

**COPY**

OCT 30 2011



MICHAEL F. JEANES, CLERK  
C. ALLEN  
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1 Thomas C. Horne  
2 Attorney General  
3 (Firm State Bar No. 14000)  
4 Lynette Evans, State Bar No. 021069  
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6 Assistant Attorneys General  
7 Telephone: (602) 542-7701  
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10 1275 West Washington Street  
11 Phoenix, Arizona 85007  
12 consumer@azag.gov  
13 Attorneys for Arizona Department of Insurance

8 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**  
9 **IN AND FOR THE COUNTY OF MARICOPA**

10 STATE OF ARIZONA, *ex rel.* CHRISTINA  
11 URIAS, Director of Insurance,

12 Petitioner,

13 vs.

14 PMI Mortgage Insurance Co., an Arizona  
15 Corporation

16 Respondent.

Case No.: CV2011--018714

**VERIFIED PETITION FOR ORDER TO  
TAKE FULL AND EXCLUSIVE  
POSSESSION AND CONTROL OF  
INSURER**

17 Petitioner alleges:

18 1. This Court has jurisdiction under A.R.S. § 20-172.

19 2. Petitioner is the State of Arizona, *ex rel.* CHRISTINA URIAS, Director of  
20 Insurance ("Director"). The Director is charged with the enforcement of Title 20, Arizona  
21 Revised Statutes ("A.R.S."), relating to the transaction of insurance business in the State of  
22 Arizona.

23 3. Respondent is PMI Mortgage Insurance Co. ("PMI"), a mortgage guaranty insurer  
24 domiciled in Arizona, which holds a certificate of authority in the State of Arizona to transact  
25 mortgage guaranty insurance business.

26 ///

1           4.     Mortgage guaranty insurance protects financial institutions and similar entities  
2 formed to hold individual and pools of mortgages or interests thereon, against financial loss  
3 arising from the default by borrowers on mortgage loans.

4           5.     The Respondent is a subsidiary of The PMI Group, Inc. (“TPG”), a publicly-  
5 owned holding company, incorporated in Delaware and traded on the New York Stock Exchange.  
6 TPG is the ultimate parent of eleven mortgage guaranty insurers and several other subsidiaries  
7 providing support to the mortgage guaranty operations and engaging in other activities. PMI is the  
8 main operating entity for the group and operates in all fifty states. There are five other Arizona-  
9 domiciled mortgage guaranty insurers within the TPG group: PMI Insurance Co. (“PIC”) and PMI  
10 Mortgage Assurance Co. (“PMAC”) both wholly-owned direct subsidiaries of PMI, and PMI  
11 Reinsurance Co. (“PMI Re”), PMI Mortgage Guaranty Co. (“PMG”) and Residential Insurance Co.  
12 (“RIC”) three reinsurers that are wholly-owned direct subsidiaries of TPG.

13           6.     Respondent PMI has been experiencing losses from its insurance operations since the  
14 inception of the U.S. financial crisis in 2007. The financial crisis prompted the Department of  
15 Insurance (the “Department”) to increase its monitoring of PMI and its affiliates. Despite  
16 Respondent’s attempt to recapitalize and mitigate the loss of surplus, PMI recently experienced a  
17 rapid increase in losses that has adversely affected its solvency and that of its affiliates<sup>1</sup>, as reported in  
18 its statutory financial statement for the period ended June 30, 2011 (“June 30 Statement”), filed with  
19 the Department on August 15, 2011.

20           7.     In the June 30 Statement, PMI reported a net loss of \$329 million, which, when  
21 compared to its surplus for the same period, was a hazardous financial condition under Arizona  
22 insurance laws and regulations. Additionally, PMI reported net incurred losses of \$574 million and  
23 net earned premiums of \$227 million. This resulted in a loss ratio of 253%. Loss ratio is the  
24

---

25 <sup>1</sup> On August 4, 2011, Standard and Poors (“S&P”) rating agency lowered its ratings on TPG and PMI. S&P cut TPG’s  
26 counterparty credit and financial strength ratings from triple C negative to double C, and lowered PMI’s rating to triple C  
negative from B negative.

1 relationship of incurred losses plus loss adjustment expenses to earned premiums. A loss ratio of  
2 253% means that for every \$1 of premium earned PMI is spending \$2.53 on insurance losses and  
3 expenses.

4 8. Based on the hazardous financial condition reported by PMI in its June 30 Statement,  
5 the Department issued Order No. 11-112-INS, on August 19, 2011, placing the Respondent and its  
6 subsidiary, PIC, under administrative supervision and ordering corrective action pursuant to the  
7 Notice of Determination, Order for Supervision and Notification of Rights (“Supervision Order”).  
8 The Supervision Order required Respondent and PIC to cease issuing new mortgage commitments at  
9 close of business on August 19, 2011 and to cease issuing mortgage insurance policies under  
10 pending commitments at the close of business on September 16, 2011. The Department also required  
11 PMI and PIC to cure the deficiencies cited in the Supervision Order within 60 days of the Order  
12 (October 18, 2011).

13 9. On August 22, 2011, the Federal Home Loan Mortgage Corporation and the Federal  
14 National Mortgage Association suspended PMI, PIC and PMAC, from their list of approved  
15 mortgage insurers.

16 10. On September 21, 2011, the Respondent submitted a draft run-off plan to the  
17 Department. The draft plan envisioned the creation of the payment of PMI’s policyholder  
18 claims through a “deferred payment obligation” (“DPO”) wherein PMI claimants would  
19 receive a partial cash payment and an “IOU” in satisfaction of PMI’s claim obligation. The  
20 IOU portion, which is referred to as the DPO, could only be paid with the approval of the  
21 Director of Insurance. The run-off scenarios submitted by management evidence PMI’s  
22 inability to fully satisfy its existing insurance obligations to policyholders, and therefore fail to  
23 cure the deficiencies noted in the Department’s Supervision Order. The run-off models  
24 prepared by PMI or other entities analyzing the PMI data shows that PMI will not be able to  
25 pay its policyholder claims in full.

26 ///

1           11.     The filing date for PMI's third quarter statutory financial statement is November 15,  
2 2011. Actuarial data taken from PMI's internal report titled, "U.S. MI Loss Reserve Analysis For  
3 September 2011," prepared by PMI's internal actuarial staff and provided to PMI management and  
4 to the Department's Supervisor, estimates third quarter net incurred losses of approximately \$520  
5 million for the quarter ending September 30, 2011. The estimated net earned premiums for the 3<sup>rd</sup>  
6 quarter 2011 are approximately \$112 million. PMI's estimated loss for the same quarter is  
7 approximately \$446 million.

