Report

of the

Examination of

MGIC Indemnity Corporation

Milwaukee, Wisconsin

As of December 31, 2011

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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April 19, 2013

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 INDEMNITY CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MGIC Indemnity Corporation (hereinafter also the company or MIC) 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

MGIC Indemnity Corporation was incorporated November 14, 1956, under the name Mortgage Guaranty Insurance Corporation (hereinafter also Old MGIC, the pre-February 28, 1985, MGIC legal entity), and commenced operations in March 1957 as a mortgage guaranty insurer. Old MGIC was privately held until 1960, at which time its common capital stock became publicly traded. In 1968, the former holding company, MGIC Investment Corporation (hereinafter also Old MGIC Investment, the pre-February 28, 1985, MGIC Investment Corporation) was established. Old MGIC became a subsidiary of Old MGIC Investment, and Old MGIC Investment became a publicly traded company.

Ownership and control of Old MGIC Investment and its subsidiaries, including Old MGIC, was acquired by Baldwin-United Corporation (hereinafter also Baldwin) effective March 9, 1982. The Baldwin enterprise became financially impaired in 1983 due to the holding company's excessive debt obligations, and Baldwin filed a petition for voluntary reorganization under Chapter 11 of the Federal Bankruptcy Code in September 1983.

A 1984 financial examination of the Old MGIC insurers determined that the companies were financially sound but that their ability to compete in their markets had been severely damaged by their affiliation with the financially impaired Baldwin. An Agreement and Plan of Acquisition and Assumption (the Plan) was approved by the Commissioner in November 1984, whereby an insurer, then known as Liberty Mortgage Insurance Corporation (hereinafter also Liberty), held by a holding company owned by The Northwestern Mutual Life Insurance Company and senior executives of Old MGIC Investment, acquired from Old MGIC Investment the right to carry on Old MGIC's insurance business, the rights to the name "Mortgage Guaranty Insurance Corporation" (hereinafter also MGIC), and the employees and operating assets of Old MGIC. As a part of the approved agreement, Old MGIC's remaining in-force renewal policies (the Old Book business) entered into run-off and Old MGIC's net retained liabilities for existing insurance risks were 100% reinsured under quota share reinsurance treaties with a group of international reinsurers.

The 1984 Plan was closed effective February 28, 1985, and Old MGIC's name was changed to Wisconsin Mortgage Assurance Corporation (hereinafter also WMAC). Effective March 1, 1985, Liberty's name changed to Mortgage Guaranty Insurance Corporation (the present-day MGIC), and the new MGIC continued the ongoing operations that were formerly in WMAC. WMAC was placed into liquidation upon the Plan closing date. The WMAC liquidation proceedings included the following provisions:

1. WMAC no longer wrote new business, but its Old Book insurance in-force, insurance policies non-cancelable by the company and renewable by its insureds, continued in force, with the company's net retained liabilities 100% ceded through quota share reinsurance treaties;

2. WMAC's contingency reserve requirement was waived by the Commissioner as a result of the 100% quota share reinsurance becoming effective. Substantially all of WMAC's remaining assets, after payments related to the quota share reinsurance treaties, were distributed to its parent, Baldwin, for distribution to Baldwin's creditors;

3. The quota share reinsurance became the primary source of payments for claims incurred on WMAC's in-force business; and

4. The new writer of insurance, MGIC, became the manager of WMAC's reinsured business, responsible to WMAC and its reinsurers for administration of WMAC's insurance in-force.

WMAC was financially solvent at the commencement of liquidation proceedings and has never been financially impaired. The liquidation proceeding became the method by which the interests of Old MGIC policyholders as of February 28, 1985, could be protected from the bankruptcy of Baldwin through an orderly run-off of WMAC's Old Book and was the method whereby the successful ongoing business of Old MGIC could be disassociated from the Baldwin bankruptcy and continue in the successor MGIC legal entity. Since 1985, WMAC Old Book claims have been paid in full by WMAC or its reinsurers, and the Old Book insurance in-force has gradually diminished by orderly run-off.

