

Report
of the
Examination of
MGIC Assurance Corporation
Milwaukee, Wisconsin
As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

April 19, 2013

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

MGIC ASSURANCE CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MGIC Assurance Corporation (hereinafter also the company or MAC) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 and 2013 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendation and comment made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated in 1937 as an Oklahoma-domiciled insurer, under the name Insurers Indemnity and Insurance Company. The company was acquired by the Equitable Investment Corporation (hereinafter also EIC) in 1979, and the name of the company was changed to Equitable General Insurance Company of Oklahoma. The company's immediate parent following its acquisition by EIC was Equitable Casualty Insurance Company (hereinafter also ECIC).

In 1986, ECIC was purchased by Financial Security Assurance Inc. (FSA), a New York-domiciled financial guaranty insurer. The ultimate controlling entity of FSA was Financial Security Assurance Holdings Ltd. (hereinafter also FSA Holdings). Prior to the sale of ECIC to FSA, all of the insurance liabilities of the company and ECIC were divested. As of the date of the sale, the company changed its name to Financial Security Assurance, Inc. of Oklahoma. In 1989, FSA Holdings was acquired by U S WEST, Inc., a Colorado corporation.

Mortgage Guaranty Insurance Corporation (hereinafter also MGIC) purchased the company in 1995. The company redomesticated to Wisconsin and changed its name to MGIC Assurance Corporation effective November 18, 1996. In 1997, MGIC contributed 100% of the issued and outstanding capital stock of MGIC Assurance Corporation to the MGIC subsidiary, MGIC Surety Corporation (Surety). MGIC Surety Corporation was merged with and into MGIC effective November 30, 2002. Upon the merger of Surety, the assets and liabilities of MGIC Surety Corporation, including 100% of the issued and outstanding capital stock of MGIC Assurance Corporation, transferred to MGIC.

The company was acquired by MGIC to serve as a direct writer of residential mortgage guaranty insurance on second mortgage and home equity junior liens accounted for through the MAC segregated account. The business plan of the company was to serve as a mortgage guaranty insurer of junior liens in jurisdictions that do not require a mortgage guaranty company to be a monoline insurer. Concurrent with MGIC's establishment of MAC, MGIC also established MGIC Credit Assurance Corporation (hereinafter also MCAC) to engage in residential

mortgage guaranty of junior liens in those states in which only a monoline insurer is permitted to insure mortgage guaranty risks.

MAC established a segregated account in 1997 pursuant to the requirements of s. 611.24 (1), Wis. Stat., and s. Ins 3.09 (12) (g), Wis. Adm. Code, through which MAC was authorized to conduct junior lien mortgage guaranty business. MAC commenced writing direct business in 1997 and continued to issue new policies of mortgage guaranty insurance on junior liens through December 31, 2001. MAC and MCAC each terminated writing new business effective January 1, 2002. MAC transferred to MCAC the mortgage business of MAC's segregated account, which consists solely of renewals on existing policies, all of which are in run-off, after approval from the Wisconsin Office of the Commissioner of Insurance.

From time to time, the company considers potential opportunities to initiate writing property and casualty lines, other than mortgage guaranty business, in the company's general account. MAC wrote credit default coverage on loans secured by unimproved residential properties in 2007, but discontinued writing such coverage in 2010.

MAC is a member of a holding company system, and ultimate ownership and control of the company is held by MGIC Investment Corporation (hereinafter also MGIC Investment). MAC does not have any employees, and all of its day-to-day business operations are performed by MGIC pursuant to an intercompany services agreement. Further discussion of the MGIC Investment Corporation holding company system, description of MAC's significant affiliates, and description of the company's intercompany agreements are included in the section of this report captioned "Affiliated Companies."

In 2011 the company wrote direct premium in the following states:

Ohio	\$ 58,299	56.8%
North Carolina	40,636	39.5
Hawaii	2,726	2.7
Wisconsin	<u>1,046</u>	<u>1.0</u>
Total	<u>\$102,707</u>	<u>100.0%</u>

MAC is licensed in 45 states and the District of Columbia and during 2011 the company only wrote direct premiums in the aforementioned four jurisdictions.