8           12.     PMI's policyholders' surplus is estimated to be a negative \$213 million for the 3<sup>rd</sup>  
9 quarter of 2011. A.R.S. § 20-1542 requires mortgage guaranty insurers to maintain a minimum  
10 policyholders' surplus of at least \$1.5 million.

11           13.     Under Arizona law, minimum policyholder position ("MPP") (see A.R.S. § 20-  
12 1550(A)) is a statutory measure unique to mortgage guaranty insurers used to evaluate its solvency.  
13 The law requires a mortgage guaranty insurer to maintain its policyholder position (generally  
14 comprised of its policyholders surplus plus the required contingency reserves) to equal or exceed its  
15 MPP. PMI's June 30 Statement reported that PMI had a policyholder position of \$258 million and  
16 an MPP of \$578 million, resulting in a policyholder position deficit of \$321 million<sup>2</sup>. Upon  
17 information and belief, the Department expects that policyholder position deficit to grow in the 3<sup>rd</sup>  
18 quarter 2011 due to increased losses.

19           14.     Based on estimates of its losses for the 3<sup>rd</sup> quarter of 2011, the Respondent's  
20 liabilities are expected to be in excess of its assets as of September 30, 2011, resulting in its  
21 insolvency. Respondent's inability to pay all of its losses combined with the need to protect  
22 the PMI policyholders and other PMI creditors from TPG and its creditors mandates that the  
23 Director assume immediate control of PMI.

24 \_\_\_\_\_  
25 <sup>2</sup> State laws have either an MPP requirement or a Risk to Capital ("RTC") requirement to assess the risk to capital ratio of  
26 each insurer in the mortgage guaranty insurer industry. If RTC is used, generally, state laws allow a maximum RTC ratio of  
25:1; after which a mortgage guaranty insurer is required to stop writing new business and may be subject to other regulatory  
action. PMI's RTC is 58:1 as of June 30, 2011.

1           15.    A.R.S. § 20-172(A) provides that “The superior court shall immediately consider  
2 the director’s petition and shall immediately issue without notice to the affected party such order  
3 unless the verified petition filed by the director is faulty.”

4           16.    As required by A.R.S. § 20-172, the Director will immediately apply for an Order  
5 of this Court appointing her as the Receiver of Respondent to rehabilitate its business operations  
6 pursuant to A.R.S. § 20-611, *et seq.*

7           17.    Respondent is in an unsafe and unsound condition that it will become unable to  
8 meet the anticipated demands of its policyholders and the condition of Respondent cannot be  
9 corrected by the procedures of A.R.S. §§ 20-169, 20-170, or 20-171. Therefore, grounds exist  
10 for the entry of an Order allowing the Director to take immediate possession and control of  
11 Respondent pending a hearing on the appointment of a Receiver.

12           WHEREFORE, the Director requests that:

13           A.    The Court immediately issue without notice to Respondent an Order allowing the  
14 Director to take possession and control of Respondent pending a hearing of the appointment of a  
15 Receiver, vesting the Director with the full and exclusive power of management and control of  
16 Respondent, either in the name of Petitioner as Director or in the name of Respondent as may be  
17 most convenient under the circumstances, and authorizing the Director to continue or to  
18 discontinue the business of Respondent, to stop or to limit the payment of its obligations, to  
19 employ any necessary assistants, to execute any instrument in the name of Respondent, and to  
20 commence, defend and conduct in its name any action or proceeding in which Respondent may  
21 be a party.

22           B.    The Director be given such power and authority as the court may direct and as  
23 may be necessary to effect the objects and purposes of A.R.S. § 20-172.

24    ///

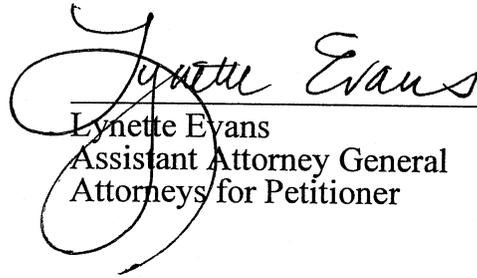
25    ///

26    ///

1 C. The Court grant such other and further relief as it deems just and proper.

2 DATED this 20<sup>th</sup> day of October, 2011.

3 Thomas Horne  
4 Attorney General

5  
6 A handwritten signature in cursive script that reads "Lynette Evans". The signature is written in black ink and is positioned above a horizontal line. The signature is somewhat stylized, with a large initial 'L' and 'E'.

7 Lynette Evans  
8 Assistant Attorney General  
9 Attorneys for Petitioner

1 VERIFICATION

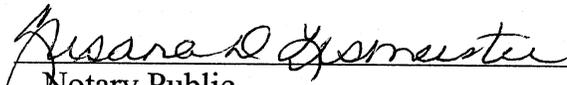
2 State of Arizona )  
3 County of Maricopa ) ss.

4 Christina Urias, being first duly sworn upon oath deposes and says:

5 That she is Director of the Arizona Department of Insurance; that she has read the  
6 foregoing Verified Petition For Order to Take Full and Exclusive Possession and Control; that  
7 the matters stated in the Petition are true, except as to those matters stated on information and  
8 belief, and as to them, she believes them to be true.

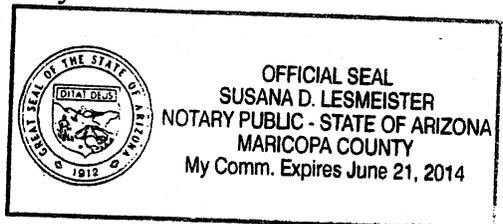
9  
10  
11   
12 Christina Urias  
13 Director of Insurance

14 SUBSCRIBED AND SWORN to before me this 20<sup>th</sup> day of October, 2011.

15  
16  
17  
18   
19 Notary Public

20 My Commission Expires:

21 June 21, 2014



FILED  
D. J. 20.11 1:50pm  
MICHAEL K. JEANES, Clerk  
By T. Nosker  
T. Nosker, Deputy

1 Thomas C. Horne  
Attorney General  
2 (Firm State Bar No. 14000)  
Lynette Evans, State Bar No. 021069  
3 Alyse Meislik, State Bar No. 024052  
Assistant Attorneys General  
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Facsimile: (602) 542-4377  
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1275 West Washington Street  
6 Phoenix, Arizona 85007  
7 consumer@azag.gov  
Attorneys for Arizona Department of Insurance

8 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**

9 **IN AND FOR THE COUNTY OF MARICOPA**

10 STATE OF ARIZONA, *ex rel.* CHRISTINA  
11 URIAS, Director of Insurance,

12 Petitioner,

13 vs.

