FITCH DOWNGRADES RVI'S IFS TO 'BB'; OUTLOOK EVOLVING

Fitch Ratings-Chicago-09 February 2009: 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 'BB' from 'A-', and removed them from Rating Watch Negative. The Rating Outlook is Evolving.

The ratings were placed on Rating Watch Negative on Aug. 11, 2008 to reflect the potential for additional losses within RVI's insured asset portfolio in which the company provides residual value insurance protection. Today's rating action follows Fitch's review of RVI's portfolio and reflects Fitch's belief that when viewed in the context of the current economic climate, the risk profile of the portfolio is substantially greater than that for an investment grade rating. In particular, Fitch is concerned about the potential for significant performance volatility in RVI's financial guaranty reinsurance business, in which the company assumed a limited number of large concentrations in individual exposures of originally 'AAA' rated corporate collateralized debt obligations (CDOs). The concentrated and leveraged nature of these exposures is large relative to RVI's capital.

The rating action also reflects additional losses within RVI's insured passenger vehicles portfolio as used car values continued to decline in 2008 to record levels. Positively, RVI reached negotiated settlements on a significant portion of these claims in the fourth quarter of 2008. While Fitch views these settlements favorably in reducing future uncertainty, the additional losses that had been developing on these exposures, in light of sharp declines in used car values as recessionary conditions worsened, were much greater than Fitch anticipated at the prior rating level.

In addition, the rating action reflects what Fitch views as declines in RVI's franchise value, albeit with a lower risk underwriting profile going forward. The overall weak and deteriorating economic conditions have reduced demand for the purchase/leasing of both new and used assets, which in Fitch's view could result in reduced new business volume for RVI going forward. Also, following the losses suffered in 2008, the company has scaled back passenger vehicle business, historically RVI's largest segment of insurance in force, opting to only provide low-risk FASB levels of coverage going forward.

While this will reduce overall underwriting risk and puts less strain on RVI's capitalization, it will also increase client concentration risk and further reduce the diversification of RVI's insured portfolio. The commercial equipment segment will be the only remaining sizable asset class, with a reduced focus on passenger vehicles following extensive losses in 2003/2004 and 2008 and the company exiting the commercial real estate segment late in 2006 due to reduced opportunities in a soft market environment. Fitch views the resulting increased concentration risk in RVI's business model as negative from a ratings perspective.

The Evolving Rating Outlook reflects uncertainty with respect to the direction of future changes in RVI's risk profile and business position. To the extent that the company is able to remove the above noted financial guaranty reinsurance risk, the ratings could be upgraded. Fitch would also view favorably an improvement in the quality of RVI's capital, such as through converting its soft capital facility into hard capital. Conversely, if the company suffers additional significant losses, the ratings could be lowered further.

Fitch has downgraded and removed from Rating Watch Negative the following:

R.V.I. Guaranty Co., Ltd.
--IFS to 'BB' from 'A-'.

R.V.I. America Insurance Company
--IFS to 'BB' from 'A-'.

R.V.I. National Insurance Company
--IFS to 'BB' from 'A-'.

The Rating Outlook is Evolving

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