Report

of the

Examination of

Mortgage Guaranty Insurance Corporation

Milwaukee, Wisconsin

As of December 31, 2011

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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:

MORTGAGE GUARANTY INSURANCE CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Mortgage Guaranty Insurance Corporation (hereinafter also the company or MGIC) 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 recommendations and comments 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 organized February 20, 1979, under the name Liberty Mortgage Insurance Corporation (hereinafter also LMIC). LMIC was established as a subsidiary of the Verex Corporation and was purchased by MGIC Investment Corporation (hereinafter also MGIC Investment) in November of 1984. The name of the company was changed to Mortgage Guaranty Insurance Corporation on March 1, 1985, when the company began writing new business.

MGIC is a member of a holding company system, and ultimate ownership and control of the company is held by MGIC Investment. MGIC is the lead operating company in the MGIC Group and performs all of the business operations of its affiliated insurers pursuant to an intercompany services agreement. Further discussion of the MGIC Investment Corporation holding company system, description of MGIC's significant affiliates, and description of the company's intercompany agreements are included in the section of this report captioned "Affiliated Companies."

Dissolution of Mortgage Guaranty Reinsurance Corporation

In 1985, MGIC issued two classes of common capital stock, Class A common stock and Class B common stock. Each class of MGIC stock was initially wholly owned by MGIC Investment Corporation. Effective September 30, 1985, MGIC Investment contributed 100% of the MGIC Class A common stock to the MGIC Investment subsidiary, Mortgage Guaranty Reinsurance Corporation (hereinafter also MGRC). MGIC Investment retained ownership of the MGIC Class B common stock. Effective May 25, 1999, MGRC was dissolved pursuant to a plan of voluntary dissolution 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 MGRC, 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 issued and outstanding common stock, wholly owned by MGIC Investment.

Merger of MGIC Surety Corporation

MGIC acquired Financial Security Assurance, Inc. of Oklahoma (hereinafter also FSAOK), originally known as Insurers Indemnity and Insurance Company (hereinafter also Insurers Indemnity) in 1995. Effective November 18, 1996, FSAOK redomesticated to Wisconsin and adopted the name MGIC Assurance Corporation (MAC). In 1997, all of the issued and outstanding capital stock of MAC was contributed to the MGIC subsidiary insurer, MGIC Surety Corporation (hereinafter also Surety). Surety 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.

Acquisition of MGIC Indemnity Corporation

MGIC purchased MGIC Indemnity Corporation (hereinafter also MIC), formerly known as Wisconsin Mortgage Assurance Corporation (hereinafter also WMAC) effective December 31, 1998. MGIC Indemnity Corporation was initially 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. Ownership and control of the Old MGIC holding company 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 excess debt obligations, and Baldwin filed 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 holding company. An Agreement and Plan of Acquisition and Assumption (the Plan) was approved by the Commissioner in November 1984, whereby the present-day Mortgage Guaranty Insurance Corporation acquired from the Old MGIC holding company the right to carry on Old MGIC's insurance business, the rights to the name "Mortgage Guaranty Insurance Corporation," 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. WMAC was placed into liquidation upon the Plan closing date, and effective March 1, 1985, the business operations of Old MGIC were transferred to the present-day MGIC. 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 minimum capitalization requirements for the company. The name of the company was changed to MGIC Indemnity Corporation effective June 1, 2000. The company has not written any new insurance business since 1985, and its entire business portfolio is in run-off. The remaining run-off risks in the company are not material.

Merger of MGIC Mortgage Insurance Corporation

MGIC Mortgage Insurance Corporation (hereinafter also MMIC) was incorporated under the laws of Wisconsin on April 30, 1987. MGIC Reinsurance Corporation of Wisconsin (hereinafter also MRCW) held 100% of the issued and outstanding common capital stock of MMIC. The company was established to serve as a mortgage guaranty reinsurer that maintained an AAA claims paying ability rating by Standard and Poor's Corporation.

The business written by the company is effectively in run off and no new business has been written since the late 1990s. MMIC was merged with and into MGIC effective October 31, 2005, with approval from this office.

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 the company and MIC. 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 with MGIC, and included MGIC Reinsurance Corporation (hereinafter also MRC) and MGIC Reinsurance Corporation of Wisconsin, 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.