14 PMI Mortgage Insurance Co., an Arizona  
Corporation,

15 Respondent.  
16

Case No.: CV 2011-018714

**ORDER DIRECTING FULL AND  
EXCLUSIVE POSSESSION AND  
CONTROL OF INSURER**

17 On Petitioner's Verified Petition for Order to Take Full and Exclusive Possession and  
18 Control pursuant to A.R.S. § 20-172, and pending the hearing and determination of the  
19 Application for Appointment of Receiver and Order to Show Cause to be filed in this matter:

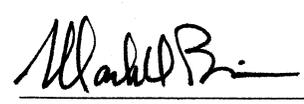
20 NOW, THEREFORE, IT IS ORDERED that Christina Urias, Director of the Department  
21 of Insurance, is directed to take possession and control of PMI Mortgage Insurance Co. ("PMI"),  
22 pending a hearing on the appointment of a receiver for this insurer, and with the full and  
23 exclusive power of management and control of PMI, with power to continue or to discontinue  
24 the business of PMI, to stop or limit the payment of obligations of PMI, to employ any

25 ///

26 ///

1 necessary assistants, to execute any instrument in the name of PMI, and to commence, defend  
2 and conduct in the PMI name in any action or proceeding in which PMI may be a party.

3 DONE IN OPEN COURT this 20<sup>th</sup> day of October, 2011.

4  
5 

6 \_\_\_\_\_  
7 Judge of the Superior Court  
8 **Mark H. Brain**

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#2370199

The foregoing instrument is a full, true and correct copy of the original on file in this office.

Attest Oct. 20, 2011

MICHAEL K. JEANES, Clerk of the Superior Court of the State of Arizona, in and for the County of Maricopa.

By T. Noshen Deputy

1 Thomas C. Horne  
2 Attorney General  
3 (Firm State Bar No. 14000)  
4 Lynette Evans, State Bar No. 021069  
5 Assistant Attorney General  
6 Telephone: (602) 542-7701  
7 Facsimile: (602) 542-4377  
8 Office of the Attorney General  
9 1275 West Washington Street  
10 Phoenix, Arizona 85007  
11 consumer@azag.gov

12 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**  
13 **IN AND FOR THE COUNTY OF MARICOPA**

14 STATE OF ARIZONA, *ex rel.* CHRISTINA  
15 URIAS, Director of Insurance,

16 Plaintiff,

17 vs.

18 PMI MORTGAGE INSURANCE CO., an  
19 Arizona Corporation,

20 Defendant.

No. CV2011-019944

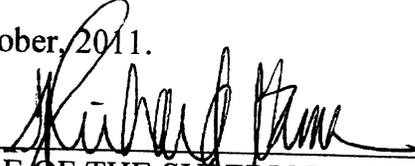
**ORDER TO SHOW CAUSE**

21 The Court having read and considered Plaintiff's Verified Complaint for Appointment  
22 of Receiver and Injunction, Order for Appointment of Receiver and Injunction, Certificate of  
23 Compulsory Arbitration, Certificate of Priority and Order to Show Cause, and good cause  
24 appearing therefore,

25 IT IS HEREBY ORDERED that Defendants named in this action appear before this  
26 Court in the courtroom of Division \_\_\_\_\_ on the 26<sup>th</sup> day of October, 2011, at  
9:30 o'clock A.m. and then ~~and there~~ for a 15 min Return Hearing as to show cause, if any there be, why the relief prayed  
for in Plaintiff's Verified Complaint should not be granted.

IT IS FURTHER ORDERED that a copy of this Order to Show Cause be served.

DONE IN OPEN COURT this 20 day October, 2011.

  
\_\_\_\_\_  
JUDGE OF THE SUPERIOR COURT

1 Thomas C. Horne  
2 Attorney General  
3 (Firm State Bar No. 14000)  
4 Lynette Evans, State Bar No. 021069  
5 Alyse Meislik, State Bar No. 024052  
6 Assistant Attorneys General  
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13 Attorneys for Arizona Department of Insurance

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A. FABIAN  
DEPUTY CLERK



8 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**  
9 **IN AND FOR THE COUNTY OF MARICOPA**

10 STATE OF ARIZONA, *ex rel.* CHRISTINA  
11 URIAS, Director of Insurance,

12 Plaintiff,

13 vs.

14 PMI Mortgage Insurance Co., an Arizona  
15 Corporation,

16 Defendant.

Cause No. ~~CV 2011-018944~~

**VERIFIED COMPLAINT FOR  
APPOINTMENT OF RECEIVER AND  
INJUNCTION**

17 Plaintiff alleges:

18 1. This action has been filed under A.R.S. §§ 20-612, 20-613, 20-614, and 20-615.

19 2. Plaintiff is the State of Arizona, *ex rel.* CHRISTINA URIAS, Director of Insurance  
20 (“Director”). The Director is charged with the enforcement of Title 20, Arizona Revised Statutes,  
21 relating to the transaction of insurance business in the State of Arizona.

22 3. Defendant PMI Mortgage Insurance Co. (“PMI”) is an Arizona corporation  
23 which holds an Arizona certificate of authority to transact mortgage guaranty insurance.

24 4. Mortgage guaranty insurance protects financial institutions, and similar  
25 entities formed to hold individual and pools of mortgages or interests thereon, against  
26 financial loss arising from the default by borrowers on mortgage loans.

1           5.     The Defendant is a subsidiary of The PMI Group, Inc. (“TPG”), a publicly-  
2 owned holding company, incorporated in Delaware and traded on the New York Stock Exchange.  
3 TPG is the ultimate parent of eleven mortgage guaranty insurers and several other subsidiaries  
4 providing support to the mortgage guaranty operations and engaging in other activities. PMI is the  
5 main operating entity for the group and operates in all fifty states. There are five other Arizona-  
6 domiciled mortgage guaranty insurers within the TPG group: PMI Insurance Co. (“PIC”) and PMI  
7 Mortgage Assurance Co. (“PMAC”) both wholly-owned direct subsidiaries of PMI, and PMI  
8 Reinsurance Co. (“PMI Re”), PMI Mortgage Guaranty Co. (“PMG”) and Residential Insurance Co.  
9 (“RIC”) three reinsurers that are wholly-owned direct subsidiaries of TPG.