The following table is a summary of the net insurance premiums written by the company in 2011. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	<u>\$102,707</u>	<u>\$0</u>	<u>\$0</u>	<u>\$102,707</u>
Total All Lines	<u>\$102,707</u>	<u>\$0</u>	<u>\$0</u>	<u>\$102,707</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members, each of whom is an officer of the company. The directors are elected at the annual shareholder's meeting to serve a one-year term. Officers are elected at board meetings and are to hold those positions until the earlier of their resignation or removal by the board of directors. Each member of the MAC board of directors also serves as a member of other boards of directors in the holding company group and receives no specific compensation for services performed as a director of MAC.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Curt S. Culver Nashotah, Wisconsin	MGIC Chairman of the Board and Chief Executive Officer	2013
Heidi A. Heyrman Pewaukee, Wisconsin	MGIC Vice President of Regulatory Relations, Assistant General Counsel and Assistant Secretary	2013
Jeffrey H. Lane Mequon, Wisconsin	MGIC Executive Vice President, General Counsel and Secretary	2013
J. Michael Lauer Elm Grove, Wisconsin	MGIC Executive Vice President and Chief Financial Officer	2013
Timothy J. Mattke Whitefish Bay, Wisconsin	MGIC Vice President, Controller and Chief Accounting Officer	2013
Lawrence J. Pierzchalski Oconomowoc, Wisconsin	MGIC Executive Vice President, Risk Management	2013
Patrick Sinks Mequon, Wisconsin	MGIC President and Chief Operating Officer	2013

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2011 Compensation
Curt S. Culver	Chairman of the Board and Chief Executive Officer	\$4,564,274
Heidi A. Heyrman	Vice President of Regulatory Relations, Assistant General Counsel and Secretary	437,383
Jeffrey H. Lane	Executive Vice President, General Counsel and Assistant Secretary	2,558,003
J. Michael Lauer	Executive Vice President and Chief Financial Officer	1,821,760
Timothy J. Mattke	Vice President and Controller	471,402
Lawrence J. Pierzchalski	Executive Vice President of Risk Management	1,760,633
Patrick Sinks	President and Chief Operating Officer	2,593,458

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Securities Investment Committee

J. Michael Lauer, Chair
Heidi A. Heyrman
Timothy J. Mattke

IV. AFFILIATED COMPANIES

MGIC Assurance Corporation is a member of a holding company system whose ultimate controlling parent is MGIC Investment Corporation. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart As of December 31, 2011

- MGIC Investment Corporation
 - Mortgage Guaranty Insurance Corporation
 - MGICA PTY Limited
 - MGIC Australia PTY Limited
 - MIC Reinsurance Corporation
 - MGIC Indemnity Corporation
 - MIC Reinsurance Corporation of Wisconsin
 - MGIC Credit Assurance Corporation
 - MGIC Reinsurance Corporation of Wisconsin
 - MGIC Mortgage and Consumer Asset II, LLC (Note #1)
 - MGIC Assurance Corporation
 - MGIC Reinsurance Corporation of Vermont
 - eMagic.com, LLC
 - MGIC Mortgage and Consumer Asset I, LLC (Note #1)
 - CMI Investors LP 2 (99% ownership interest)
 - CMI Investors LP 5 (99% ownership interest)
 - CMI Investors LP 8 (99% ownership interest)
 - CMI Investors LP 9 (99% ownership interest)
 - MGIC Reinsurance Corporation
 - MGIC Mortgage Reinsurance Corporation
 - MGIC Residential Reinsurance Corporation
 - MGIC Insurance Services Corporation
 - MGIC Investor Services Corporation
 - MGIC Mortgage Services, LLC

Note # 1: MGIC Mortgage and Consumer Asset II, LLC, holds a 1% ownership interest in CMI Investors LPs; the remaining 99% interest is held in MGIC Mortgage and Consumer Asset I, LLC.

MGIC Investment Corporation

MGIC Investment was incorporated in Wisconsin on June 22, 1984, under the name Management Financing Corporation. MGIC Investment was established as a holding company to consolidate the ownership and capitalization of the legal entities within the MGIC enterprise. The initial capital funding of Management Financing Corporation was provided by The Northwestern Mutual Life Insurance Company and by senior executive officers of MGIC. The holding company name was changed to MGIC Investment Corporation effective March 1, 1985. An initial public

offering of MGIC Investment common capital stock was completed in August of 1991, and a second public offering was completed in June 1992. The issued and outstanding shares of MGIC Investment's common capital stock are traded on the New York Stock Exchange under the ticker symbol MTG.

As of January 17, 2012, Old Republic International Corporation owned 6.75% of the outstanding stock of MGIC Investment. As of September 30, 2012, the officers and directors of MGIC Investment, comprised of 17 individual shareholders, had ownership interest in MGIC Investment of approximately 1.7%. Interests held by directors included 451,001 share units held under MGIC Investment's directors' deferred compensation plan for which the holders currently do not have rights to exercise investment or voting power.

The MGIC enterprise is principally engaged in writing mortgage guaranty insurance on residential mortgage loans. MGIC Investment Corporation's insurance subsidiaries provide mortgage guaranty insurance to mortgage lenders, and its non-insurance operating subsidiaries provide products and services to the mortgage finance industry, including contract underwriting, real estate valuations, loan servicing, administering special insurance bonds and policies, brokerage for errors and omissions policies, and internet-based technology services.

