

RESEARCH

Research Update:

**RVI Guaranty Co. Ltd. And Affiliates Counterparty
Credit Ratings Cut To 'A-'; Outlook Negative**

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Rationale

On May 17, 2007, Standard & Poor's Ratings Services lowered its rating on R.V.I. Guaranty Co. Ltd., R.V.I. America Insurance Co., and R.V.I. National Insurance Co. (collectively referred to as RVI) to 'A-' from 'A.' The outlook is negative.

The downgrade is based on the view that RVI is weaker from a management perspective because of significant management turnover in 2006 and 2007, and because there is the possibility of sizeable earnings volatility related to potential losses on two real estate properties. RVI intends to sell these two real estate properties, but the value of the real estate buildings and any potential losses for RVI remain uncertain. Also supporting the downgrade is RVI's more concentrated competitive profile, consisting of only two segments, passenger vehicle and commercial equipment, as the real estate segment is no longer writing new business.

The ratings on RVI are based on the company's strong, though more concentrated, competitive position, conservative investments, and strong liquidity. RVI's capital adequacy is also strong, and Standard & Poor's expects RVI to maintain excess capital to compensate for potential earnings and reserve volatility. Negative factors that affect the rating are the group's reliance for a large portion of its revenues on the lease accounting standards currently in place, and the risk that a change in accounting standards would significantly affect RVI's premium volume and earnings. RVI's risk profile is changing as the company is diversifying into other nonresidual value segments (financial guaranty reinsurance and fidelity and crime), and the performance of these new products remains unproven. Client concentrations have been a risk historically, and because the real estate segment is no longer writing new business, the group's reliance on key clients within the passenger vehicle and commercial equipment segments has increased.

Outlook

The negative outlook is based on the view that the significant management turnover will not immediately be fully addressed in terms of new staff and could affect consistency within risk controls and underwriting until 2008. Further supporting the negative outlook is that passenger vehicle client concentrations remain significant, and that some significant clients renew in 2007, with potentially lower revenues and thereby potentially lower earnings for RVI. Also, possible losses, impairments, and future expenses related to two real estate properties have the potential to significantly decrease earnings in 2007. The three issues of management turnover, client concentrations, and potential real estate losses could individually or collectively lead to the rating being lowered an additional notch.

Standard & Poor's expects RVI to maintain a net profit near \$16 million in 2007 and strong capital adequacy, at more than what is required for the rating, to compensate for potential volatility. We expect that RVI will

maintain consistent underwriting and risk control standards in 2007 and 2008, and if this expectation is met, the outlook may be revised to stable. Also, if the real estate properties are sold and losses are contained while maintaining net income near \$16 million, the outlook may be revised to stable. If RVI is able to maintain a consistent volume through renewals within passenger vehicle and commercial equipment, this would further contribute to a stable outlook.

Ratings List

Downgraded

	To	From
R.V.I. Guaranty Co. Ltd.		
R.V.I. America Insurance Co.		
R.V.I. National Insurance Co.		
Counterparty Credit Rating		
Local Currency	A-/Negative/--	A/Negative/--
Financial Strength Rating		
Local Currency	A-/Negative/--	A/Negative/--

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