10           6.     Defendant PMI has been experiencing losses from its insurance operations since the  
11 inception of the U.S. financial crisis in 2007. The financial crisis prompted the Department of  
12 Insurance (the “Department”) to increase its monitoring of PMI and its affiliates. Despite  
13 Defendant’s attempt to recapitalize and mitigate the loss of surplus, PMI recently experienced a  
14 rapid increase in losses that has adversely affected its solvency and that of its affiliates<sup>1</sup>, as reported  
15 in its statutory financial statement for the period ended June 30, 2011 (“June 30 Statement”) filed  
16 with the Department on August 15, 2011.

17           7.     In the June 30 Statement, PMI reported a net loss of \$329 million, which when  
18 compared to its surplus for the same period, was a hazardous financial condition under Arizona  
19 insurance laws and regulations. Additionally, PMI reported net incurred losses of \$574 million and  
20 net earned premiums of \$227 million. This resulted in a loss ratio of 253%. Loss ratio is the  
21 relationship of incurred losses plus loss adjustment expenses to earned premiums. A loss ratio of  
22 253% means that for every \$1 of premium earned PMI is spending \$2.53 on insurance losses and  
23 expenses.

24  
25 <sup>1</sup> On August 4, 2011, Standard and Poors (“S&P”) rating agency lowered its ratings on TPG and PMI.  
26 S&P cut TPG’s counterparty credit and financial strength ratings from triple C negative to double C,  
and lowered PMI’s rating to triple C negative from B negative.

1           8.       Based on the hazardous financial condition reported by PMI in its June 30 Statement,  
2 the Department issued Order No. 11-112-INS, on August 19, 2011, placing the Defendant and its  
3 subsidiary, PIC, under administrative supervision and ordering corrective action pursuant to the  
4 Notice of Determination, Order for Supervision and Notification of Rights (“Supervision Order”).  
5 The Supervision Order required Defendant and PIC to cease issuing new mortgage commitments at  
6 close of business on August 19, 2011 and to cease issuing mortgage insurance policies under  
7 pending commitments at the close of business on September 16, 2011. The Department also required  
8 PMI and PIC to cure the deficiencies cited in the Supervision Order within 60 days of the Order  
9 (October 18, 2011).

10           9.       On August 22, 2011, the Federal Home Loan Mortgage Corporation and the Federal  
11 National Mortgage Association suspended PMI, PIC and PMAC, from their list of approved  
12 mortgage insurers.

13           10.      On September 21, 2011, the Defendant submitted a draft run-off plan to the  
14 Department. The draft plan envisioned the creation of the payment of PMI’s policyholder  
15 claims through a “deferred payment obligation” (“DPO”) wherein PMI claimants would  
16 receive a partial cash payment and an “IOU” in satisfaction of PMI’s claim obligation. The  
17 IOU portion, which is referred to as the DPO, could only be paid with the approval of the  
18 Director of Insurance. The run-off scenarios submitted by management evidence PMI’s  
19 inability to fully satisfy its existing insurance obligations to policyholders, and therefore fail to  
20 cure the deficiencies noted in the Supervision Order. The run-off models prepared by PMI or  
21 other entities analyzing the PMI data shows that PMI will not be able to pay its policyholder  
22 claims in full.

23           11.      The filing date for PMI’s third quarter statutory financial statement is November 15,  
24 2011. Actuarial data taken from PMI’s internal report titled, “U.S. MI Loss Reserve Analysis For  
25 September 2011,” prepared by PMI’s internal actuarial staff and provided to PMI management and  
26 to the Department’s Supervisor, estimates third quarter net incurred losses of approximately \$520

1 million for the quarter ending September 30, 2011. The estimated net earned premiums for the 3<sup>rd</sup>  
2 quarter 2011 are approximately \$112 million. PMI's estimated loss for the same quarter is  
3 approximately \$446 million.

4 12. PMI's policyholders' surplus is estimated to be a negative \$213 million for the 3<sup>rd</sup>  
5 quarter of 2011. A.R.S. § 20-1542 requires mortgage guaranty insurers to maintain a minimum  
6 policyholders' surplus of at least \$1.5 million.

7 13. Under Arizona law, minimum policyholder position ("MPP") (see A.R.S. § 20-  
8 1550(A)) is a statutory measure unique to mortgage guaranty insurers used to evaluate its solvency.  
9 The law requires a mortgage guaranty insurer to maintain its policyholder position (generally  
10 comprised of its policyholders surplus plus the required contingency reserves) to equal or exceed its  
11 MPP. PMI's June 30 Statement reported that PMI had a policyholder position of \$258 million and  
12 an MPP of \$578 million, resulting in a policyholder position deficit of \$321 million<sup>2</sup>. Upon  
13 information and belief, the Department expects that policyholder position deficit to grow in the 3<sup>rd</sup>  
14 quarter 2011 due to increased losses.

15 14. Under A.R.S. § 20-611(7) impairment or insolvency means that the capital of a stock  
16 insurer shall be deemed to be impaired and the insurer shall be deemed to be insolvent when such  
17 insurer is not possessed of assets at least equal to all liabilities and required reserves together with its  
18 total issued and outstanding capital stock. As of September 30, 2011, it is estimated that PMI's  
19 assets will be approximately \$200 million less than the amount needed to meet the solvency  
20 measurement.

21 15. Based on its own estimates of losses to be reported on November 15, 2011, for  
22 the quarter ended September 30, 2011, the Defendant's liabilities are in excess of its surplus  
23 and capital. The Defendant's inability to pay all of its losses combined with the need to

24 <sup>2</sup> State laws have either an MPP requirement or a Risk to Capital ("RTC") requirement to assess the risk  
25 to capital ratio of each insurer in the mortgage guaranty insurer industry. If RTC is used, generally, state  
26 laws allow a maximum RTC ratio of 25:1; after which a mortgage guaranty insurer is required to stop  
writing new business and may be subject to other regulatory action. PMI's RTC is 58:1 as of June 30,  
2011.

1 protect the Defendant's policyholders and other creditors from TPG and its creditors support  
2 the Department's request to place PMI in rehabilitation. A.R.S. § 20-615(1).

3 16. The Director is therefore entitled to an Order appointing her Receiver of  
4 Defendant pursuant to A.R.S. § 20-615(1).

5 **WHEREFORE**, the Director requests that:

6 A. The Court enter an Order appointing the Director of Insurance as Receiver of  
7 Defendant and directing the Receiver to take possession of Defendant's property and business  
8 and to rehabilitate and otherwise deal with its property and business either in the name of the  
9 Director or in the name of Defendant as may be most convenient under the circumstances, and  
10 further authorizing Receiver to appoint one or more Special Deputy Receivers to act for her, and  
11 to engage such counsel, clerks and assistants as she deems necessary to carry out the orderly  
12 rehabilitation of Defendant.