As of December 31, 2011, MGIC Investment's consolidated GAAP basis audited financial statements reported total assets of \$7,216,230,000, total liabilities of \$6,019,415,000, and total shareholders' equity of \$1,196,815,000. Operations for 2011 produced a net loss of \$485,892,000.

Mortgage Guaranty Insurance Corporation

MGIC was incorporated under the laws of Wisconsin on February 20, 1979, as Liberty Mortgage Insurance Corporation (LMIC). LMIC was originally owned by Verex Corporation and was acquired by MGIC Investment Corporation in November 1984. The name Liberty Mortgage Insurance Corporation was changed to Mortgage Guaranty Insurance Corporation on March 1, 1985, when MGIC began writing new business.

MGIC formerly had two classes of issued and outstanding common capital stock, Class A common stock and Class B common stock. MGIC Investment Corporation retained

ownership of the MGIC Class B common stock and effective September 30, 1985, contributed 100% of the MGIC Class A common stock to the former MGIC Investment subsidiary Mortgage Guaranty Reinsurance Corporation (MGRC). Effective May 25, 1999, MGRC was dissolved pursuant to a plan of voluntary dissolution and liquidation approved by the Commissioner. Upon the dissolution of MGRC, all 35,000 issued and outstanding shares of MGIC Class B common stock held by MGIC Investment Corporation were redeemed at a price of \$1,000 per share and the remaining assets and liabilities of the liquidated MGRC legal entity including 100% of the MGIC Class A common capital stock transferred to MGIC Investment Corporation. MGIC's capital stock presently is comprised solely of one class of common stock, wholly owned by MGIC Investment Corporation.

MGIC provides residential mortgage guaranty insurance in all 50 U.S. states, the District of Columbia, Guam, and Puerto Rico. MGIC serves as the lead operating company in the MGIC Group and provides administrative and managerial services to its affiliates. MGIC's direct and indirect costs incurred in providing services to its affiliates are allocated to the respective affiliates pursuant to intercompany agreements. Excess of loss insurance coverages on risks written by MGIC are ceded to four MGIC affiliate insurers to enable MGIC to comply with statutory restrictions in some states that limit an insurer's net retention of mortgage guaranty insurance for any one risk to not more than either 25% or 30% of the total indebtedness to the insured, depending on the jurisdiction.

As of December 31, 2011, MGIC's statutory financial statements reported total admitted assets of \$5,528,912,276, total liabilities of \$3,960,130,146, and policyholders' surplus of \$1,568,782,130. Operations for 2011 produced a net loss of \$397,086,634.

MGIC Indemnity Corporation

MGIC Indemnity Corporation (hereinafter also MIC) is a Wisconsin-domiciled mortgage guaranty insurer originally incorporated in Wisconsin in 1956 under the name Mortgage Guaranty Insurance Corporation (Old MGIC). In 1984 the Commissioner approved a plan (the Plan) whereby the ongoing successful business enterprise of Old MGIC could be protected from the bankruptcy of Baldwin-United Corporation and be continued in a successor legal entity.

Pursuant to the Plan, effective February 28, 1985, the business operations of Old MGIC were transferred to a successor insurer named Mortgage Guaranty Insurance Corporation (the present-day MGIC), Old MGIC changed its name to Wisconsin Mortgage Assurance Corporation (WMAC), and WMAC entered into court-ordered liquidation proceedings under the supervision of the Commissioner.

Under the 1985 liquidation proceedings, WMAC discontinued issuance of new insurance business, its existing book of business entered run-off status managed by the present-day MGIC, and 100% of WMAC's existing net retained liability for insurance risks was ceded to a group of international reinsurers under quota share reinsurance treaties. In December 1998, the WMAC liquidation proceedings were terminated and WMAC entered rehabilitation proceedings. Mortgage Guaranty Insurance Corporation (the present-day MGIC) purchased WMAC as of December 31, 1998, under a plan of rehabilitation approved by the Commissioner. WMAC changed its name to the current MGIC Indemnity Corporation effective June 1, 2000. MIC has not written any new business since 1985, and its entire portfolio of business is comprised of renewal policies in run-off. All claims have been paid by WMAC or its reinsurers, and only a small amount of insurance in-force remains in run-off.