In December 1998, Mortgage Guaranty Insurance Corporation acquired ownership of WMAC through the purchase of WMAC's common capital stock. A rehabilitation plan providing for the acquisition of WMAC by MGIC was approved by the liquidation court and the Commissioner and effective December 22, 1998, WMAC's liquidation proceedings were terminated and the company became subject to rehabilitation proceedings supervised by the Commissioner. On December 31, 1998, pursuant to the plan of rehabilitation, MGIC acquired 100% of WMAC's common capital stock for the purchase price of $2 million, WMAC became a wholly owned subsidiary of MGIC, and the WMAC rehabilitation proceedings were terminated. Immediately upon the close of MGIC's purchase transaction, MGIC contributed capital of $13 million to WMAC to provide the company with capital in excess of Wisconsin's minimum requirements for the company. The name of the company was changed to MGIC Indemnity Corporation effective June 1, 2000.

MGIC Indemnity Corporation is a member of a holding company system, and ultimate ownership and control of the company is held by MGIC Investment Corporation (the present-day MGIC Investment). MIC 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 MIC's significant affiliates, and description of the company's intercompany agreements are included in the section of this report captioned "Affiliated Companies."

The company has not written any new insurance business since 1985, and its entire business is in run-off. The company's business is comprised solely of Old Book renewal premiums on non-cancelable mortgage guaranty insurance commitments that existed on or before February 28, 1985. The insured lender of a given mortgage loan may continue insurance coverages through successive policy renewals so long as the underlying mortgage loan is outstanding. The company's book of business has decreased significantly as insured mortgage loans are satisfied through maturity, refinance, or repayment, or the respective insurance policies are terminated by insureds.

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

Texas	$ 2,574	10.9%
South Carolina	2,405	10.2
Florida	2,136	9.1
Illinois	2,075	8.8
New Mexico	2,066	8.8
All others	12,308	52.2
Total	$23,564	100.0%

The company is currently licensed to write mortgage guaranty insurance in all U.S. states and the District of Columbia.

MIC's reinsurance treaties with MGIC for the Old Book business remain in effect as of December 31, 2011. MGIC remains the manager of the company's 100% quota share reinsured business and continues in its capacity as reinsurer on the business. Further comment on the company's reinsurance program is included in this report in the section captioned "Reinsurance."

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	$23,564	$0	$23,289	$275
Total All Lines	$23,564	$0	$23,289	$275

Effects of the 2007 Recession and Prolonged Distress in U.S. Economic Conditions

Officially the United States' most recent recession began in December of 2007 and ended June of 2009, but neither the U.S. economy nor the U.S. housing market has significantly rebounded through a return to pre-recession housing valuations. During this period, the U.S. mortgage guaranty insurance industry has been trying to navigate through the most severe housing correction and worst economy since the Great Depression. Significant declines in housing values, sub-prime and low documentation lending practices, and high unemployment have led to record levels of delinquencies and foreclosures during this period, which have severely challenged the industry. One of the major challenges facing U.S. mortgage insurers has been to ensure enough capital resources to not only meet current and future claim obligations, but also meet capital requirements of the states and other U.S. jurisdictions and the government-sponsored enterprises (hereinafter also GSEs), Federal National Mortgage Association (hereinafter also Fannie Mae) and Federal Home Loan Mortgage Corporation (hereinafter also Freddie Mac), to write new business, which continues to be a challenge to this day especially for mortgage insurers with pre-2008 blocks of business.

As a result of the downturn in the U.S. economy and housing market, MGIC saw its delinquency inventory increase to historic levels, which in turn placed strains on its capital position. Because of substantial uncertainty regarding the level of future losses there were concerns that MGIC's capital position would decline to a level where the company would not comply with minimum capital requirements to write new business in certain jurisdictions. In light of these circumstances, MGIC management proposed to this office a reactivation plan of MGIC Indemnity Corporation, which included the following actions:

- MGIC would contribute capital of $1 billion to MIC in the form of a $500 million contribution in July 2009 and, subject to OCI's further approval, a contribution of up to an additional $500 million in January of 2011.
- MIC would take the actions necessary to meet the regulatory and business conditions for new business, including reinsurance with its subsidiary and a subsidiary of MGIC, but only as required by the laws of states where MIC will be licensed.
- MIC would begin to write business in place of MGIC based on the capital contribution made by MGIC.
- MIC would use the employees, information services, finance, claims, risk management and other systems, offices and business infrastructure of MGIC to conduct and support MIC's operations.
- MGIC would cease writing new business.