13 B. The Court issue a temporary restraining order, preliminary and permanent  
14 injunction, as may be appropriate, restraining Defendant, its officers, directors, stockholders,  
15 members, subscribers, agents, creditors, lenders, financial institutions and all other persons from  
16 the transaction of its business or the waste or disposition of its assets, or the obtaining of  
17 preferences, judgments, attachments or other liens, or the making of any levy against Defendant.  
18 With regard to financial institutions that serve in a dual capacity as both a depository and  
19 policyholders, such financial institutions are precluded from exercising self-help in the  
20 application of depository balances with respect to any obligations of PMI or any of its assets  
21 including but not limited to its insurance obligations including any amounts owed under any  
22 DPO or policyholder claims.

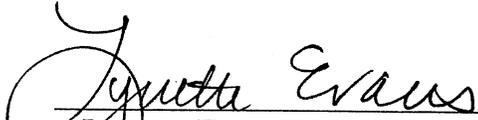
23 C. The Director be given such power and authority as the Court may direct and as may  
24 be necessary to effect the objects and purposes of Article 4, Chapter 3, and Article 1, Chapter 4  
25 of Title 20, Arizona Revised Statutes.

26 ///

1 D. The Court grants such other and further relief as it deems just and proper.

2 DATED this 20th day of October, 2011.

3 THOMAS C. HORNE  
4 Attorney General

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6   
7 Lynette Evans  
8 Assistant Attorney General  
9 Attorneys for Plaintiff

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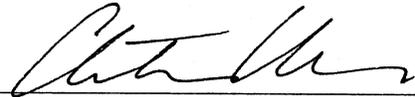
#2370070

1 VERIFICATION

2 State of Arizona )  
3 County of Maricopa ) ss.

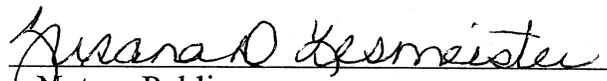
4 Christina Urias, being first duly sworn upon oath deposes and says:

5 That she is Director of the Arizona Department of Insurance; that she has read the  
6 foregoing Complaint For Appointment of Receiver and Injunction; that the matters stated in the  
7 Complaint are true, except as to those matters stated on information and belief, and as to them,  
8 she believes them to be true.

9  
10  
11 

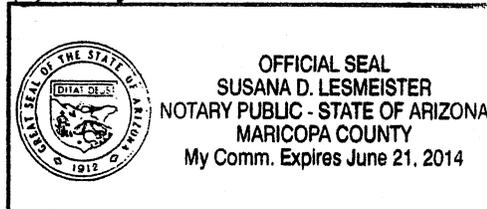
12 Christina Urias  
13 Director of Insurance

14 SUBSCRIBED AND SWORN to before me this 20<sup>th</sup> day of October, 2011.

15  
16  
17   
18 Notary Public

19 My Commission Expires:

20 June 21, 2014



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8 **IN THE SUPERIOR COURT OF THE STATE OF ARIZONA**

9 **IN AND FOR THE COUNTY OF MARICOPA**

10 STATE OF ARIZONA, *ex rel.* CHRISTINA  
URIAS, Director of Insurance,

11 Plaintiff,

12 vs.

13 PMI Mortgage Insurance Co., an Arizona  
14 Corporation,

15 Defendant.

Case No. CV2011-019944

**ORDER FOR APPOINTMENT OF  
RECEIVER AND INJUNCTION**

16 Plaintiff, STATE OF ARIZONA, *ex rel.* CHRISTINA URIAS, Director of Insurance,  
17 having filed a Complaint for Appointment of Receiver and for Injunction pursuant to A.R.S. §§ 20-  
18 611 through 20-615; the Defendant, PMI Mortgage Insurance Co., (“PMI” or “Defendant”), having  
19 been duly served with process or accepted same, and an evidentiary hearing having been held  
20 before this Court, the Court makes the following Findings of Fact and Conclusions of Law and  
21 enters the following Order:

22 **FINDINGS OF FACT**

23 1. Plaintiff is the STATE OF ARIZONA, *ex rel.* CHRISTINA URIAS, Director of  
24 Insurance (“Director” or “Receiver”). The Director is charged with the enforcement of Title  
25 20, Arizona Revised Statutes, relating to the transaction of insurance business in the State of  
26 Arizona.

1           2.     Defendant is an Arizona corporation which holds a certificate of authority issued  
2 by the Director to transact mortgage guaranty insurance business in the State of Arizona.

3           3.     Mortgage guaranty insurance protects financial institutions, and similar entities formed  
4 to hold individual and pools of mortgages or interests thereon, against financial loss arising from the  
5 default by borrowers on mortgage loans.

6           4.     The Defendant is a subsidiary of The PMI Group, Inc. (“TPG”), a publicly-owned  
7 holding company, incorporated in Delaware and traded on the New York Stock Exchange. TPG is the  
8 ultimate parent of eleven mortgage guaranty insurers and several other subsidiaries providing support  
9 to the mortgage guaranty operations and engaging in other activities. Defendant PMI is the main  
10 operating entity for the group and operates in all fifty states. There are five other Arizona-domiciled  
11 mortgage guaranty insurers within the TPG group: PMI Insurance Co. (“PIC”) and PMI Mortgage  
12 Assurance Co. (“PMAC”) both wholly-owned direct subsidiaries of PMI, and PMI Reinsurance Co.  
13 (“PMI Re”), PMI Mortgage Guaranty Co. (“PMG”) and Residential Insurance Co. (“RIC”) three  
14 reinsurers that are wholly-owned direct subsidiaries of TPG.

15          5.     Defendant has been experiencing losses from its insurance operations since the inception  
16 of the U.S. financial crisis in 2007. The financial crisis prompted the Department of Insurance (the  
17 “Department”) to increase its monitoring of PMI and its affiliates. Despite Defendant’s attempt to  
18 recapitalize and mitigate the loss of surplus, PMI recently experienced a rapid increase in losses that  
19 has adversely affected its solvency and that of its affiliates<sup>1</sup>, as reported in its statutory financial  
20 statement for the period ended June 30, 2011 (“June 30 Statement”), filed with the Department on  
21 August 15, 2011.

22          6.     In the June 30 Statement, PMI reported a net loss of \$329 million, which, when  
23 compared to its surplus for the same period, was a hazardous financial condition under Arizona  
24 insurance laws and regulations. Additionally, PMI reported net incurred losses of \$574 million and

25 <sup>1</sup> On August 4, 2011, Standard and Poors (“S&P”) rating agency lowered its ratings on TPG and PMI.  
26 S&P cut TPG’s counterparty credit and financial strength ratings from triple C negative to double C,  
and lowered PMI’s rating to triple C negative from B negative.