Efforts to Raise Additional Capital

The effects of the downturn in the U.S. economy and housing market caused significant strains on the MGIC Group's capital position. As described in the previous section, the MGIC Group has to meet certain capital requirements established by U.S. jurisdictions and the GSEs in order to continue writing new business. Some of the measures taken by the MGIC Group to raise capital during the period under examination include:

- In March of 2008, MGIC Investment completed a public offering of common stock and 9% convertible junior subordinated debentures due in 2063, which resulted in net proceeds of approximately $460 million and $377 million, respectively.
- In August of 2008, MGIC Investment sold its remaining interest in Sherman Financial Group, LLC, for $209.5 million. Previously, in September of 2007, MGIC Investment had sold approximately 40% of its interest in Sherman Financial Group, LLC, for $240.8 million.
- In April of 2010, MGIC Investment completed another public offering of its common stock, which produced net proceeds of $772.4 million.
- In April of 2010, concurrent to the sale of common shares, MGIC Investment completed the sale of $345 million principal amount of 5% convertible senior notes due in 2017, which produced net proceeds of about $334.4 million.

The MGIC Group took measures to preserve capital by discontinuing writing certain types of business previously offered (Pool, Bulk, etc.), raising rates on its primary mortgage insurance business at various times, restricting writing in certain states or markets, implementing stronger underwriting standards, repaying and retiring the revolving credit facility in 2009, deferring interest payments on MGIC Investment's outstanding convertible junior subordinated debentures, and repurchasing a portion of MGIC Investment's issued debt.

MGIC Business Operations

The company is a provider of private mortgage guaranty insurance in the U.S., with approximately 21% market share of the national private mortgage insurance market at year-end 2011. Private mortgage insurance coverages are issued to mortgage lenders, including mortgage bankers, savings institutions, commercial banks, mortgage brokers, credit unions, and other lenders. Mortgage guaranty insurance is generally required by a lender to insure the lender's risk in originating a low-down-payment mortgage loan to a home buyer, and a lender typically requires mortgage insurance when the mortgage loan exceeds 80% of the value of the mortgaged real estate. In the event of borrower default, private mortgage insurance covers the risk exposure of the insured lender. Private mortgage insurance also facilitates the sale of low-equity mortgage loans in the secondary mortgage securities market, primarily to Freddie Mac and Fannie Mae.

The company writes residential mortgage guaranty insurance in all 50 states, the District of Columbia, Puerto Rico, and Guam. The distribution of direct premiums written in 2011 by state was as follows:

Mortgage Guaranty Insurance Corporation
2011 Direct Premium Written

State	Premiums	Percentage
Texas	$ 89,002,215	7.9%
Florida	84,913,049	7.5
California	73,580,411	6.5
Pennsylvania	56,707,794	5.0
Illinois	55,657,088	4.9
Ohio	51,388,780	4.5
New York	45,066,340	4.0
Michigan	40,844,751	3.6
Georgia	36,132,397	3.2
New Jersey	35,481,233	3.1
Wisconsin	34,017,404	3.0
All other states	529,673,252	46.8
Total	$1,132,464,714	100.0%

The company currently offers primary mortgage guaranty insurance, which provides mortgage loan default protection on individual loans. The insurance covers unpaid loan principal, delinquent interest, and certain expenses associated with loan default and subsequent foreclosure in the event that the mortgage borrower defaults on a loan. The company generally pays the coverage percentage specified in the lender's primary policy, but the company has the option to pay 100% of the loss of the insured (the entire outstanding balance of the loan principal, unpaid interest, and other costs) and to acquire title of the defaulted mortgage real estate. The company rescinds coverage involving inaccurate information or fraud committed. Claims received in a quarter that have resolved by rescission peaked at approximately 28% in the first half of 2009.

Primary residential insurance generally applies to owner-occupied first mortgages on one-to-four family homes, including condominiums. Primary coverages are underwritten by the company on a loan-by-loan basis and can be issued on any type of residential mortgage loan instrument issued by the lender and approved for coverage by the company. A mortgage insurer may terminate mortgage insurance coverages only in the event of nonpayment of premium, and policies remain renewable for successive policy periods at the option of the insured lender.

MGIC offers primary insurance coverages that typically range from 17% to 35% of the original loan. In 2011, approximately 50% of MGIC's new risks written were issued on mortgages with an original loan-to-value ratio of 90.1% to 95%, while about 41% of new risks written by the company covered mortgages with a loan-to-value ratio of 85.1% to 90%. The insured coverage percentage is determined by the lender and often is established to comply with requirements established by Freddie Mac and Fannie Mae, regarding the portion of mortgage loan exposure that must be insured on securitized mortgages.