In 2009 MIC's reactivation plan was approved by this office, the Federal Home Loan Mortgage Corporation and certain named federal government-sponsored enterprises subject to certain conditions. In preparation of writing new mortgage risks MIC received a \$200 million capital contribution from MGIC Investment in 2009. MIC has also been actively trying to obtain licenses to write business in all U.S. states and as of year-end 2011 has been successful in obtaining licensure in 52 jurisdictions (includes the District of Columbia and Puerto Rico) but has not begun writing any new business under the reactivation plan.

As of December 31, 2011, MIC's statutory financial statements reported total admitted assets of \$234,900,424, total liabilities of \$401,903, and policyholders' surplus of \$234,498,521. Operations for 2011 produced net income of \$4,777,300.

MGIC Reinsurance Corporation

MGIC Reinsurance Corporation (hereinafter also MRC) was incorporated under the laws of Wisconsin on February 21, 1985, and commenced business on March 1, 1985. MRC was organized to provide MGIC with excess of loss reinsurance coverage and as of year-end 2011 assumes all of its business from MGIC. MRC provides reinsurance to MGIC on primary and pool mortgage guaranty coverage in excess of 25% of the total indebtedness to the insured, principally on business written in six states.

As of December 31, 2011, MRC's statutory financial statements reported total admitted assets of \$285,643,251, total liabilities of \$217,523,585, and policyholders' surplus of \$68,119,666. Operations for 2011 produced a net loss of \$7,936,675.

MGIC Reinsurance Corporation of Wisconsin

MGIC Reinsurance Corporation of Wisconsin (hereinafter also MRCW) was incorporated under the laws of Wisconsin on February 15, 1996, and commenced operations on April 1, 1996. MRCW was established to provide reinsurance to MGIC for primary and pool mortgage guaranty policy liabilities in excess of 25% of the total indebtedness to the insured, for mortgage guaranty policies written in all jurisdictions except six states. MRCW assumes all of its business from MGIC and does not cede any reinsurance.

As of December 31, 2011, MRCW's statutory financial statements reported total admitted assets of \$846,437,582, total liabilities of \$745,199,995, and policyholders' surplus of \$101,237,587. Operations for 2011 produced a net loss of \$37,719,335.

MGIC Mortgage Reinsurance Corporation

MGIC Mortgage Reinsurance Corporation (hereinafter also MMRC) was organized under the laws of Wisconsin on July 1, 1996, and commenced business on the same date. MMRC provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MMRC's reinsurance on any loan is limited to a maximum of 25% of the total indebtedness to the insured. MMRC assumes all of its business from MGIC and does not cede any reinsurance.

As of December 31, 2011, MMRC's statutory financial statements reported total admitted assets of \$27,694,271, total liabilities of \$17,495,652, and policyholders' surplus of \$10,198,619. Operations for 2011 produced a net loss of \$75,992.

MGIC Residential Reinsurance Corporation

MGIC Residential Reinsurance Corporation (hereinafter also MRRC) was organized under the laws of Wisconsin on July 1, 1996, and commenced business on that date. MRRC provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MRRC reinsurance on any loan is limited to a maximum of 25% of the total indebtedness to the insured. MRRC assumes all of its business from MGIC and does not cede any reinsurance.

As of December 31, 2011, MRRC's statutory financial statements reported total admitted assets of \$26,903,063, total liabilities of \$17,495,634, and policyholders' surplus of \$9,407,429. Operations for 2011 produced a net loss of \$183,273.

MGIC Credit Assurance Corporation

MCAC was organized under the laws of Wisconsin on April 30, 1997, and commenced business on May 21, 1997. MCAC is a wholly owned subsidiary of MGIC and was established to write mortgage guaranty insurance for lenders in certain states on second mortgages and home equity lines of credit. MCAC commenced writing direct business in 1998 and terminated writing new business effective January 1, 2002. MCAC's current portfolio of insurance risks consists solely of renewal business on existing policies, and its entire book of business is in run-off.

As of December 31, 2011, MCAC's statutory financial statements reported total admitted assets of \$43,367,930, total liabilities of \$1,244,961, and policyholders' surplus of \$42,122,969. Operations for 2011 produced a net loss of \$62,097.

MGIC Reinsurance Corporation of Vermont

MGIC Reinsurance Corporation of Vermont (hereinafter also MRCV) was incorporated under the laws of Vermont on September 28, 1999, to operate as a sponsored captive insurance company pursuant to Title 8, Chapter 141 of the Vermont Statutes. The

Vermont Statutes permit a licensed insurer and participating sponsors to establish a sponsored captive reinsurance company to reinsure business written by a licensed insurer. MRCV reinsures MGIC mortgage guaranty risks on loans that were originated, purchased, or serviced by mortgage lenders which participate in MRCV captive reinsurance. For the business assumed by MRCV on behalf of a participating sponsor, MRCV establishes a protected cell account in which assets of each such participant are separately maintained and accounted for with respect to the participant's liabilities for mortgage guaranty risks assumed by the participant. A separate participation agreement is established between MRCV and each respective participant. By establishing a participation agreement with MRCV, a lender which desires to engage in captive reinsurance is able to participate as a sponsored captive and is not required to establish a separate insurance or reinsurance legal entity.