1 net earned premiums of \$227 million. This resulted in a loss ratio of 253%. Loss ratio is the  
2 relationship of incurred losses plus loss adjustment expenses to earned premiums. A loss ratio of  
3 253% means that for every \$1 of premium earned PMI is spending \$2.53 on insurance losses and  
4 expenses.

5 7. Based on the hazardous financial condition reported by PMI in its June 30 Statement,  
6 the Department issued Order No. 11-112-INS, on August 19, 2011, placing the Defendant and its  
7 subsidiary, PIC, under administrative supervision and ordering corrective action pursuant to the  
8 Notice of Determination, Order for Supervision and Notification of Rights (“Supervision Order”).  
9 The Supervision Order required Defendant and PIC to cease issuing new mortgage commitments at  
10 close of business on August 19, 2011 and to cease issuing mortgage insurance policies under  
11 pending commitments at the close of business on September 16, 2011. The Department also required  
12 PMI and PIC to cure the deficiencies cited in the Supervision Order within 60 days of the Order  
13 (October 18, 2011).

14 8. On August 22, 2011, the Federal Home Loan Mortgage Corporation and the Federal  
15 National Mortgage Association suspended PMI, PIC and PMAC, from their list of approved  
16 mortgage insurers.

17 9. On September 21, 2011, the Defendants submitted a draft run-off plan to the  
18 Department. The draft plan envisioned the creation of the payment of PMI’s policyholder  
19 claims through a “deferred payment obligation” (“DPO”) wherein PMI claimants would  
20 receive a partial cash payment and an “IOU” in satisfaction of PMI’s claim obligation. The  
21 IOU portion, which is referred to as the DPO, could only be paid with the approval of the  
22 Director of Insurance. The run-off scenarios submitted by management evidence PMI’s  
23 inability to fully satisfy its existing insurance obligations to policyholders, and therefore fail to  
24 cure the deficiencies noted in the Department’s Supervision Order. The run-off models  
25 prepared by PMI or other entities analyzing the PMI data shows that PMI will not be able to  
26 pay its policyholder claims in full.

1           10.    The filing date for PMI's third quarter statutory financial statement is November 15,  
2 2011. Actuarial data taken from PMI's internal report titled, "U.S. MI Loss Reserve Analysis For  
3 September 2011," prepared by PMI's internal actuarial staff and provided to PMI management and  
4 to the Department's Supervisor estimates third quarter net incurred losses related to insurance  
5 obligations to be approximately \$520 million for the quarter ending September 30, 2011.  
6 Defendant's estimated net loss (reflecting all income and other expenses) for the same quarter is  
7 approximately \$446 million.

8           11.    PMI's policyholders' surplus is estimated to be a negative \$213 million as of the 3<sup>rd</sup>  
9 quarter of 2011. A.R.S. § 20-1542 requires mortgage guaranty insurers to maintain a minimum  
10 policyholders' surplus of at least \$1.5 million.

11           12.    Under Arizona law, minimum policyholder position ("MPP") (see A.R.S. § 20-  
12 1550(A)) is a statutory measure unique to mortgage guaranty insurers used to evaluate its solvency.  
13 The law requires a mortgage guaranty insurer to maintain its policyholder position (generally  
14 comprised of its policyholders surplus plus the required contingency reserves) to equal or exceed its  
15 MPP. PMI's June 30 Statement reported that PMI had a policyholder position of \$258 million and an  
16 MPP of \$578 million, resulting in a policyholder position deficit of \$321 million<sup>2</sup>. Upon information  
17 and belief, the Department expects that policyholder position deficit to grow in the 3<sup>rd</sup> quarter 2011  
18 due to increased losses.

19           13.    Under A.R.S. § 20-611(7) impairment or insolvency means that the capital of a  
20 stock insurer shall be deemed to be impaired and the insurer shall be deemed to be insolvent when  
21 such insurer is not possessed of assets at least equal to all liabilities and required reserves together  
22 with its total issued and outstanding capital stock. As of September 30, 2011, it is estimated that  
23

24 \_\_\_\_\_  
25 <sup>2</sup> State laws have either an MPP requirement or a Risk to Capital ("RTC") requirement to assess the risk  
26 to capital ratio of each insurer in the mortgage guaranty insurer industry. If RTC is used, generally, state  
laws allow a maximum RTC ratio of 25:1; after which a mortgage guaranty insurer is required to stop  
writing new business and may be subject to other regulatory action. PMI's RTC is 58:1 as of June 30,  
2011.

1 PMI's assets will be approximately \$200 million less than the amount needed to meet the  
2 solvency measurement.

3 14. Based on its own estimates of losses to be reported on November 15, 2011, for the  
4 quarter ended September 30, 2011, the Defendant's liabilities are in excess of its surplus and  
5 capital. The Defendant's inability to pay all of its losses combined with the need to protect the  
6 Defendant's policyholders and other creditors from TPG and its creditors support the  
7 Department's request to place PMI in rehabilitation. A.R.S. § 20-615(1).

8 15. The Director is therefore entitled to an order appointing her receiver of Defendant  
9 pursuant to A.R.S. § 20-615(1).

10 **CONCLUSIONS OF LAW**

11 Grounds exist under A.R.S. § 20-615 for the appointment of the Director of Insurance as  
12 Receiver of Defendant, and vesting her with the authority to rehabilitate it pursuant to Chapter  
13 3, Article 4.

14 **ORDER**

15 A. **IT IS THEREFORE ORDERED** appointing Christina Urias, Director of  
16 Insurance, as Receiver of Defendant and directing said Receiver to attempt to rehabilitate the  
17 business of Defendant and as Receiver, to:

18 1. Collect, receive and take exclusive custody, control and possession of all records,  
19 property and assets (including subsidiaries) of any kind or nature owned beneficially or otherwise  
20 by Defendant, with full power to sue for, collect, receive and take possession of all bank  
21 accounts, goods, chattels, rights, deposits, credits, monies, lands, books and records of account  
22 and other papers and property and causes of action of Defendant;

23 2. Conserve, hold and manage all the property and assets subject to this Receivership in  
24 order to prevent to the extent possible, loss, damage, and injury to creditors and others who have  
25 done business with Defendant; to obtain an accounting thereof, and to adjust and protect the  
26 interest of such creditors and other persons doing business with Defendant, as approved by the

1 Court; the Receiver may maintain property and assets of Defendant in the investments in  
2 which such property and assets are presently held or in similar investments consistent with  
3 the present investment policy of Defendant, or may reinvest such property or assets in  
4 another manner in her discretion;

