



December 9, 2010

Mr. J. Gordon Seymour  
Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, DC 2006-2803

**RE: PCAOB Rulemaking Docket Matter No. 37  
Concept Release on Auditor Independence and Audit Firm Rotation**

Dear Mr. Seymour:

I am submitting these comments as Chairman of the Audit Committee of the Board of Directors of Triad Guaranty Inc. ("Triad" or the "Company") to the Public Company Accounting Oversight Board ("PCAOB") regarding the concept release on audit firm independence and audit firm rotation. Our comments on this topic are categorized below as Special Circumstances Involving Triad and an overall General Comment.

**Special Circumstances Involving Triad**

Triad is in the mortgage guaranty insurance business, a very small industry group of seven companies. The industry has faced numerous financial and operational challenges over the past five years addressing the problems related to the mortgage and real estate crisis in the U.S. The operating insurance company of Triad, Triad Guaranty Insurance Corporation ("TGIC") is a nationwide mortgage guaranty insurer pursuing a run-off (continuing to service existing policies but not writing any new ones) of its existing inventory of insurance policies in force. TGIC is presently operating under the supervision of our primary regulator, the Illinois Department of Insurance ("the Department").

In 2007, the performance of mortgage credit began to deteriorate. Increasing numbers of mortgage defaults resulted in higher loss reserves and incurred losses for Triad, indicating that Triad needed more capital to meet regulatory requirements. Several different and varied attempts to raise capital were unsuccessful. Losses in late 2007 and early 2008 further reduced Triad's capital below the

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regulatory minimum necessary to write new business and Triad voluntarily ceased new production. In 2008, the Department issued corrective orders formerly prohibiting TGIC from writing any new business and placed the Company in run-off. Triad's management and the Board of Directors are still in place and working with the Department to offer the best long-term solution for Triad, TGIC and its policyholders.

The above background was presented to provide perspective on the difficult situations and decisions that Triad's Board and management faced over the past several years. In a period of great uncertainty, management and the Board were forced to consider very difficult accounting and financial reporting decisions that directly affected the Company's long-term viability. As the Company addressed many unique accounting and financial reporting issues, the Audit Committee and Board were grateful to have our experienced audit firm examine and challenge our financial reporting and disclosures.

Triad has a long association with its existing audit firm and the Audit Committee has consistently recommended retaining the audit firm to the shareholders. A significant consideration in the Committee's recommendation is the audit firm's extensive knowledge not only of our Company, but others within the industry. Because of the industry experience and specific knowledge about Triad, the Audit Committee believes retaining the audit firm adds rigor to the financial reporting process when compared to a model where the audit firm is periodically replaced.

Triad's Board and Audit Committee are diligent in our responsibilities to the Company. One of the key roles that the Audit Committee fulfills is the appointment and compensation of our audit firm. Over the years, we have considered other firms' proposals to perform the audit work and have not changed firms. The Audit Committee believes such a change would be disruptive and the value lost from the in-depth knowledge and level of understanding of Triad's and the unique mortgage guaranty industry's financial reporting would greatly outweigh the perceived benefits brought by a new audit firm. The Audit Committee has historically believed, and continues to believe, that Triad's accounting and financial reporting has been enhanced by the continuity of the audit firm.

The existing regulations include audit partner rotation rules to limit the number of years the same partner can supervise the audit. In 2009 during a period of ongoing economic stress and uncertainty for Triad, the primary audit partner rotated off our audit and a new partner was brought in. However, due to the ability of the audit engagement team to consult within the firm and the level of detailed documentation the firm maintained on Triad, the partner rotation was not disruptive. While the new partner brought a different and a fresh perspective, management was not required to spend the time and resources that would have been necessary to help a new firm understand Triad's industry and financial reporting.



The Audit Committee is also diligent in its responsibilities to ensure that our audit firm applies an appropriate amount of independence, objectivity and professional skepticism. The Audit Committee meets regularly with the audit engagement team to understand the nature, timing and extent of their procedures and the results of those procedures as it relates their audits and timely quarterly reviews. These meetings include private executive sessions without the presence of Company management. The Audit Committee maintains an open dialogue with the partners of our audit firm and is appreciative of their frank discussions over the past several years.

The Audit Committee is confident our audit firm places its independence and the value of its opinion on Triad's financial statements ahead of the value of its relationship. As an example in 2008, the audit firm issued a "going concern" opinion expressing substantial doubt about the Company's ability to continue as a going concern and has issued the same audit opinion on our financial statements in 2009 and 2010. These decisions included challenging discussions between the audit firm, management, the Board and the Audit Committee that once again demonstrated the audit firm's independence, objectivity and professional skepticism.

#### **General Comment**

Triad's Audit Committee objects to the mandatory audit firm rotation proposal, as we believe that it would weaken the corporate governance structure, which recognizes and attempts to enhance the alignment of interests of our shareholders, independent audit committee and the independent audit firms. Particularly, we believe that mandatory audit firm rotation would override our Audit Committee's knowledge, perspective and responsibility. We also believe that mandatory audit firm rotation would ultimately increase cost and actually weaken the quality of the audit. Resource challenges of both the audit firms themselves and smaller companies such as Triad would become burdensome if mandatory audit firm rotation were to become a requirement.

I appreciate the opportunity to express my views on behalf of the Audit Committee of Triad. I would be pleased to discuss these comments with members of the Board or staff, especially as it relates to the unique circumstances of a company like Triad.

A handwritten signature in blue ink that reads "David Whitehurst". The signature is written in a cursive, flowing style.

David W. Whitehurst  
Chairman, Audit Committee