 2005, PHH began operating as a separate publicly traded company subsequent to a spin-off from Cendant Corporation (“Cendant”). Cendant has no continuing ownership in PHH.

Prior to January 1, 2010, the Company operated as a reinsurer, reinsuring business written by primary mortgage insurers for mortgage loans located in nearly all states. The Company did not write any direct insurance. Effective January 1, 2010, the Company entered into two Reinsurance Assumption and Novation Agreements, pursuant to which, the Company transferred all of its past, present and future reinsurance obligations previously assumed from two primary mortgage insurers (“the cedants”), to Atrium Reinsurance Corporation (“Atrium Re”), a Vermont captive insurance company and an affiliate of the Company. The Company also transferred to Atrium Re its rights and obligations as grantor pursuant to certain trust agreements between the Company and the cedants.

Pursuant to the Reinsurance Assumption and Novation Agreements, the Company transferred assets totaling \$298,109,499 to PHH (the common parent for the Company and Atrium Re) in exchange for liabilities totaling \$109,642,813. The difference between the assets transferred and the liabilities assumed by Atrium Re of \$188,399,950 (plus miscellaneous adjustments totaling \$66,737) was reported as a noncash dividend to parent in the amount of \$137,875,803 and a return of capital to the parent in the amount of \$50,524,147. PHH Corporation immediately contributed the \$188,399,950 to Atrium Re as capital. The Department approved the Reinsurance Assumption and Novation Agreements on January 25, 2010.

The Company has not written or reinsured any business thereafter and is currently inactive with no plan to resume writing business in the near future.

In July, 2010, the Company amended its charter to (i) reduce the number of authorized shares of common stock from 1,000 shares to 64 shares and (ii) to increase the par value of the remaining shares of common stock from \$1,000 to \$15,265 per share. The amendment to the Charter was approved by the Department pursuant to Section 1206(b) of the New York Insurance Law. The Company then redeemed and retired 936 shares of common stock at \$31,266.98 per share for a total purchase price of \$29,265,889, which represented the book value of the shares as of March 31, 2010. The stock redemption and retirement was deemed to be reasonable and equitable pursuant to Section 1411(d) of the New York Insurance Law and was approved by the Department on July 12, 2010.

Capital paid in is \$1,000,000 consisting of 64 shares of common stock at \$15,625 par value per share. Gross paid in and contributed surplus is \$1,025,968. Gross paid in and contributed surplus decreased by \$79,790,036 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2008	Beginning gross paid in and contributed surplus	\$ 80,816,004
2010	Return of capital	\$50,524,147
2010	Stock redemption	<u>29,265,889</u>
	Total surplus adjustments	\$ <u>79,790,036</u>
2012	Ending gross paid in and contributed surplus	\$ <u>1,025,968</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 13 nor more than 21 members. At December 31, 2012, the board of directors was comprised of the following 13 members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Spiro Bantis Brooklyn, NY	Partner, London Fischer LLP
Michael R. Bogansky Oreland, PA	Vice President and Controller, PHH Corporation
Christopher J. Bowen-Ashwin Mantua, NJ	Manager Financial Reporting, PHH Corporation
Richard J. Bradfield Medford, NJ	Senior Vice President and Treasurer, PHH Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
William F. Brown Princeton, NJ	Senior Vice President, General Counsel, and Secretary, PHH Corporation
Robert B. Crowl Moorestown, NJ	Executive Vice President and Chief Financial Officer, PHH Corporation
Madeline Flanagan Cherry Hill, NJ	Senior Vice President, General Counsel, and Assistant Secretary, PHH Mortgage Corporation
Stephen J. Fortunato Princeton, NJ	Senior Vice President Finance, PHH Corporation
George J. Kilroy Towson, MD	President and Chief Executive Officer, PHH Vehicle Management Services, LLC
Terri Merlino Marlton, NJ	Senior Vice President, PHH Mortgage Corporation
Glen A. Messina Mount Laurel, NJ	President and Chief Executive Officer, PHH Corporation
David E. Tucker Marietta, GA	Executive Vice President Mortgage, PHH Corporation
Joseph W. Weikel Marriottsville, MD	Assistance Secretary, PHH Corporation

The Company did not hold any board meetings in 2008 and 2012. In 2009, the Company held four board meetings via teleconference and conducted business one time by unanimous written consent in lieu of a meeting. In 2010 and 2011, all corporate business was conducted by unanimous written consent in lieu of meetings.

