

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:)	
)	Chapter 11
)	
THE PMI GROUP, INC., a Delaware)	Case No. 11-11-13730 (BLS)
corporation, ¹)	
)	Objection Deadline: December 30, 2011 at 4:00 p.m. (ET)
Debtor.)	Hearing Date: January 6, 2012 at 9:30 a.m. (ET)

**APPLICATION OF THE DEBTOR PURSUANT TO
SECTION 327(e) OF THE BANKRUPTCY CODE
FOR AUTHORIZATION TO EMPLOY AND RETAIN
SULLIVAN & CROMWELL LLP AS SPECIAL COUNSEL TO
THE DEBTOR, NUNC PRO TUNC TO THE PETITION DATE**

The PMI Group, Inc. ("TPG"), as debtor and debtor-in-possession (the "Debtor"), hereby submits this application (the "Application") for entry of an order pursuant to section 327(e) of title 11 of the United States Code, 11 U.S.C. §§ 101 et seq. (the "Bankruptcy Code"), authorizing the employment and retention of Sullivan & Cromwell LLP ("Sullivan & Cromwell") as special counsel to the Debtor, *nunc pro tunc* to the Petition Date (defined below).²

In support of this Application, the Debtor (a) relies upon the Declaration of Andrew G. Dietderich (the "Dietderich Declaration"), annexed hereto as Exhibit 1, and (b) relies upon and incorporates by reference the Declaration of L. Stephen Smith in Support of First Day Motions (the "First Day Declaration"), filed on the Petition Date. In further support of this Application, the Debtor represents as follows:

¹ The last four digits of the Debtor's federal tax identification number are 9675. The Debtor's mailing address is 3003 Oak Road, Walnut Creek, California 94597 (Attn: L. Stephen Smith).

² A copy of the proposed order (the "Order") is attached hereto as Exhibit 2.

JURISDICTION

1. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding under 28 U.S.C. § 157(b).
2. Venue of this case and this Application in this district is proper under 28 U.S.C. §§ 1408 and 1409.
3. The statutory predicates for the relief requested herein are sections 327(e), 328(a), 330 and 331 of the Bankruptcy Code, and Rules 2014 and 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

BACKGROUND

4. The Debtor filed a voluntary petition in this Court for reorganization relief under chapter 11 of the Bankruptcy Code (the “Chapter 11 Case”) on November 23, 2011 (the “Petition Date”). The Debtor continues to manage and operate its business as debtor-in-possession under sections 1107(a) and 1108 of the Bankruptcy Code.
5. As of the date hereof, no request for the appointment of a trustee or examiner has been made, and no official statutory committee has been appointed or designated.
6. The factual background regarding the Debtor, including its business operations, its capital structure, and the events leading to the filing of the Chapter 11 Case, is set forth in the First Day Declaration.
7. Sullivan & Cromwell has regularly represented TPG and its subsidiaries since 1996. The Debtor, however, retained Sullivan & Cromwell pursuant to a separate engagement letter dated August 9, 2011 (the “Restructuring Engagement Letter”) to assist it with its restructuring and capital raising initiatives (the “Restructuring Engagement”).

8. In connection with the Restructuring Engagement, Sullivan & Cromwell has rendered advice as part of an advisory team assembled to assist the Debtor with, among other things, a potential sale of or capital transaction involving certain of the Debtor's direct and indirect regulated insurance subsidiaries (an "Extraordinary Transaction"). On August 19, 2011, the Director of the Arizona Department of Insurance (the "ADI Director") entered an order placing PMI Mortgage Insurance Co., and PMI Insurance Co., the Debtor's two principal regulated insurers (collectively, the "Principal Regulated Insurance Subsidiaries") under supervision pursuant to §20-169 of the Arizona Revised Statutes.

9. On October 20, 2011, the ADI Director assumed exclusive power of management and control over the Debtor's Principal Regulated Insurance Subsidiaries pursuant to an interim Order Directing Full and Exclusive Control of Insurer entered in the Superior Court of the State of Arizona in and for the County of Maricopa (the "Interim Possessory Order") pursuant to §20-172 of the Arizona Revised Statutes. The Debtor filed a motion to vacate the Interim Possessory Order on October 28, 2010, which was denied by the Superior Court of the State of Arizona on November 22, 2011. The hearing on the ADI Director's Application for Appointment of Receiver and Order to Show Cause has been adjourned to a date to be determined.