As of December 31, 2011, MRCV's statutory financial statements reported total admitted assets of \$14,827,442, including \$11,089,334 of trust assets, total liabilities of \$7,652,600 and policyholders' surplus of \$7,174,842. Operations for 2011 produced a net loss of \$1,067,730.

MIC Reinsurance Corporation

MIC Reinsurance Corporation (hereinafter also MICRC) was organized and incorporated under the laws of the state of Wisconsin on December 3, 2009. MICRC was formed to provide reinsurance to MIC on mortgage guaranty primary coverage in excess of 25% of the total indebtedness to the insured on business written in five states as part of MIC's reactivation plan, which was discussed earlier. As of year-end 2011 MICRC has not commenced writing business.

As of December 31, 2011, the audited statutory financial statements of MICRC reported admitted assets of \$3,014,630, liabilities of \$4,507, and policyholders' surplus of \$3,010,123. Operations for 2011 produced a net loss of \$1,297.

MIC Reinsurance Corporation of Wisconsin

MIC Reinsurance Corporation of Wisconsin (hereinafter also MICRCW) was organized and incorporated under the laws of the state of Wisconsin on December 3, 2009.

MICRCW was established to provide reinsurance to MIC for primary mortgage guaranty policy liabilities in excess of 25% of the total indebtedness to the insured, for mortgage guaranty policies written in all jurisdictions except five states as part of MIC's reactivation plan, which was discussed earlier. As of year-end 2011 MICRCW has not commenced writing business.

As of December 31, 2011, MICRCW's statutory financial statements reported total admitted assets of \$5,538,959, total liabilities of \$501,017, and policyholders' surplus of \$5,037,942. Operations for 2011 produced net income of \$15,523.

Written Agreements with Affiliates

In addition to common staffing and management control, MGIC Assurance Corporation's relationship to its affiliates is affected by various written agreements and undertakings. Reinsurance agreements are described in Section V of this report entitled "Reinsurance." A brief summary of the other agreements and undertakings follows, arranged by effective date.

Tax Sharing Agreement

Effective January 22, 1986, MGIC Investment Corporation entered into a tax-sharing agreement with MGIC and specified affiliates of the MGIC Group that qualify for inclusion in such an agreement under the Internal Revenue Code. The agreement has been amended nine times to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement, which includes MAC in an amendment effective September 12, 1995. Under this agreement, MGIC Investment Corporation files a consolidated U.S. Federal Income Tax Return that includes MGIC and other affiliates of the holding company group.

The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of the MGIC Group's consolidated U.S. federal income tax liability in accordance with a rational, systematic formula. The agreement provides for computation of tax, settlement of balances between affiliates, tax-sharing, filing the return, audits and other adjustments, dispute resolution and other administrative requirements. The agreement calls for the prompt settlement

of estimated federal tax payments and final year-end calculated adjusted payments on the notified due dates.

Servicing Agreement

MGIC entered into a Servicing Agreement effective January 1, 1996, with MGIC Investment Corporation and certain named affiliates of the MGIC Group. The agreement has been amended nine times and ratified once to add or delete the participation of applicable affiliated entities and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement, which includes MAC as a named party in the original version of the agreement. Under this agreement MGIC performs management and administrative services essential to the day-to-day operation of various affiliates within the MGIC holding company. Services provided by MGIC to its affiliates include provision of office space and employees; administration of underwriting, risk management and claims; performance as agent for funds collection and disbursement; maintenance of investment portfolios and execution of investment transactions; maintenance of depository accounts; maintenance of books and records including financial records; and the preparation and delivery of reports, tax returns, and documents and filings, as required. MGIC's direct costs and indirect expenses incurred in providing services to the individual affiliates are allocated to the respective affiliates each quarter, which is to be determined in accordance with generally accepted accounting principles and in a manner consistent with regulatory authorities having jurisdiction over members to the agreement.