The reactivation plan was non-disapproved by this office in conjunction with the issuance of the Stipulation and Order in the Matter of Case No. 09-C32277 dated July 15, 2009, placed on MGIC and the company. This Stipulation and Order established additional requirements on MIC to enhance this office's ability to monitor the implementation of the reactivation plan and to take action to ensure that MIC's surplus remains reasonable in relation to its outstanding liabilities and adequate to its financial needs in the implementation and continuation of its reactivation plan.

On July 17, 2009, Freddie Mac issued a decision to give MIC the status of an "Approved Insurer," subject to certain conditions. The conditions caused some minor conflicts with the original reactivation plan and resulted in MGIC filing an amendment to the plan. The amendment to the plan was non-disapproved by this office on July 31, 2009.

On October 14, 2009, Fannie Mae gave MIC conditional approval as a direct issuer of mortgage guaranty insurance policies under its Qualified Mortgage Insurer Approval Requirements, which conditions were markedly incompatible with the reactivation plan developed through the efforts of MGIC, this office, and the law firm and investment banking firm under contract with this office. In response, MGIC filed a second amendment to the reactivation plan for its subsidiary MIC. Under the amended business plan:

- MGIC is to contribute capital of $200 million to MIC on October 21, 2009.
- Subject to this office permitting MGIC to continue to write in jurisdictions in which MGIC does not comply with applicable capital requirements, and if MGIC determines that it will not comply with a jurisdiction's applicable capital requirements, MGIC will seek from that state a waiver of its applicable capital requirements to the extent that such waiver is allowed. In the event that such waiver is not allowed or is not obtained by MGIC, or if such waiver includes conditions that differ substantially from the terms and conditions of the stipulation and order issued by this office and MGIC considers them to be burdensome, MGIC will seek the licensing or reactivation of MIC in such jurisdiction to replace MGIC as the writer of mortgage guaranty insurance in that jurisdiction. The conditional approval of Fannie Mae authorizes MIC to write in the place of MGIC only in the following jurisdictions: Arizona, California, Florida, Idaho, Illinois, Iowa, Kansas, Kentucky, Missouri, New York, New Jersey, North Carolina, Ohio, Oregon, Puerto Rico, and Texas. These jurisdictions, together with Wisconsin, are distinguished by having specific minimum policyholders position requirements or risk-to-capital requirements.
- MIC would take the actions necessary to meet the regulatory and business conditions for writing in every jurisdiction in which Fannie Mae's conditional approval would permit them to write business.
- MIC would begin to write insurance in place of MGIC in those jurisdictions that cannot or will not issue a waiver of applicable capital requirements.
- MGIC would cease writing insurance in any jurisdiction once MIC begins to write insurance in that jurisdiction.
- MIC would use the employees, information services, finance, claims, risk management and other systems, offices and business infrastructure of MGIC to conduct and support MIC's operations.

This office did not disapprove the second amendment to the reactivation plan, since Fannie Mae's approval for MIC to act as an eligible insurer of mortgages purchased by Fannie Mae is a practical necessity for the success of the reactivation plan given Fannie Mae's dominant position in the secondary market for mortgages in the U.S. One of the requirements in Fannie Mae's conditional approval was that MGIC would request from the Commissioner that MIC's risk to capital ratio not be restricted beyond the minimum policyholder position requirements under Wisconsin Statutes or the Wisconsin Administrative Code. As a result, this office modified the Stipulation and Order No. 09-C32277 to rescind provisions relating to MIC's minimum policyholders position requirements being stricter than the standard requirement under s. Ins 3.09 (5), Wis. Adm. Code.