5         3. Engage and employ attorneys, accountants, appraisers, consultants, actuaries, work-out  
6 specialists, investment bankers and other persons to evaluate the property and assets subject to this  
7 Receivership, and to operate the business of Defendant, as the Receiver may deem necessary in the  
8 performance of her duties and responsibilities in discharging the authority conferred by this Order.  
9 The Receiver may, at her discretion, retain or terminate the contracts of any such persons already  
10 engaged by Defendant. All such persons so engaged, employed or retained are to be paid out of the  
11 funds, property or assets of Defendant in the possession of the Receiver or coming into her  
12 possession. The Receiver may also retain or discharge any employees at any time, in her sole  
13 discretion, by specifically advising such employees of the termination of their employment. The  
14 Receiver may implement measures related to the discharge or retention of employees and shall  
15 take any action necessary to comply with applicable federal and state laws pertaining to discharge  
16 of employees and any benefit plans of Defendant. The Receiver may, in her discretion, make a  
17 payment of day to day expenses of Defendant on-going at the date of this Order;

18         4. Make such payments and disbursements from the property and assets subject to this  
19 Receivership and to incur such expenses as may be necessary and advisable in discharging her  
20 duties as Receiver, and to present to this Court from time to time an accounting of all such  
21 payments, disbursements, and expenses;

22         5. Institute, prosecute, defend, compromise, intervene in, seek stays in, or become a  
23 party to, such suits, actions or proceedings at law or in equity as may, in the Receiver's opinion,  
24 be necessary for the collection, recovery, protection, maintenance, or preservation of the property  
25 or assets subject to this Receivership;

26 ///

1           6.     Except for policies and contracts of insurance, the Receiver, in her discretion, may  
2 affirm or disavow any executory contracts to which Defendant is a party. The entry of this Order of  
3 Receiver shall not constitute an anticipatory breach of any such contracts. The policies and  
4 contracts of insurance of and issued by the Defendant are not cancelled or terminated hereby and  
5 such policies may continue to be renewed by the Receiver; and

6           7.     In connection with this delinquency proceeding, the Receiver may appoint one or  
7 more special deputy receivers to act for her and may employ such counsel, clerks, and assistants as  
8 she deems necessary. The special deputy receivers and counsel, clerks and assistants are to be  
9 paid out of the funds or assets of Defendant in the possession of the Receiver or coming into her  
10 possession.

11           B.     **IT IS FURTHER ORDERED THAT** the Receiver may implement a plan of  
12 partial distribution of policyholder claims.

13           1.     Pursuant to A.R.S. § 20-629(A), which provides that “in a delinquency proceeding  
14 against an insurer domiciled in this state, the priority of distribution of the claims from the general  
15 assets of the insurer shall be determined pursuant to this section,” claims under the Defendant’s  
16 policies are a class three claim (A.R.S. § 20-629(A)(3)), paid after administrative claims (“Class 1  
17 claims” pursuant to A.R.S. § 20-629(A)(1)).<sup>3</sup> No claims below Class 1 and Class 3 claims may be  
18 paid until all Class 1 and Class 3 claims are paid in full or funds sufficient to pay such claims are  
19 reserved.

20           2.     In lieu of a moratorium on the payment of claims, the Receiver may in her discretion,  
21 after reserving sufficient property and assets for anticipated Class 1 claims, pay a uniform pro-rata  
22 percent of each Class 3 claim on an ongoing basis, in an amount based upon her best good faith  
23 determination that so doing will not result in the preferential payment of claims of the same class  
24 under A.R.S. § 20-629(A). The amount so paid may be reevaluated by the Receiver from time to  
25 time, and raised or lowered based upon that evaluation. The remaining portion of such a partially

26 <sup>3</sup> A.R.S. § 20-629(A)(2) provides for the payment of claims of guaranty funds. There is no guaranty  
fund coverage of Defendant’s business so no claims will fall with this section.

1 paid claim will continue to be a Class 3 claim until fully paid by the Receiver. The Receiver may,  
2 in her discretion, commence making partial payments as described herein immediately without  
3 further Order of the Court. As soon as practicable, the Receiver shall submit such partial payment  
4 plan implemented consistent with this Order for Court approval.

5       C.     **IT IS FURTHER ORDERED THAT**, except by leave of this Court or upon the  
6 written direction or consent of the Receiver, during the pendency of the Receivership, the  
7 Defendant and all customers, principals, investors, creditors, stockholders, lessors, and other  
8 persons, except for the Receiver or her agents, seeking to establish or enforce any claim, right or  
9 interest against or on behalf of Defendant, and all others acting for or on behalf of such persons  
10 including attorneys, trustees, agents, sheriffs, constables, marshals and other officers and their  
11 deputies and their respective attorneys, servants, agents, employees, be and hereby are enjoined  
12 from:

13           1.     Commencing, prosecuting, continuing or enforcing any claim, suit or proceeding  
14 against Defendant or against any of its assets (including subsidiaries) for a period of 180 days  
15 from entry of this Order; the Receiver may request an extension of this provision in her  
16 discretion.

17           2     Commencing, prosecuting, continuing or enforcing any suit or proceeding in the  
18 name or on behalf of Defendant or any of its subsidiaries;

19           3.     Accelerating the due date of any obligation or claimed obligation, enforcing any  
20 lien upon, or taking or attempting to take possession of, or retaining possession of, any property  
21 of Defendant, or attempting to foreclose, forfeit, alter or terminate any interest of Defendant in  
22 any of its property or assets, whether such acts are part of a judicial or administrative proceeding  
23 or otherwise;

24           4.     Using self-help or executing or issuing or causing the execution or issuance of any  
25 court attachment, subpoena, replevin, execution or other process for the purpose of impounding  
26 or taking possession of, or interfering with, or creating, or enforcing a lien upon, any property

1 wheresoever located, owned by or in the possession of Defendant, any of its subsidiaries, or the  
2 Receiver appointed pursuant to this Order or any agents appointed by said Receiver; and

3 5. Doing any act or thing whatsoever to interfere with the taking control of, possession  
4 or management by the Receiver appointed herein of the property and assets subject to this  
5 Receivership, or to in any way harass or interfere with said Receiver, or to interfere, in any  
6 manner, with the exclusive jurisdiction of this court over the property and assets of Defendant;

7 6. Notwithstanding the foregoing, policyholders of the Defendant and its  
8 subsidiaries may, until further order of this Court, continue to submit claims under  
9 Defendant's policies in normal course as they have done prior to the issuance of this  
10 Order, which may be subject to partial payment pursuant to Section B hereof at the  
11 Receiver's discretion.