V. REINSURANCE

MGIC Assurance Corporation has not entered into any reinsurance treaties, and the company has not engaged in reinsurance transactions for the assumption or cession of insurance risk.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2011, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

MGIC Assurance Corporation
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 8,732,910	\$0	\$ 8,732,910
Cash, cash equivalents, and short-term investments	1,554,404	0	1,554,404
Investment income due and accrued	98,063	0	98,063
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	<u>3,821</u>	<u>0</u>	<u>3,821</u>
Total Assets	<u>\$10,389,198</u>	<u>\$0</u>	<u>\$10,389,198</u>

MGIC Assurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2011

Losses		\$ 403,555
Loss adjustment expenses		11,703
Taxes, licenses, and fees (excluding federal and foreign income taxes)		918
Current federal and foreign income taxes		24,094
Net deferred tax liability		1,559
Unearned premiums		3,725
Payable to parent, subsidiaries, and affiliates		<u>1,110</u>
Total liabilities		446,664
Common capital stock	\$3,500,000	
Gross paid in and contributed surplus	5,138,289	
Unassigned funds (surplus)	<u>1,304,245</u>	
Surplus as regards policyholders		<u>9,942,534</u>
Total Liabilities and Surplus		<u>\$10,389,198</u>

MGIC Assurance Corporation
Summary of Operations
For the Year 2011

Underwriting Income		
Premiums earned		\$ 104,206
Deductions:		
Losses incurred	\$114,002	
Loss adjustment expenses incurred	7,067	
Other underwriting expenses incurred	<u>152,329</u>	
Total underwriting deductions		<u>273,398</u>
Net underwriting gain (loss)		(169,192)
Investment Income		
Net investment income earned	359,217	
Net realized capital gains (losses)	<u>(6,499)</u>	
Net investment gain (loss)		<u>352,718</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		183,526
Federal and foreign income taxes incurred		<u>42,288</u>
Net Income		<u>\$ 141,238</u>

MGIC Assurance Corporation
Cash Flow
For the Year 2011

Premiums collected net of reinsurance		\$ 111,072
Net investment income		<u>422,057</u>
Total		533,129
Benefit- and loss-related payments	\$ 194,501	
Commissions, expenses paid, and aggregate write-ins for deductions	161,929	
Federal and foreign income taxes paid (recovered)	<u>24,020</u>	
Total deductions		<u>380,450</u>
Net cash from operations		152,679
Proceeds from investments sold, matured, or repaid:		
Bonds	<u>\$2,888,750</u>	
Total investment proceeds		2,888,750
Cost of investments acquired (long-term only):		
Bonds	<u>2,433,397</u>	
Total investments acquired		<u>2,433,397</u>
Net cash from investments		455,353
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>921</u>	
Net cash from financing and miscellaneous sources		<u>921</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		608,953
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>945,451</u>
End of Year		<u>\$1,554,404</u>

MGIC Assurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2011

Assets		\$10,389,198
Less liabilities		<u>446,664</u>
Adjusted surplus		9,942,534
Annual premium:		
Lines other than accident and health	\$102,707	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (or Deficit)		<u>\$ 7,942,534</u>
Adjusted surplus (from above)		\$ 9,942,534
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security Surplus Excess (or Deficit)		<u>\$ 7,142,534</u>

MGIC Assurance Corporation
Analysis of Surplus
For the Four-Year Period Ending December 31, 2011

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2011	2010	2009	2008
Surplus, beginning of year	\$9,803,960	\$9,816,997	\$9,682,005	\$9,381,731
Net income	141,238	(14,249)	132,097	299,070
Change in net deferred income tax	<u>(2,664)</u>	<u>1,212</u>	<u>2,895</u>	<u>1,204</u>
Surplus, End of Year	<u>\$9,942,534</u>	<u>\$9,803,960</u>	<u>\$9,816,997</u>	<u>\$9,682,005</u>

MGIC Assurance Corporation
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2011

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2011	2010	2009	2008
#1 Gross Premium to Surplus	1%	1%	2%	3%
#2 Net Premium to Surplus	1	1	2	3
#3 Change in Net Premiums Written	(29)	(33)*	(17)	(285)*
#4 Surplus Aid to Surplus	0	0	0	0
#5 Two-Year Overall Operating Ratio	53	82	0	0
#6 Investment Yield	3.5	3.6	4.1	4.4
#7 Gross Change in Surplus	1	(0)	1	3
#8 Change in Adjusted Surplus	1	(0)	1	3
#9 Liabilities to Liquid Assets	4	5	4	1
#10 Agents' Balances to Surplus	0	0	0	0
#11 One-Year Reserve Development to Surplus	0	2	0	0
#12 Two-Year Reserve Development to Surplus	2	1	1	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0

Ratio No. 3, "Change in Net Premiums Written," measures the change in net writings from the prior year. The company had exceptional results in 2008 and 2010. The exceptional ratio reported in 2008 is attributable to the company's commencement of writing credit default coverage on loans secured by unimproved residential properties in 2007, which was mentioned earlier in this report, and 2008 was the first full year it wrote this type of coverage. Prior to 2007

the company did not write any business. In 2010 the company discontinued writing business and began running off its business. As a result net writings decreased significantly in 2010, which caused the exceptional ratio that year.