Additionally, as a result in the second amendment to the reactivation plan, this office entered into an additional Stipulation and Order on MGIC, and included MGIC Reinsurance Corporation (hereinafter also MRC) and MGIC Reinsurance Corporation of Wisconsin (hereinafter also MRCW), allowing the aforementioned companies to be exempted from compliance with compulsory surplus requirements represented by s. Ins 3.09 (5) (b), Wis. Adm. Code, until December 31, 2011. While the Stipulation and Order was in effect the aforementioned companies could continue to write and reinsure new mortgage guaranty insurance policies for as long as each company maintained a policyholders position for which the Commissioner determined was reasonably in excess of a level that would constitute a financially hazardous condition. A subsequent Stipulation and Order dated January 23, 2012, continued this exemption under substantially the same provisions until December 31, 2013.

Subsequent to MGIC Investment's disclosure of the letter received from Fannie Mae, Freddie Mac informed MGIC that its decision concerning the original plan in 2009 was no longer applicable. Any decision from Freddie Mac that may be compatible with the decision issued by Fannie Mae will only be forthcoming after Freddie Mac completes an actuarial study of MGIC. There is no definite date scheduled for the completion of this actuarial study.

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 MIC 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 MIC.

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
Jeffrey H. Lane	Executive Vice President, General Counsel and 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 Indemnity 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 Reinsurance Corporation

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 Assurance Corporation

MGIC Assurance Corporation (hereinafter also MAC) was organized under the laws of Oklahoma in 1937 under the name Insurers Indemnity and Insurance Company and was subsequently renamed Financial Security Assurance, Inc. of Oklahoma (FSAOK). FSAOK was acquired by MGIC in 1995 and effective November 18, 1996, redomesticated to Wisconsin and adopted the name MGIC Assurance Corporation.

All of the issued and outstanding capital stock of MAC was contributed to the MGIC subsidiary insurer, MGIC Surety Corporation (Surety), in 1997. 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 MAC, transferred to MGIC.

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 guaranty insurance business. MAC commenced writing insurance on second mortgages and home equity lines of credit in 1997. MAC terminated writing new business in the segregated account effective January 1, 2002. Its portfolio of junior lien insurance risks consisting solely of renewal business on existing policies written through the segregated account was assumed by its affiliate, MGIC Credit Assurance Corporation, in December 2004. In 2007, MAC began writing credit default coverage on loans secured by unimproved residential properties in its general account, but in 2008 discontinued offering such coverage and is currently running off its business.

As of December 31, 2011, MAC's statutory financial statements reported total admitted assets of $10,389,198, total liabilities of $446,664, and policyholders' surplus of $9,942,534. Operations for 2011 produced net income of $141,238.

MGIC Reinsurance Corporation of Wisconsin

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

MGIC Credit Assurance Corporation (hereinafter also 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 Indemnity 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 MIC in an amendment effective December 31, 1998. 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 MIC in an amendment effective December 31, 1998. 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.

Indemnity Agreement

Effective September 1, 2000, an Indemnity Agreement was established between MGIC and MIC to facilitate the withdrawal of MIC from the state of New York. The agreement pertains solely to MIC's liabilities in the state of New York for WMAC run-off mortgage guaranty insurance policies written prior to February 28, 1985, including primary insurance issued under master policies on individual mortgage loans and pool insurance issued under mortgage trust supplemental or pool policies. Pursuant to the agreement, MGIC agrees to pay any WMAC insured located in New York all of WMAC's obligations at any time in the event that WMAC has failed to pay any amount due to the insured under WMAC's outstanding policies. Each WMAC insured shall have privity with, direct right of action against, and the right to file claims directly with MGIC to pay WMAC's obligations after WMAC has failed to pay. Under the agreement, MGIC issued an endorsement as required by applicable law to advise insureds of MGIC's indemnity agreement for WMAC business, and MGIC issued an undertaking to governmental agencies in New York for payment of taxes and other liabilities of WMAC to such agencies. Under the agreement, MGIC is entitled to recover from WMAC the amount paid by MGIC in payment of

WMAC obligations as a result of this agreement. The agreement will remain in effect for so long as any of WMAC's policies remain outstanding and in force.