12 D. **IT IS FURTHER ORDERED THAT** no person may serve or cause to be  
13 served upon the Receiver and any Special Deputy Receiver any legal process, including  
14 attachments, garnishments, subpoenas, writs of replevin, writs of execution and every other form  
15 of process whether described specifically herein or not, without first securing the authorization of this  
16 Court or the specific written consent of the Receiver. Any process issued in violation of this Order is  
17 void. Persons endeavoring to secure documentation from the Receiver shall, in all instances, first  
18 attempt to secure such information by submitting a formal written request to the Receiver and, if  
19 such request has not been responded to within sixty (60) days, such person may thereafter seek an  
20 order of this Court with regard to the relief requested.

21 E. **IT IS FURTHER ORDERED THAT:**

22 1. All attorneys, consultants, accountants, and others employed by Defendant to  
23 represent Defendant or its insureds, within 30 days of notice of this Order or such other time period as  
24 the Receiver shall determine, shall report to the Receiver on the name, company claim number and  
25 status of each file they are handling on behalf of Defendant. Said report shall also include an  
26 accounting of any funds received from or on behalf of Defendant. All attorneys, consultants,

1 accountants and others described herein may either be retained or discharged by the Receiver in the  
2 Receiver's sole discretion.

3         2. Any servicers, agents, brokers, third-party administrators or other persons having  
4 sold policies of insurance and/or collected premiums on behalf of Defendant shall account for and  
5 pay premiums and commissions due in the normal course of business owed to Defendant directly to  
6 the Receiver within 30 days of the date of this Order or within such other time as determined by the  
7 Receiver. Persons failing to provide such status reports may be required to appear before this Court  
8 to show cause, if any they may have, as to why they should not be required to account to the Receiver  
9 or be held in contempt of court for violation of the provisions of this Order. No servicer, agent, broker,  
10 third party administrator, managing general agent, or other person shall use premium monies owed to  
11 Defendants for the refund of unearned premium or for any purpose other than payment to the Receiver.  
12 No servicer, agent, broker, third party administrator, managing general agent, or other person  
13 shall exercise any form of set-off, alleged set-off, lien, any form of self-help whatsoever or refuse to  
14 transfer any funds or assets to the Receiver's control without the permission of this Court.

15         3. All claims adjusters and other third parties handling claims files relating to  
16 Defendant's policies, insurance contracts or bonds shall within thirty (30) days of the date of this  
17 Order, report to the Receiver on the name, company claim number, policy or other identifying  
18 number and status of each file they are handling on behalf of Defendant. Persons failing to provide  
19 such status reports may be required to appear before this Court to show cause, if any they may  
20 have, as to why they should not be required to account to the Receiver or be held in contempt of  
21 court for violation of the provisions of this Order. All claims adjusters and other third parties  
22 handling claims files relating to Defendant's policies, insurance contracts or bonds may be  
23 retained by the Receiver at her sole discretion.

24         4. Any premium finance company which has entered into a contract to finance a  
25 premium for a policy, insurance contract or bond which has been issued by Defendant shall pay  
26

1 any premium owed to Defendant directly to the Receiver and make its records relating to such  
2 premium financing available to the Receiver upon her request.

3 5. Any bank, savings and loan association, trustee, institution or other person or entity  
4 which has on deposit, in its possession, custody or control any funds, accounts, or any other  
5 property or assets of Defendant or its subsidiaries shall immediately transfer title, custody and  
6 control of all such funds, property or assets to the Receiver and are hereby instructed that the  
7 Receiver has absolute control over such accounts, funds, property and other assets and the  
8 Receiver may change the name of such accounts, funds, property and other assets, withdraw  
9 them from such bank, savings and loan association, trustee, other institution, person or entity, or  
10 take any lesser action necessary for the proper conduct of this receivership. No bank, savings and  
11 loan association, trustee, other institution, person or entity shall exercise any form of set-off,  
12 alleged set-off, lien, any form of self-help whatsoever or refuse to transfer any accounts, funds,  
13 property or assets to the Receiver's control without the permission of the Receiver or this Court.  
14 With regard to any institutions that serve in a dual capacity as both a depository and policyholder  
15 or servicer, such institutions are precluded from exercising self-help in the application of  
16 depository balances with respect to any policyholder claims such institutions may have on their  
17 own behalf or in a fiduciary capacity.

18 6. Any data processing service which has custody or control of any data processing  
19 information and records including but not limited to source documents, data processing cards, input  
20 tapes, all types of storage information, master tapes or any other recorded or electronic information  
21 of any kind relating to claimants and insureds of Defendant or any aspect of the business of the  
22 Defendant shall transfer custody and control of such records to the Receiver, upon demand.

23 **F. IT IS FURTHER ORDERED THAT** Defendant and its respective officers,  
24 directors, agents, servants, employees, attorneys, successors, accountants and assigns and those  
25 persons in active concert or participation with them and each of them shall transfer to the  
26 Receiver within ten (10) calendar days after request from the Receiver all books, records,

1 accounts, documents or any other data of any kind or nature relating to Defendant's business, in  
2 whatever format, electronic or otherwise, including claims files, whether open or closed, and all  
3 policyholder files and correspondence relating to claimants and insureds, and shall immediately  
4 send to the Receiver all such documents received after the date the Receiver makes a request for  
5 files and give to the Receiver a list of third parties who may be in possession of such documents.

6 G. **IT IS FURTHER ORDERED THAT** Defendant and its respective officers, directors,  
7 stockholders, members, subscribers, agents, servicers, trustees, creditors, lenders, financial  
8 institutions, servants, employees, attorneys, successors, accountants and assigns, and all other  
9 persons, and those persons in active concert or participation with them and each of them, be and  
10 hereby are enjoined during the pendency of this action from directly or indirectly:

11 1. Except through and at the direction of the Receiver, transacting any of Defendant's or  
12 any of its subsidiaries business.

13 2. Wasting or disposing of Defendant's and any of its subsidiaries, property or assets, or the  
14 obtaining of preferences, judgments, attachments, or other liens, or the making of any levy against  
15 Defendant and its subsidiaries.

16 3. Destroying, secreting, defacing, transferring, or otherwise altering or disposing of any  
17 books, records, accounts or any other papers of any kind or nature of Defendant.

18 4. Transferring, receiving, altering, selling, encumbering, pledging, assigning,  
19 liquidating, or otherwise disposing of any assets, funds or property owned, controlled, or in the  
20 possession of, or in which an interest is held or claimed by Defendant, or the Receiver appointed  
21 herein.

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