Growth of MGIC Assurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2011	\$10,389,198	\$446,664	\$9,942,534	\$141,238
2010	10,317,906	513,946	9,803,960	(14,249)
2009	10,171,030	354,033	9,816,997	132,097
2008	9,802,787	120,782	9,682,005	299,070
2007	9,425,624	43,893	9,381,731	282,671

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2011	\$102,707	\$102,707	\$104,206	116.2%	148.3%	264.5%
2010	144,748	144,748	147,788	285.6	103.0	388.6
2009	217,028	217,028	218,748	165.4	54.2	219.6
2008	260,112	260,112	256,461	27.7	82.9	110.6
2007	67,598	67,598	61,265	44.3	175.2	219.5

The company has experienced modest surplus growth of 6% over the four-year period under examination from 2008 to 2011, which is primarily attributable to income from its investment holdings. Gross and net premium began to decrease in 2009 and decreased significantly in 2010 as a result of the company discontinuing to write new business that year. The company's gross and net writings ratios over the last four years have been well below 1 to 1. The company's loss ratio has increased significantly over the last three years, which can be attributed to distressed U.S. economic and housing market conditions. The company's expense ratio increased in 2010 and 2011 after reporting two years of decline, which was mainly attributable to the company discontinuing writing new coverage on loans secured by unimproved residential properties, which it began writing in the later part of 2007, while supporting operational expenses to run off this business. The company has reported net income four out of the last five years and prior to 2010 reported over ten consecutive years of net income. The net loss incurred

by the company in 2010 was primarily due to an increase in incurred losses and a significant decrease in earned premiums due to running off its business.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus of \$9,942,534 reported by the company as of December 31, 2011, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. The sole comment and recommendation contained in the last examination report and action taken by the company is as follows:

1. Loss and Loss Adjustment Expense Reserves—It is recommended that the company's actuarial report include documentation of a reconciliation of the company's paid data, provided to the company's actuary, to Schedule P in accordance with s. Ins 50.30, Wis. Adm. Code, and the NAIC Annual Statement Instructions – Property and Casualty.

Action—Compliance.

Summary of Current Examination Results

There were no adverse or material examination findings as a result of the current examination of the company.

VIII. CONCLUSION

The company reported assets of \$10,389,198, liabilities of \$446,664, and policyholders' surplus of \$9,942,534 for 2011. Operations for 2011 produced net income of \$141,238 and the company has recorded a net loss once in the last four years, which was in 2010. Over the four-year period under examination the company's policyholders' surplus increased by approximately 6%, primarily due to income from its investment holdings. Premium volume has steadily decreased since 2008 as a result of the company discontinuation of new business that year. During the period under examination, the company's net loss and loss adjustment expense ratio has averaged 148.7% with the highest being recorded in 2010 of 285.6%. The operational results for MAC and members of the MGIC Group over the period under examination were significantly impacted by distressed U.S. economic and housing market conditions.

The examination verified the financial condition of the company as reported in its annual statement as of December 31, 2011. The examination of MAC did not result in any recommendations, adjustments to surplus or reclassifications.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Ana J. Careaga	Insurance Financial Examiner – Journey
Victoria Y. Chi, CISA, CISM, CRISC	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Jerry C. DeArmond, CFE, FLMI, AIRC	Insurance Financial Examiner – Advanced, Loss Reserve Specialist
Tom M. Janke, CFSA, CISA, CRP	Insurance Financial Examiner – Journey
Mike E. Miller	Insurance Financial Examiner
Frederick H. Thornton, CFE, CPCU	Insurance Financial Examiner – Advanced, Exam Planning & Quality Control Specialist

Respectfully submitted,

John E. Litweiler
Examiner-in-Charge

XI. APPENDIX—SUBSEQUENT EVENTS

There were a number of events that transpired subsequent to December 31, 2011, which significantly impacted members of the company's holding company structure. A brief summary of those events follows.

MGIC Indemnity Corporation

In August of 2012, MIC began writing new business in those jurisdictions for which MGIC did not have active waivers of capital requirements and through September 30, 2012, MIC's new insurance written was \$587 million. Jurisdictions for which MIC was writing new mortgage insurance in included Florida, Idaho, New Jersey, New York, Ohio, Puerto Rico and Texas.