Shared Resources Agreement

In preparation for the reactivation business plan for MGIC Indemnity Corporation, discussed earlier in this report, Mortgage Guaranty Insurance Corporation and MIC entered into a shared resources agreement on March 11, 2010. In the event that MIC begins writing direct mortgage guaranty insurance business, the date on which MIC issues its first policy will be the effective date of this agreement. On the aforementioned date the servicing agreement with MGIC, discussed earlier in this section of the report, will be terminated with respect to MIC and be replaced by this shared resources agreement. The purpose of this agreement is for MGIC to continue to provide MIC with management and administrative services in connection with MIC writing new mortgage guaranty insurance business. Management and administrative services to be provided by MGIC to MIC are essentially the same ones outlined in the servicing agreement. In consideration of the services provided to MIC under this agreement, MIC shall pay to MGIC, on a monthly basis, 20% of the premiums written by MIC during the calendar month, which is subject to an adjustment for estimated actual cost performed at the end of each calendar year.

V. REINSURANCE

MGIC Indemnity Corporation's reinsurance portfolio and strategy is described below. Each of the reinsurance treaties of the company contains proper insolvency provisions.

The company has neither written nor assumed any liability for new insurance risks since February 28, 1985, and its Old Book business has been in run-off since that date. Two of the company's executed reinsurance treaties pertain to the Old Book—renewal premiums on non-cancelable mortgage guaranty commitments that existed on or before February 28, 1985. The Old Book includes the business of Old MGIC and two of its former subsidiaries, companies then known as MGIC Reinsurance Corporation (Old MGIC Re) and MGIC Assurance Corporation (Old MAC), as of the February 28, 1985, WMAC liquidation proceedings.

Pursuant to the 1985 WMAC liquidation, Old MGIC Re and Old MAC merged into Old MGIC, Old MGIC's name was changed to Wisconsin Mortgage Assurance Corporation, and WMAC entered into liquidation. WMAC's name subsequently changed to MGIC Indemnity Corporation (MIC). Each of the reinsurance treaties existing in the Old MGIC, Old MGIC Re, and Old MAC as of the liquidation date remained in effect in MIC. Old Book business included various assuming and ceding contracts with unaffiliated domestic and with foreign reinsurers. MIC subsequently commuted and terminated each of the former unaffiliated domestic Old Book treaties.

Old Book ceded business includes cessions to one reinsurer that subsequently entered insolvency proceedings and was liquidated in the mid-1990s (TMIC Business). The ceded TMIC Business is a portion of the risk on policies issued by the company on loans originated by approved mortgage lenders for purchase by certain municipal redevelopment agencies located in the state of California. The assuming reinsurance company no longer exists as a legal entity, and MIC retains the loss exposure on the portion of risks that were ceded as TMIC Business. MIC's retention of TMIC Business is the company's sole retention of ultimate net loss exposure, which is minimal and immaterial to the financial condition of the company.

Old Book reinsurance contracts and additional ceding treaties that were established in conjunction with the MIC liquidation collectively provided for the transfer of 100% of MIC's remaining net liability on all of the existing and renewal MIC Old Book business, excluding the TMIC Business. In 1984, Old MGIC had entered into a reinsurance program with several European reinsurers and one domestic reinsurer, ceding a 20% quota share portion of the company's net retained risks. Upon the 1985 liquidation proceedings, the net retention quota share reinsurance program was amended to include cession of 100% of MIC's net retained risk for all business. The 1985 quota share contracts cover all net risks remaining after the operation of business cessions under pre-liquidation Old Book ceding treaties. The 1985 net retention quota share program did not apply to the TMIC Business, for which the assuming reinsurer was liquidated and dissolved subsequent to the execution of the 1985 quota share treaties.

In the intervening period since 1985, through a series of assignment and assumption agreements, the reinsurers who participated in the 1985 quota share treaties subsequently assigned their rights and obligations under the quota share treaties to MGIC. Through these assumption and assignment agreements Mortgage Guaranty Insurance Corporation replaced all of the original quota share reinsurers and became the only reinsurer on the book of business, presently having a 100% participation in the 100% quota share assumption of WMAC net retained liability. At the present time MGIC Indemnity Corporation's entire book of business is in run-off, net liabilities on its insurance risks are 100% ceded (excluding the TMIC Business), and the company does not have any material ultimate retention of net loss liability on any insurance risks. In 2011 the company ceded $23,289 of mortgage guaranty insurance premium.