10. Also, on October 20, 2011, the ADI Director entered an order (the "Reinsurance Supervisory Order") placing PMI Reinsurance Co., PMI Mortgage Guaranty Co., and Residential Insurance Co., the Debtor's principal reinsurance subsidiaries (collectively, the "Principal Regulated Reinsurance Subsidiaries") under supervision pursuant to §20-169 of the Arizona Revised Statutes. The Debtor filed an administrative appeal with respect to that supervisory order, and that appeal is tentatively scheduled for hearing on February 2, 2012.

11. The ADI Director also filed a Verified Complaint for Appointment of a Receiver and Injunction (the “Complaint for Appointment of a Receiver”) seeking, among other things, the appointment of a receiver in respect of the Debtor’s Principal Regulated Insurance Subsidiaries. A hearing with respect to this request was scheduled for January 10, 2012 and may proceed then or shortly thereafter.

12. The Restructuring Engagement included lead responsibility for strategic legal advice related to complex insurance regulatory, tax, litigation, securities, mergers and acquisitions, executive compensation and benefits, corporate governance and similar matters affecting the Debtor (collectively, including advice related to an Extraordinary Transaction, the “S&C Advice”). In particular, Sullivan & Cromwell has been involved in potential sales of and capital raises relating to certain subsidiaries of the Company, negotiations with Company stakeholders and litigation against the ADI Director seeking to vacate the Interim Possessory Order. Sullivan & Cromwell also is providing litigation advice with respect to the Complaint for Appointment of a Receiver and the Reinsurance Supervisory Order, and the administrative appeal thereof.

13. Given the continued complexity associated with its reorganization and regulatory relationships, as well as the litigation with the ADI Director and, potentially, a receiver in respect of the Debtor’s Principal Regulated Insurance Subsidiaries, it is the Debtor’s desire that Sullivan & Cromwell continue to provide it with the S&C Advice during the pendency of its Chapter 11 Case.

14. With respect to the administration of the bankruptcy case itself, the Debtor has retained Young Conaway Stargatt & Taylor, LLP (“YCST”) to serve as lead bankruptcy

counsel to the Debtor and a separate application to retain YCST in that capacity has or will be filed by the Debtor.

15. Given the magnitude and complexity of TPG's restructuring and the related S&C Advice, as well as the effective working relationship and clear division of responsibility between YCST and Sullivan & Cromwell, the Debtor believes that it is necessary for it to continue to have access to the S&C Advice during the pendency of its Chapter 11 Case in order to preserve fully the going concern value of the Debtor.

RELIEF REQUESTED

16. By this Application, the Debtor seeks authority to retain Sullivan & Cromwell as special counsel to continue to advise and assist the Debtor during its Chapter 11 Case. The Debtor requests entry of the Order authorizing the employment and retention of Sullivan & Cromwell, as special counsel to the Debtor, *nunc pro tunc* to the Petition Date. Additional facts and disclosures in support of the Application are set forth in the Dieterich Declaration.

BASIS FOR RELIEF REQUESTED

17. The retention of Sullivan & Cromwell under the terms described herein is appropriate under sections 327(e) and 328(a) of the Bankruptcy Code. Section 327(e) of the Bankruptcy Code provides:

The [debtor-in-possession], with the court's approval, may employ, for a specified special purpose, other than to represent the [debtor-in-possession] in conducting the case, an attorney that has represented the debtor, if in the best interest of the estate, and if such attorney does not represent or hold any interest adverse to the debtor or the estate with respect to the matter on which such attorney is to be employed.

Pursuant to section 328(a) of the Bankruptcy Code, the Debtor may retain Sullivan & Cromwell on any reasonable terms and conditions. See 11 U.S.C. § 328(a).

18. Sullivan & Cromwell is an international law firm with experience and special expertise in the fields of insurance and financial regulation, tax, litigation, corporate finance, securities law, mergers and acquisitions, executive compensation and benefits, corporate governance, and other areas of law pertinent to the subject matters of the firm's retention as special counsel as proposed by the Debtor. In particular, the firm's preeminence in advising public companies in the insurance and financial services industry with respect to such areas of law, including during periods of financial distress, is widely recognized.