Permitted Practice

On September 28, 2012, this office granted MGIC a permitted practice to report its net deferred tax asset as an admitted asset in an amount not to exceed 10% of policyholders' surplus without regard to the limitations and requirements in Statement of Statutory Accounting Principles (SSAP) No. 101, paragraph 11. The application of SSAP No. 101 is otherwise unchanged by this decision. This permitted practice is defined as a percentage of policyholders' surplus, so the dollar amount associated with the permitted practice would vary as policyholders' surplus varies over time. The financial impact of the permitted practice for MGIC as of September 30, 2012, was approximately a \$90 million increase to policyholders' surplus.

Actions by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)

In a letter dated July 24, 2012, MGIC requested that Freddie Mac authorize its use of MIC to write new business in seven states in addition to those already permitted by Freddie Mac in a letter dated January 23, 2012, as part of MGIC management's reactivation plan mentioned earlier in this report. Freddie Mac responded to this request on August 1, 2012, by temporarily allowing MIC, as a limited insurer, to write new business in the requested jurisdictions as long as certain named conditions were agreed to and followed by MGIC. The aforementioned temporary approval was amended in a letter from Freddie Mac dated September 28, 2012, which expanded

the number of territories MIC could write new business in to 16 without obtaining Freddie Mac's prior approval through December 31, 2013, and included the following conditions be met that replaced certain ones named in the January and August 2012 letters from Freddie Mac in addition to other conditions named in them:

- MGIC Investment must contribute \$100 million to MGIC by December 1, 2012;
- MGIC and Freddie Mac must reach an agreement as to substantially all terms by October 31, 2012, to resolve their pool policy insurance dispute then in litigation; and
- This office must provide written confirmation to Freddie Mac that MIC's capital will be unconditionally available to MGIC to support MGIC's policyholder obligations without segregation of those obligations.

Negotiations between MGIC and Freddie Mac, which included the direct involvement of this office and Federal Housing Finance Agency (FHFA), Freddie Mac's conservator, took place to resolve any disagreements regarding the conditions in Freddie Mac's September 28, 2012, letter.

As part of the negotiations MGIC, Freddie Mac, and FHFA came to a tentative agreement prior to October 31, 2012, to resolve the litigated pool policy insurance dispute, which was later approved by each party's respective board of directors in November of 2012. Under the terms of the settlement MGIC agrees to pay Freddie Mac \$267.5 million in claims, with \$100 million payable by December 11, 2012, and \$167.5 million payable in 48 monthly installments beginning on January 2, 2013.

Additionally, as a result of negotiations, this office issued a Stipulation and Order on MGIC and MIC dated November 29, 2012, that in the event (A) OCI determines a reasonable probability that MGIC will be unable to make policy payments in full at any time within five years of a financial exam, or (B) MGIC fails to pay valid policy claims when due, OCI will conduct a review within 60 days to quantify the maximum single dividend MIC could prudently pay to MGIC, taking account of MIC's policyholders' interests, applicable law and MIC's financial circumstances at that time, after which OCI will authorize MIC to pay such dividend within 30 days.

As a result of the actions taken by parties involved in the negotiations, some of which were described in the previous two paragraphs, on November 30, 2012, Freddie Mac continued to approve MGIC's use of MIC as a limited mortgage insurer through December 31, 2013; however, this approval may still be withdrawn by Freddie Mac at any time. On December 3,

2012, MGIC Investment transferred \$100 million to MGIC to meet one of the remaining outstanding conditions required by Freddie Mac to continue its approval of MIC as a limited mortgage insurer.

On the same day Freddie Mac issued its letter regarding MIC's eligibility as a limited mortgage insurer, Fannie Mae sent a letter dated November 30, 2012, conditionally approving MIC to write new insurance business in any jurisdictions, in addition to the 16 specified jurisdictions approved in the January 19, 2012, Fannie Mae letter, in which MGIC is not able to write business. The approval is for 60 days from the date MGIC is prohibited from writing new business in a jurisdiction while Fannie Mae evaluates approving MIC in such jurisdiction for a longer period. As with Freddie Mac's approval, Fannie Mae's agreement terminates December 31, 2013. However, in the event MGIC is not allowed to write new business in the state of Wisconsin, the approvals granted MIC by Fannie Mae shall be revoked.

Public Offering by MGIC Investment Corporation and Capital Contribution to Mortgage Guaranty Insurance Corporation

On March 12, 2013, MGIC Investment Corporation received aggregate net proceeds, after underwriting discounts, commissions, and estimated offering expenses, of approximately \$1.15 billion from the sale of 135 million shares of common stock and \$500 million of 2% convertible senior notes due 2020. MGIC Investment Corporation transferred \$800 million to Mortgage Guaranty Insurance Corporation to increase its capital. This transfer restored MGIC's risk to capital to approximately 20 to 1 and, as a result, MGIC met the capital requirements of all jurisdictions having specific capital requirements for mortgage guaranty insurers without the need for any waiver.