As described earlier in this report, MIC has implemented a reactivation plan to write new mortgage risks in those jurisdictions in which MGIC: (i) does not comply with applicable capital requirements in order to write new mortgage insurance, (ii) diligently pursued waivers of applicable capital requirements, and (iii) was not granted a waiver. In preparation for writing new mortgage insurance risks, MIC has executed two reinsurance agreements with affiliates to facilitate compliance with statutory requirements that a mortgage guaranty insurer must limit its retention under a single policy of insurance to not more than 25% of the debt of the mortgage borrower.

Under a treaty with MIC Reinsurance Corporation of Wisconsin effective August 1, 2012, MIC would cede mortgage guaranty risks in excess of 25% of the indebtedness of the mortgage borrower to MICRCW in all U.S. jurisdictions except for California, Illinois, New York, Ohio, and Texas. The jurisdictional exceptions to this agreement are a result of the foregoing states not permitting an insurer to recognize balance sheet credit for reinsurance that is ceded to a subsidiary insurer.

For primary mortgage guaranty insurance risks that are to be written in California, Illinois, New York, Ohio and Texas, MIC executed a reinsurance treaty with MIC Reinsurance Corporation effective August 1, 2012, whereby MIC cedes mortgage guaranty risks to MICRC in excess of a certain percentage of the indebtedness of the mortgage borrower as follows:

- Risks in Illinois, New York, Ohio and Texas with coverage in excess of 25% of the indebtedness to the insured; and
- Risks in California for coverage of 30% of the indebtedness to the insured.

The company has also executed a reinsurance agreement with MGIC Reinsurance Corporation of Vermont (MRCV), effective August 1, 2012, whereby MRCV will assume mortgage guaranty risks on a quota share basis acting as a sponsored captive reinsurer under the Group’s captive reinsurance program. Under a captive reinsurance arrangement, a portion of the mortgage guaranty insurance risk written by a primary mortgage insurer that pertains to loans originated or serviced by a particular mortgage lender or financial institution is transferred to a reinsurance company (a “captive reinsurer”) that is owned or controlled by the loan originator or service institution. When MRCV is utilized as a captive reinsurer, rather than the lender establishing a separate regulated entity, the lender utilizes MRCV to undertake reinsurance assumptions so as to participate in the profits that can potentially be realized from providing mortgage guaranty insurance on mortgage loans that are originated or serviced by the lender. Through MRCV, the company will set up separate protected risk-sharing cells for individual lenders under this arrangement.

For the portion of deep coverage certificates that will be retained by MIC under the Group’s captive reinsurance program the company has established separate reinsurance agreements with MICRCW and MICRC, both effective August 21, 2012, whereby MICRC and

MICRCW assume business risks on a variable quota share basis, which ranges from 3.85% to 50% coverage. MICRC and MICRCW are restricted to assuming captive reinsurance risks from MGIC in the same territories described in their respective primary risk excess of loss treaties described above for the same reasoning.

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 minimum policyholders position 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 Indemnity Corporation
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$215,153,319	$0	$215,153,319
Stocks:			
Common stocks	5,037,942	0	5,037,942
Cash, cash equivalents, and short-term investments	12,187,823	0	12,187,823
Receivables for securities	496,498	0	496,498
Investment income due and accrued	1,940,843	0	1,940,843
Current federal and foreign income tax recoverable and interest thereon	77,518	0	77,518
Write-ins for other than invested assets:			
Miscellaneous receivable	6,481	0	6,481
Total Assets	$234,900,424	$0	$234,900,424

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

Losses		$ 5,757
Loss adjustment expenses		56
Net deferred tax liability		21,967
Unearned premiums		327
Payable to parent, subsidiaries, and affiliates		29,572
Write-ins for liabilities:		
Contingency reserve per s. Ins 3.09 (14), Wis. Adm. Code		344,224
Total liabilities		401,903
Common capital stock	$ 3,588,000	
Gross paid in and contributed surplus	285,225,792	
Unassigned funds (surplus)	(54,315,271)	
Surplus as regards policyholders		234,498,521
Total Liabilities and Surplus		$234,900,424