19. Sullivan & Cromwell has been engaged by the Debtor and its subsidiaries as its counsel since 1996. In addition to the matters described above, some of the major matters with respect to which Sullivan & Cromwell has represented the Debtor and its subsidiaries include securities offerings by the Debtor since 1996, including the Debtor's offering of capital securities in 1997, Senior Convertible Debentures in 2001, Hybrid Income Term Securities in 2003, Senior Notes in 2006 and Convertible Senior Notes in 2010. Sullivan & Cromwell also has represented the Debtor in its key domestic strategic investments since 1996, including its investments in Fairbanks Capital, RAM Holdings and FGIC Corporation. In addition, Sullivan & Cromwell has represented the Debtor in connection with the establishment of, and subsequent amendment to, its primary credit facility and its evaluation of structured reinsurance arrangements, and advised the Debtor on disclosure matters and corporate governance practices.

20. As a result of its extensive work for the Debtor, Sullivan & Cromwell has become thoroughly familiar with the Debtor's corporate and capital structure, management team, strategic possibilities, stakeholders, and various other aspects of its business, and is, thus,

uniquely qualified to continue to render the S&C Advice during the Chapter 11 Case.

Accordingly, the Debtor believes that retention of Sullivan & Cromwell as special counsel for the matters described in this Application will provide continuity of service and enhance efficiency, thereby preserving estate assets, and is clearly in the best interest of the Debtor, its estate and creditors and other parties in interest.

21. The specific matters in respect of which the Debtor seeks permission to retain Sullivan & Cromwell are the following:

- a. Advice and assistance with respect to insurance regulatory matters, related litigation, and the resolution of the Debtor's relationship with its regulated insurance subsidiaries, including, without limitation, the Debtor's (x) Principal Regulated Insurance Subsidiaries and (y) Principal Regulated Reinsurance Subsidiaries;
- b. Advice and assistance with respect to corporate governance matters not directly related to the conduct of the Chapter 11 Case, including, without limitation, advice to the Debtor's board of directors and executive officers as to their duties under applicable non-bankruptcy law;
- c. Advice and assistance with respect to executive compensation and benefits matters not directly related to the conduct of the case, including, without limitation, the structuring, implementation, and operation of incentive arrangements (other than assuring compliance with the Bankruptcy Code, which will be the responsibility of YCST);
- d. Securities law matters not directly related to the conduct of the Chapter 11 Case;
- e. Advice and assistance with strategic matters related to the structuring and implementation of an Extraordinary Transaction, including tax and mergers and acquisitions advice, as well as negotiating and litigating, as necessary, with the ADI Director, or any receiver appointed by it in respect of proceedings related to the Debtor's (x) Principal Regulated Insurance Subsidiaries, and (y) Principal Regulated Reinsurance Subsidiaries; and
- f. Other matters not directly related to the conduct of this Chapter 11 Case as requested by the Debtor from time to time.

22. For greater certainty, Sullivan & Cromwell is not being retained to conduct the Chapter 11 Case and will not be representing the Debtor in this Court, other than in connection with the approved S&C Advice. In particular, Sullivan & Cromwell will not be responsible for obtaining bankruptcy court approval of an Extraordinary Transaction or appearances before the Bankruptcy Court (unless such appearances are related to the advice specifically described above), and will review pleadings in this Court only where specifically related to the matters on which Sullivan & Cromwell is engaged or where Sullivan & Cromwell has specific knowledge of the relevant facts, circumstances or strategic priorities of the Company. Although the Debtor anticipates that Sullivan & Cromwell, YCST and their other advisors will be coordinating among each other, the Debtor believes that it has delineated the scope of Sullivan & Cromwell's retention appropriately and that the combination of YCST and Sullivan & Cromwell will provide cost-effective legal services of the highest quality to the Debtor during its Chapter 11 Case.

23. In addition to seeking to retain Sullivan & Cromwell as special counsel, by separate applications filed or to be filed, the Debtor is seeking to retain and employ (i) YCST, as the Debtor's lead bankruptcy counsel, (ii) Osborn Maldeon, PA, as special Arizona litigation counsel, and (iii) Goldin Associates, LLC, as restructuring advisors, as well and other counsel and advisors in connection with the Chapter 11 Case. Sullivan & Cromwell has undertaken, and will continue to undertake, to make all reasonable efforts to avoid duplication of work provided by other counsel and advisors to the Debtor.

