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The PMI Group Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Donna Halverstadt - Goldman Sachs.

Donna Halverstadt - Goldman Sachs

I was wondering if you could talk a little bit more about the TPG guarantee of capital support with PMI Europe and what's the outlook there is, and more specifically if you could update us on for both the reinsurance and the CDs in Europe, what the amount of collateral has been posted. What they paid claims were in the reinsurance business during the quarter and where the reserves stood at the end of the quarter on the reinsurance business?

Don Lofe

Okay, first with respect to the capital support agreement as we talked before, give you some feedback here. The capital support agreement is unlimited in nature and supports the capital required European operation. At this time there is no obligation as far as required [Inaudible] under that currently, and at this time we don't expect any payment concerning the capital support agreement.

Concerning reserves in totality in Europe, there's $60.6 million U.S. based as of March 31, 2009, and the most significant component of that is the U.S. subprime insurance arrangements of approximately $46 million of that component. The remaining reserves are from our Italian business and German business with respect to that.

Concerning the collateral, the collateral posted in $331 is approximately $110 million and the most significant component of that is the U.S. subprime risk associated with that and again that's in U.S. dollars. Did I cover all your questions?

Donna Halverstadt - Goldman Sachs

Yes, the $110 is collateral both for the reinsurance business as well as the CDs?

Don Lofe

Yes, it is.

Donna Halverstadt - Goldman Sachs

Okay. I was also curious, if you could remind us or tell us a bit more with respect to the Australian contingent note. You said, to the extent it performs as expected, there was no reduction in principal. Can you give us more color on what specific performance metrics tied to principal reduction, how that works?

Don Lofe

Yes, it's a fairly simplistic calculation. I think I mentioned this on the call before. When the transaction was completed, it was based upon ultimately the realizable value again on premium reserve that was residents in the Australian entity at 630, 2008 and to remind everybody that in US dollars is $475 million approximately.

The note is tied to that balance and the way it works basically is that 50% of that is the obligation of the PMI Australian entity or the prior entity. Over and above those 50% criteria, and just again from a mathematical point of view, that's $237.6 million. The note begins to have some deterioration in value.