MGIC Indemnity Corporation
Summary of Operations
For the Year 2011

Underwriting Income		
Premiums earned		$ 335
Deductions:		
Losses incurred	$ 545	
Loss adjustment expenses incurred	(94)	
Other underwriting expenses incurred	426,908	
Write-ins for underwriting deductions:		
Contingency reserve contribution per s. Ins 3.09 (14), Wis. Adm. Code	1,556	
120-month release of statutory contingency reserve	(13,487)	
Total underwriting deductions		415,428
Net underwriting gain (loss)		(415,093)
Investment Income		
Net investment income earned	7,168,198	
Net realized capital gains (losses)	253,289	
Net investment gain (loss)		7,421,487
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		7,006,394
Federal and foreign income taxes incurred		2,229,094
Net Income		$4,777,300

MGIC Indemnity Corporation
Cash Flow
For the Year 2011

Premiums collected net of reinsurance			$ 275
Net investment income			8,036,924
Total			8,037,199
Commissions, expenses paid, and aggregate write-ins for deductions		$ 431,317	
Federal and foreign income taxes paid (recovered)		2,486,567	
Total deductions			2,917,884
Net cash from operations			5,119,315
Proceeds from investments sold, matured, or repaid:			
Bonds	$70,895,479		
Miscellaneous proceeds	(496,498)		
Total investment proceeds		70,398,981	
Cost of investments acquired (long-term only):			
Bonds	66,607,463		
Total investments acquired		66,607,463	
Net cash from investments			3,791,518
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		(4,901)	
Net cash from financing and miscellaneous sources			(4,901)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			8,905,932
Cash, cash equivalents, and short-term investments:			
Beginning of year			3,281,891
End of Year			$12,187,823

MGIC Indemnity Corporation
Policyholders Position Calculation
December 31, 2011

Surplus as regards policyholders		$234,498,522	
Contingency reserve		344,224	
Total policyholders position			$234,842,746
Net minimum policyholders position:			
Individual loans:			
Loan-to-value more than 75%	$10,830		
Loan-to-value more than 50-75%	64		
Total individual loans		10,894	
Total minimum policyholders position			10,894*
Excess of total policyholders position over minimum policyholders position			$234,831,852

* Under the Stipulation and Order in the Matter of Case No. 09-C31985 by Wisconsin's Office of the Commissioner of Insurance dated March 11, 2009, certain members of the MGIC Group, including the company, are to exclude from their policyholders position calculations individual or group loans in default for which the companies have established a loss and loss adjustment expense reserve greater than or equal to the policyholders position for each of the loans. For those loans for which the loss and loss adjustment expense reserves established by the companies are less than their policyholders positions as provided by s. Ins 3.09 (5), Wis. Adm. Code, the companies are not to exclude policyholders positions for such loans from their calculations of minimum policyholders position, but rather add the loss and loss adjustment expense reserves for such loans to their policyholders position. The intent of this Stipulation and Order is to account fairly for the effect of loss and loss adjustment expense reserves on the evaluation of the company's capital requirements relative to risk in-force. This change to the Policyholders Position Calculation is consistent with the approach taken by other domiciliary commissioners of mortgage guaranty insurers.

MGIC Indemnity 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	$229,715,764	$224,903,772	$ 23,810,361	$23,055,689
Net income	4,777,300	4,796,017	1,085,565	756,920
Change in net unrealized capital gains/losses	16,636	21,306	0	0
Change in net deferred income tax	(11,179)	(5,331)	7,846	(2,248)
Surplus adjustments: Paid in	0	0	200,000,000	0
Surplus, End of Year	$234,498,521	$229,715,764	$224,903,772	$23,810,361

MGIC Indemnity 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	0%	0%	0%	0%
#2	Net Premium to Surplus	0	0	0	0
#3	Change in Net Premiums Written	(25)	(22)	(30)	(13)
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0
#6	Investment Yield	3.1	3.2	1.1*	4.1
#7	Gross Change in Surplus	2	2	845*	3
#8	Change in Adjusted Surplus	2	2	5	3
#9	Liabilities to Liquid Assets	0	0	0	2
#10	Agents' Balances to Surplus	0	0	0	0
#11	One-Year Reserve Development to Surplus	(0)	(0)	(0)	(0)
#12	Two-Year Reserve Development to Surplus	(0)	(0)	(0)	0
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	0