24. The Debtor believes that the employment and retention of Sullivan & Cromwell as set forth in this Application is in the best interests of the Debtor, its estate, its creditors and other parties in interest and should be approved by this Court.

SULLIVAN & CROMWELL'S CONNECTIONS TO THE DEBTOR AND PARTIES

25. Retention of an attorney under section 327(e) of the Bankruptcy Code does not require the same searching inquiry required for a debtor to retain general bankruptcy counsel. See e.g., In re West Delta Oil Co, Inc., 432 F.3d 347, 357 (5th Cir. 2005) (“[S]pecial counsel employed under §327(e) need only avoid possessing interests ‘adverse to the debtor or to the estate with respect to the matter on which such attorney is to be employed.’”) (quoting 11 U.S.C. § 327 (e)); In re Madison Ave. Ltd. P’ship, 213 B.R. 888 (Bankr. S.D.N.Y. 1997).

26. To the best of the Debtor’s knowledge, information and belief, Sullivan & Cromwell does not hold or represent any interest adverse to the Debtor or its estate with respect to the matters on which Sullivan & Cromwell is to be employed.

27. To the best of the Debtor’s knowledge, information and belief, the Dietderich Declaration fully sets forth all of Sullivan & Cromwell’s connections with the Debtor, creditors, any other party in interest, their respective attorneys and accountants, the United States Trustee or any person employed in the office of the United States Trustee.

COMPENSATION

28. In connection with its proposed engagement during the course of the Chapter 11 Case, Sullivan & Cromwell has agreed to charge for services rendered and expenses incurred, and the Debtor has agreed, subject to this Court’s approval under section 330 of the Bankruptcy Code, to compensate Sullivan & Cromwell for its services and to reimburse its disbursements, all as set forth below and in the Dietderich Declaration.

29. As set forth in the Dietderich Declaration, Sullivan & Cromwell does not ordinarily determine its fees solely on the basis of hourly rates. Instead, Sullivan & Cromwell ordinarily bases the fee for its services on all the factors prescribed by Rule 1.5(a) of the New

York Rules of Professional Conduct, including the firm's contribution to the matter, the responsibility assumed, the results achieved, the difficulty and complexity of the matter, the amount involved, the experience of, and demands on, the lawyers involved and the fees customarily charged for such matters.

30. Notwithstanding the foregoing, Sullivan & Cromwell has agreed that from and after the Petition Date it will charge for services performed during the Chapter 11 Case, and will apply to the Court for approval of such charges, on the basis of hourly rates as set forth herein and in the Dietderich Declaration. The Debtor has agreed to hourly rates to be charged by Sullivan & Cromwell during this case in a range from \$990 to \$1,150 for partners, \$990 to \$1,150 for special counsel, \$395 to \$875 for associates, \$210 to \$290 for legal assistants and \$110 to \$290 for other timekeepers. Sullivan & Cromwell has informed the Debtor that the agreed hourly rates set forth above are derived from notional hourly rates utilized by the Sullivan & Cromwell for certain internal budgeting and planning purposes, but that the rates for certain time keepers have been reduced from such notional hourly rates in light of the Company's circumstances. The Debtor has been advised that because Sullivan & Cromwell's fees for services rendered to clients on other matters take into account factors other than the number of hours spent, as described in the Dietderich Declaration, the amount of fees charged by Sullivan & Cromwell for other matters may be different than the amounts that would result simply by the mathematical exercise of multiplying the rates above by the number of hours spent by personnel of comparable seniority.

31. Sullivan & Cromwell has been paid for all professional services, expenses, and disbursements rendered to the Debtor prior to the Petition Date. In connection with the execution of the Restructuring Engagement Letter, on August 16, 2011, Sullivan & Cromwell

received an initial retainer from the Debtor in the amount of \$600,000, and on October 24, 2011, the retainer was increased to \$1,000,000 (the “Retainer”). On November 22, 2011, Sullivan & Cromwell applied all then-remaining outstanding fees and disbursements owed to it (\$60,000 and \$971, respectively) for the period between November 18, 2011, through November 22, 2011, against the Retainer.