As of December 31, 2012 the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert B. Crowl	President
William F. Brown	Senior Vice President, Secretary
Richard J. Bradfield	Senior Vice President and Treasurer
Stephen J. Fortunato	Senior Vice President and Senior Financial Officer
Terri Merlino	Senior Vice President
Mark Rhodes	Vice President, Tax

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to write business in the State of New York only.

The Company is licensed as a mortgage guaranty insurer, pursuant to Article 65 of the New York Insurance Law, 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 was a primary mortgage reinsurer in the State of New York, but assumed insurance on mortgages located in virtually all states.

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.

Effective January 1, 2010, the Company novated all of its remaining assumed liabilities to Atrium Reinsurance Corporation, a Vermont captive that is an affiliate of the Company. The Company ceased writing and reinsuring any new business since 2010 and has no business plan for the immediate future.

The Company did not write any direct premiums during the period under examination. All of the Company's gross premiums written consisted of premiums assumed from non-affiliated insurers that write mortgage guaranty insurance on a direct basis. The Company assumed mortgage guaranty premiums applicable only to mortgage loans originated by one or more of the Company's affiliates (PHH Mortgage Corporation and its affiliates).

C. Reinsurance

Effective January 1, 2010, the Company novated all of its past, present and future reinsurance obligations to Atrium Re, as more fully described in Item 2 of this report.

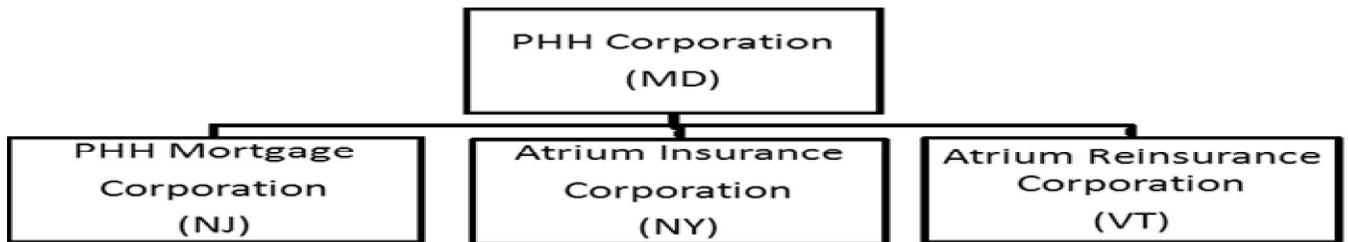
The Reinsurance Assumption and Novation agreements were approved by this Department pursuant to Section 1505 of the New York Insurance Law on January 25, 2010.

No other reinsurance transactions existed as of the examination date.

D. Holding Company System

The Company is a member of the PHH Corporation. The Company is a wholly-owned subsidiary of PHH Corporation, a Maryland corporation.

The following is an abridged chart of the holding company system at December 31, 2012:



At December 31, 2012, the Company was a party to the 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 PHH Corporation, but shall file separate state income tax returns. The tax charge or refund to the Company under the Tax Sharing Agreement represents an amount that would have been paid by or received by the Company if it had filed a separate return with the Internal Revenue Service.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2012, based upon the results of this examination:

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>
Losses and loss adjustment expenses incurred	\$78,445,821	121.97%
Other underwriting expenses incurred	10,021,287	15.58
Net underwriting loss	<u>(24,150,487)</u>	<u>(37.55)</u>
Premiums earned	<u>\$64,316,621</u>	<u>100.00%</u>

