MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Old Republic debt rating; changes outlook to stable from positive

Global Credit Research - 01 Apr 2014

$550 million convertible senior note outstanding.

New York, April 01, 2014 -- Moody's Investors Service has affirmed the Baa3 senior debt rating of Old Republic International Corporation (NYSE: ORI). In the same action, Moody's has changed the rating outlook to stable from positive following the company's announcement that it has cancelled its earlier recapitalization plan for its mortgage insurance business. This rating action did not affect the A2 insurance financial strength (IFS) ratings and stable outlook of the lead operating subsidiaries of Old Republic General and Old Republic Title nor the A3 IFS ratings and stable outlook of the group's PMA subsidiaries.

RATINGS RATIONALE

According to Moody's analyst Paul Bauer, "The cancellation of the previously announced recapitalization plan is credit negative for Old Republic's debt holders as the company was unable to exit its troubled and financially weak mortgage insurance unit over the short term. Over the longer term however, we believe the risk of Old Republic's mortgage unit negatively impacting the overall consolidated group will continue to gradually decline."

The stable outlook reflects ORI's plan to contribute holding company funds to support the regulatory capital of RMIC Companies, Inc. (RMICC), which includes lead mortgage insurance company Republic Mortgage Insurance Company (RMIC). RMICC is seeking regulatory approval to substantially increase or possibly restore to 100% the pay-out on both existing deferred claim obligations and on all new claim settlements going forward. While RMICC is steadily improving given falling mortgage delinquencies, declining foreclosure initiations and backlogs, and rebounding home prices, ORI is not planning to re-enter the mortgage guaranty business.

Moody's said the affirmation of Old Republic's senior debt rating reflects support from its general property & casualty and title subsidiaries, a moderate use of financial leverage, and high cash coverage metrics. The current wider-than-normal four notch spread between the A2 financial strength of the group's general P&C and title operations and the company's Baa3 senior debt rating reflects the poor financial strength of the run-off mortgage insurance operation and the tail risk of adverse developments leading to a regulatory takeover of the unit, and triggering an event of default under the company's bond covenants and acceleration of debt outstanding.

If Old Republic is eventually able to exit its mortgage insurance business or reduce its size substantially, Moody's could reconsider its current four notch spread between IFS ratings and senior debt rating, potentially resulting in an upgrade of the senior debt rating to a more typical three notch spread between financial strength and senior debt. Currently, under a severe stress scenario, the risk still exists -- though Moody's believes it is gradually declining over time -- that a regulatory takeover of RMIC could trigger an event of default and acceleration of ORI's senior debt.

Specific factors that could result in an upgrade of Old Republic's debt ratings include: (1) reduced risk that parent ORI would be required to support mortgage subsidiary RMIC in a worst case scenario such as regulatory supervision, insolvency, or rehabilitation; (2) reduced risk that ORI could be required to fund an acceleration of its outstanding debt; (3) material reduction in size of the run off operations; or (4) an upgrade of insurance financial strength ratings of the company's P&C and title insurance subsidiaries.

Factors that could lead to a downgrade of the parent company ratings include: (1) increased concern that parent ORI may be required to provide further capital support to mortgage subsidiary RMIC; (2) failure to address liquidity risks at the parent; (3) downgrade of the insurance financial strength ratings of the company's lead operating companies; (4) increased financial leverage (e.g. adjusted debt-to-capital above 35%); or (5) reduction in cash coverage of interest below 4x.

The following rating was affirmed and the outlook was changed to stable from positive:

Old Republic International Corporation -- senior unsecured debt of Baa3.

Old Republic International Corporation, headquartered in Chicago, Illinois, is a multi-line insurance holding company whose subsidiaries are currently engaged primarily in property and casualty insurance, title insurance, and mortgage guaranty. In 2013, Old Republic reported total revenue of $5.4 billion and net income of $448 million. As of December 31, 2013, shareholders' equity was $3.8 billion.

The methodologies used in this rating were Global Property and Casualty Insurers published in December 2013, Moody's Global Methodology for Rating Mortgage Insurers published in December 2012, and Moody's Rating Methodology for U.S. Title Insurance Companies published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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