R.V.I. Guaranty Co. Ltd. Outlook Revised To Negative; Ratings Affirmed

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NEW YORK (Standard & Poor's) July 11, 2006--Standard & Poor's Ratings Services said today it revised its outlook on RVI Guaranty Co. Ltd. (RVI Guaranty) and R.V.I. America Insurance Co. (RVIA) (collectively referred to as RVI) to negative from stable.

At the same time, Standard & Poor's affirmed its 'A' counterparty credit and financial strength ratings on RVI. "The outlook is negative due to the uncertainty around potential real estate losses and a significant decline in business volume that has raised questions regarding competitive position," explained Standard & Poor's credit analyst Damien Magarelli.

RVI's core expertise is within the area of residual value, specifically, passenger vehicle, real estate, and commercial equipment, and these three asset classes have experienced a significant decrease in volume, and prospectively this may continue. The result is that while RVI's unearned premium revenue will support near-term earnings to a degree, the long-term impact on RVI's core franchise is uncertain. Furthermore, within the real estate portfolio (and of significant near-term concern) is the potential loss due to a transaction that matures in October 2006. Although there is the potential that this transaction may not produce a loss to RVI, RVI has purchased a forward contract on the property and in October 2006 this will substantially alter RVI's financial and balance sheet strength.

The ratings on RVI are based on the company's strong but volatile earnings, leadership position (supported by the management team) within the residual value insurance market, conservative investments, and strong liquidity. RVI's capital adequacy is strong and measures about 155% based on our model. Standard & Poor's expects RVI to maintain excess capital to compensate for its net income and reserve volatility. Standard & Poor's expects RVI to maintain excess capital to compensate for its net income and reserve volatility. In contrast, negative factors that impact the ratings on RVI are the company's changing risk profile, including exposure to larger real estate risks, concentrated client base, and increased competition within real estate and passenger vehicle though commercial equipment has shown increasing strength in the first half of 2006.

The negative outlook is expected to be resolved with year-end 2006 figures. If there is evidence that RVI's real estate business has losses greater than what is currently foreseen, the rating could be lowered one notch, or if increased ompetition within the asset classes continues, that could also lower the rating by one notch. A decline in earnings could also lead to a lowering of the rating, as earnings may decline if volume continues to be reduced once the unearned premium revenue is not as significant. However, Standard & Poor's expects that RVI will maintain underwriting discipline and risk selection even as volume declines. Furthermore, RVI is expected to maintain a combined ratio of about 90% and a capital adequacy ratio of about 150% to compensate for potential volatility. If the previously mentioned issues develop favorably, the outlook could be revised to stable.