It is noted that the underwriting ratios shown above are distorted due to the novation of its loss liabilities and the fact that it is no longer writing business.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u>	
		<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash, cash equivalents and short-term investments	\$1,827,850	\$0	\$1,827,850
Current federal and foreign income tax recoverable and interest thereon	19,535	0	19,535
Aggregate write-ins for other than invested assets	<u>7,733</u>	<u>0</u>	<u>7,733</u>
Totals	<u>\$1,855,118</u>	<u>\$0</u>	<u>\$1,855,118</u>

#### Liabilities, surplus and other funds

	<u>Amount</u>
Other expenses (excluding taxes, licenses and fees)	\$ <u>3,500</u>
Total liabilities	\$ <u>3,500</u>
Common capital stock	\$1,000,000
Gross paid in and contributed surplus	1,025,968
Unassigned funds (surplus)	<u>(174,348)</u>
Surplus as regards policyholders	<u>\$1,851,618</u>
Totals	<u>\$1,855,118</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2009. No adjustments were made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2010 through 2012. 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. Statement of Income

Surplus as regards policyholders decreased \$80,501,580 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Underwriting Income

Premiums earned		\$ 64,316,621
Deductions:		
Losses and loss adjustment expenses incurred	\$78,445,821	
Other underwriting expenses incurred	<u>10,021,287</u>	
Total underwriting deductions		<u>88,467,108</u>
Net underwriting gain or (loss)		\$(24,150,487)

Investment Income

Net investment income earned	\$ 6,759,786	
Net investment gain or (loss)		<u>6,759,786</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(17,390,701)
Federal and foreign income taxes incurred		<u>2,808,984</u>
Net income (loss)		<u>\$(20,199,685)</u>

Surplus as regards policyholders per report on examination as of January 1, 2008			<u>\$82,353,198</u>
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$20,199,685	
Change in net deferred income tax	\$8,894,690		
Change in nonadmitted assets	915,842		
Surplus adjustments paid in		79,790,036	
Dividends to stockholders		31,250,000	
Change in statutory contingency reserve	178,832,098		
Noncash dividend to parent related to novation		137,875,803	
Miscellaneous	<u>0</u>	<u>28,686</u>	
Net increase (decrease) in surplus	<u>\$188,642,630</u>	<u>\$269,144,210</u>	<u>(80,501,580)</u>
Surplus as regards policyholders per report on examination as of December 31, 2012			<u>\$ 1,851,618</u>

#### 4. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A     <u>Management</u>  It was recommended that the Company's board of directors hold at least one annual meeting and limit action by unanimous written consent of directors without a meeting to emergency situations only, pursuant to the provisions of its by-laws.</p> <p>The Company has complied with this recommendation.</p>	<p>4</p>
<p>B     <u>Holding Company System</u></p> <p>i.     It was recommended that the Company's board of directors approve the tax allocation agreement pursuant to the provisions of Department Circular Letter No. 33 (1979).</p> <p>The Company has complied with this recommendation.</p>	<p>9</p>
<p>ii.    It was recommended that the Company file its tax allocation agreement with the Department pursuant to the provisions of Circular Letter 33 (1979).</p> <p>The Company has complied with this recommendation.</p>	<p>9</p>
<p>C     <u>Accounts and Records</u>  It was recommended that the board of directors approve the Company's investments pursuant to the provisions of Section 1411(a) of New York Insurance Law.</p> <p>The Company has complied with this recommendation</p>	<p>10</p>

#### 5. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/s/  
Lamin Jammeh  
Senior Insurance Examiner

STATE OF NEW YORK     )  
  )ss:  
COUNTY OF NEW YORK    )

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

\_\_\_\_\_/s/  
Lamin Jammeh

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2013.

APPOINTMENT NO. 31029

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

**Lamin Jammeh**

as a proper person to examine the affairs of the

**Atrium Insurance Corporation**

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

**COMPANY**

with such other information as she shall deem requisite.

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

this 16th day of August, 2013

BENJAMIN M. LAWSKY  
Superintendent of Financial Services



By:

Jean Marie Cho  
Deputy Superintendent