32. As of the Petition Date, Sullivan & Cromwell was holding \$939,029 on Retainer, and had no further amounts due and owing to it. In accordance with our understanding with the Debtor and Sullivan & Cromwell’s ordinary practice for restructuring assignments, the Debtor will pay for all of Sullivan & Cromwell’s professional services, expenses and disbursements on a current as-billed basis, as opposed to applying outstanding amount owed to us against our Retainer.

33. In addition to the Retainer, since November 1, 2010, TPG (or one of its subsidiaries) has caused to be paid fees and disbursements to Sullivan & Cromwell as follows:

Invoice No.	Date Rendered	Fees	Expenses	Date Paid	Time Period Covered
477783	11/29/10	\$140,000	\$1,586	12/17/10	10/01/10 to 11/15/10
477777	11/29/10	245,000	2,429	12/17/10	09/15/10 to 11/15/10
477782	11/29/10	54,000	139	12/17/10	09/15/10 to 11/15/10
489986	08/02/11	140,000	1,087	08/17/11	01/01/11 to 03/31/11
489988	08/02/11	65,000	211	08/17/11	04/01/11 to 06/30/11
489984	08/02/11	165,000	941	08/17/11	11/15/10 to 07/15/11
492209	09/26/11	600,000	2,516 ³	09/27/11	08/09/11 to 09/15/11
493876	10/25/11	600,000	6,240 ⁴	10/27/11	09/16/11 to 10/21/11
494507	11/08/11	550,000	1,233	11/09/11	10/22/11 to 11/01/11
494883	11/10/11	335,000	2,502	11/15/11	11/02/11 to 11/09/11
495367	11/21/11	140,000	743	11/22/11	11/10/11 to 11/17/11
Total		\$3,034,000	\$19,628		

³ This disbursement was written off.

⁴ This disbursement was written off.

34. The Debtor understands that in addition to its customary review and approval of Sullivan & Cromwell's fees and disbursements, Sullivan & Cromwell will be required to file interim and final fee applications for the allowance of compensation and reimbursement of disbursements in accordance with section 330 of the Bankruptcy Code, Bankruptcy Rule 2016 and the other applicable rules and orders of this Court.

35. In addition to the foregoing, the Debtor reserves the right to support the submission by Sullivan & Cromwell of an application to this Court for additional compensation if warranted at the conclusion of the specific matters on which the firm has been engaged.

NOTICE

36. No trustee, examiner, or creditors' committee has been appointed in the Chapter 11 Case. The Debtor has provided notice of this Motion to: (a) the United States Trustee for the District of Delaware; (b) the creditors listed on the Debtor's list of largest unsecured creditors, as filed with the Debtor's chapter 11 petition; (c) the Internal Revenue Service; (d) the Securities and Exchange Commission; (e) Bank of New York Mellon Trust Company, N.A. as Trustee under the Debtor's Senior Indentures; (f) the Pension Benefit Guaranty Corporation; (g) the Arizona Attorney General; (h) the Director of Insurance for the Arizona Department of Insurance; and (i) those parties requesting notice pursuant to Bankruptcy Rule 2002. In light of the nature of the relief requested, the Debtor submits that no further notice is required or needed under the circumstances.

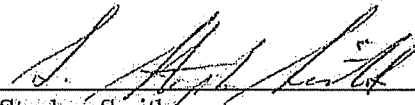
37. A copy of the Application is available on the Court's website: www.deb.uscourts.gov. Additional copies of the Application are available for free on the website of the Debtor's proposed claims, noticing, soliciting, and balloting agent, Kurtzman Carson Consultants LLC, at www.kccllc.net/PMI or can be requested by calling (310) 823-9000.

CONCLUSION

WHEREFORE, the Debtor respectfully requests entry of the Order (a) authorizing the Debtor to retain Sullivan & Cromwell as special counsel to the Debtor, *nunc pro tunc* to the Petition Date and (b) granting such other and further relief as is just.

Dated: Wilmington, Delaware
December 15, 2011

The PMI Group, Inc.



L. Stephen Smith
Chairman, Chief Executive Officer, President, Chief
Operating Officer and Secretary