Ratio No. 6, "Investment Yield," measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets and was considered exceptional in 2009. The exceptional ratio is primarily a result of MIC receiving a capital contribution of $200 million on October 21, 2009, from MGIC as part of the company's reactivation plan as described earlier in this report. The capital contribution was in the form of cash, which was invested in bond securities prior to year-end 2009. The company was able to record some investment income from the aforementioned additional investment holdings in the remaining two months of 2009, but it was not enough to offset the effect of the increased holdings had on the calculation of this ratio, specifically the two-year average amount of cash and investment holdings which is the denominator.

Ratio No. 7, "Gross Change in Surplus," was considered exceptional in 2009. As with Ratio No. 6, this exception was primarily due to the $200 million capital contribution provided by MGIC in 2009 as part of the company's reactivation plan.

Growth of MGIC Indemnity Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2011	$234,900,424	$401,903	$234,498,521	$4,777,300
2010	230,200,076	484,312	229,715,764	4,796,017
2009	225,525,033	621,261	224,903,772	1,085,565
2008	24,297,586	487,225	23,810,361	756,920
2007	23,532,106	476,417	23,055,689	775,552

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2011	$ 23,564	$275	$335	134.6%	150,900.7%	151,035.3%
2010	58,228	365	493	(387.6)	113,605.5	113,217.9
2009	78,217	466	624	429.0	30,872.3	31,301.3
2008	106,129	669	835	(80.1)	29,367.0	29,286.9
2007	151,842	772	991	488.4	23,578.9	24,067.3

The company has experienced surplus growth in each of the four years under examination beginning in 2008 and especially in 2009 when it received a $200 million capital contribution from MGIC in preparation to begin writing direct business under a reactivation plan. Gross and net premium have steadily decreased over the period under examination as a result of the run-off of its 1985 and prior book of business. The company's combined ratio over the last four years has been quite high and has increased significantly during that period. This is not unusual for a company running off its business as premiums steadily decrease while expenses continue. The negative loss and loss adjustment expense ratio results in 2008 and 2009 were attributable to the company re-estimating its reserves, which resulted in MIC reporting favorable reserve development and negative losses and loss adjustment expenses incurred. The company has reported over ten consecutive years of net income primarily due to earned investment income exceeding negative underwriting results in each of those years.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus of $234,498,521 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 LAE 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 $234,900,424, liabilities of $401,903, and policyholders’ surplus of $234,498,521 for 2011. Operations for 2011 produced net income of $4,777,300. For over ten consecutive years the company has reported net income, primarily due to income from its investment holdings exceeding negative underwriting results. Over the four-year period under examination, the company’s reported policyholders’ surplus increased by approximately 917%, primarily due to a $200 million capital contribution it received from MGIC in 2009 as part of MIC’s reactivation plan. Premium volume has steadily decreased over the period under examination as a result of the company running off its business since 1985. During the period under examination, the company’s net loss and loss adjustment expense ratio has fluctuated with the lowest being -387.6% in 2010 to 429.0%, which occurred in 2009. The negative ratio in 2010 was a result of favorable loss reserve development due to the re-estimation of reserves that year. The operational results for MIC and members of the MGIC Group over the period under examination were significantly impacted by distressed U.S. economic and housing market conditions.

As a result of the significant losses sustained by the company’s direct parent, MGIC, and the MGIC Group as a whole, management has taken a number of measures to raise and preserve capital so that MGIC could meet capital requirements of the GSEs and certain U.S. jurisdictions to continue writing new business. A reactivation plan for MIC to write direct primary mortgage insurance business in those U.S. jurisdictions in which MGIC did not meet capital requirements and could not obtain waivers was non-disapproved by this office in 2009. However, as of December 31, 2011, there were ongoing discussions with one of the GSEs regarding certain requirements to be met before acceptance of the plan. As of year-end 2011 MIC has not written any new direct business under the reactivation plan.

The examination verified the financial condition of the company as reported in its annual statement as of December 31, 2011. The examination of MIC 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.