

[Tagging Info](#)**Fitch Ratings Downgrades RVI's IFS to 'A'; Outlook Stable** [Ratings](#)

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Fitch Ratings-Chicago-08 August 2007: Fitch Ratings has downgraded the Insurer Financial Strength (IFS) ratings of R.V.I. Guaranty Co., Ltd. and its insurance subsidiaries, R.V.I. America Insurance Co. and R.V.I. National Insurance Co. (collectively RVI) to 'A' from 'A+'. The Rating Outlook is Stable.

Fitch's rating action primarily reflects the challenging conditions in the residual value insurance market that have resulted in reduced overall premium volume in recent years and influenced the company's decision late in 2006 to stop writing business in the commercial real estate segment, after having been in the business since 1998.

Fitch expects that RVI will experience some volatility in premium volume because when pricing/risk levels in the marketplace become unattractive, or when competitors are willing to insure risk levels RVI considers inappropriate, RVI demonstrates its underwriting discipline by withdrawing from the market until acceptable levels return. Nevertheless, market conditions in residual value insurance are such that Fitch expects that it will be difficult for the company to produce the level of diversified premium volume generated prior to 2005, due to limited profitable market opportunities.

The rating action also reflects an increased level of concentration risk among key insureds that Fitch considers too high for the previous 'A+' rating. The top five clients accounted for 62.9% and 62.5% of total gross premiums written in 2006 and 2005, respectively, up from 52.8% in 2004. The top client accounted for 26.4% and 27.1% in 2006 and 2005, respectively, up from 21.0% in 2004. Through the first six months of 2007, the top five accounted for 64.1%, with the top client at 29.7%. This risk is somewhat mitigated by the fact that most key relationships are long-standing and the clients that make up the top five in any given year may vary, although four of the top five clients were the same the past three full years.

Fitch also notes that RVI has been increasing its revenue from other fee-based business and insurance products, which represents both an opportunity and a risk. However, Fitch expects that RVI's diversification strategy into new products will continue to be controlled and prudently managed to the company's conservative underwriting and risk-management standards.

Fitch's strong IFS rating on RVI continues to reflect the company's dominant market position in the residual value insurance industry, conservative underwriting and reserving approach, and knowledgeable management team. RVI is recognized as a leading, consistent, stable provider of residual value insurance coverage worldwide for clients that include major financial institutions, equipment manufacturers and investment banks.

Partially offsetting these positives are quality of capital concerns, the potential for changes to lease accounting standards that could impact RVI's business model, and the risk of additional losses in the discontinued commercial real estate portfolio. At year-end 2006, the real estate portfolio had \$2.1 billion aggregate limits of exposure with \$11.0 billion forecasted probable value (5.3 times coverage ratio) and an average policy life of about 13 years.

Fitch expects the company to continue to maintain underwriting profitability. Fitch also expects that RVI will improve the quality and strength of its capital through an IPO and/or private capital investment by the end of 2007, converting of all its soft capital into hard capital.

Fitch has downgraded the following ratings and assigned a Stable Rating Outlook:

R.V.I. Guaranty Co., Ltd.

--Insurer Financial Strength downgraded to 'A' from 'A+'.

R.V.I. America Insurance Company

--Insurer Financial Strength downgraded to 'A' from 'A+'.

R.V.I. National Insurance Company

--Insurer Financial Strength downgraded to 'A' from 'A+'.

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