The company issues a mortgage guaranty master policy to each lender who meets company criteria as an acceptable mortgage loan producer. In general, the company underwrites each individual primary loan submitted by an insured lender and issues a separate certificate of insurance for each loan that meets company underwriting standards. The certificate of insurance for a primary loan attaches to the lender's master policy as an individual risk insured by the company. During 2011, the company issued coverages on mortgage loans for approximately 6,262 of the 24,007 master policyholders.

In the past some of the primary insurance offered by MGIC (generally referred to as "Bulk" primary insurance) provided coverage on each mortgage loan included in a defined portfolio of loans insured under a single bulk transaction. Bulk insurance typically insured the closed loans in an insured portfolio to specified levels of coverage. Bulk insurance coverages were provided to financial institutions, primarily in connection with securitizing the portfolio of loans for purposes of issuing an asset-backed investment security. By obtaining qualifying bulk mortgage guaranty insurance, the asset-backed security can qualify for an investment grade rating from independent credit rating agencies, which provided support for the perceived credit worthiness, marketability, and pricing of the bulk insured asset-backed security in the credit markets. The company stopped writing bulk transactions for home loan securitizations in 2007, but still has approximately $19.4 billion of insurance in force as of December 31, 2011, relating to bulk business, which is 11.2% of MGIC's total primary insurance in force as of year-end.

In the past, MGIC also offered a pool mortgage guaranty business product. Under pool mortgage guaranty insurance, the company provided coverage on a pool of mortgage loans. Pool insurance is generally used as a credit enhancement supplementing individual loan primary insurance for mortgage loan secondary market transactions involving the aggregation of mortgage loans into a pool for which a collateralized mortgage bond is underwritten, issued, and traded. Pool insurance typically covered loss on a defaulted individual mortgage loan included in the pool that is in excess of the loan's primary insurance coverage, as well as covering the total loss on a defaulted loan that did not require primary insurance at issuance.

The company's risk in a pool policy was generally limited to an aggregate loss percentage, typically one to five percent of the aggregate original principal balance of the loans in the pool. Historically, the company's participation in pool insurance had largely been limited to pools of fixed-rate 30-year loans sold to Freddie Mac and Fannie Mae (agency pool insurance), to the Federal Home Loan Banks under their mortgage purchase programs, and to pools associated with loans insured under state housing finance programs. In the period covered under the previous examination, banks began to originate pools of mortgage loans that they have underwritten for sale to Freddie Mac and Fannie Mae, as well as to the Federal Home Loan Banks under which a mortgage guaranty insurer insures the pool under an agency pool insurance policy or special pool policy developed for the Federal Home Loan Banks. Effective November 2007, the company would only write pool business for Freddie Mac and Fannie Mae and no longer offered new special pool coverage to the Federal Home Loan Banks. In 2010, the company discontinued offering any pool coverage but still has direct exposure to this business of approximately $1.9 billion of risk in force as of December 31, 2011.

MGIC's marketing operations are structured into four field regions located throughout the U.S. The marketing department has responsibility for maintaining and creating new products and services for business entities that use mortgage insurance. Each field region is supervised by a managing director who is responsible for the operations of the field offices and sales team within the field region. The field offices perform underwriting of individual loans and maintain company relationships with clients. Loan files are submitted to a field office which evaluates the loan and issues an insurance underwriting decision. The company's sales team is comprised of about 60 account managers who evaluate customer needs and offer MGIC products to customers. Three national account managers maintain MGIC's relationship with MGIC's national accounts, defined as lenders who have multi-regional locations and a substantial mortgage insurance volume. The national account managers coordinate the efforts of the field regions with regard to the national accounts.

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	$1,132,464,714	$2,810,974	$177,579,405	$957,696,283
Total All Lines	$1,132,464,714	$2,810,974	$177,579,405	$957,696,283

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 11 members. The directors are elected at the annual shareholders' meeting to serve a one-year term. Officers are elected at the board's annual meetings and are to hold those positions until the earlier of their resignation or removal by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The non-employee board members currently receive a $100,000 annual retainer for serving on the board. In addition, after the fifth board or committee meeting attended, they receive $3,000 per board meeting attended and $2,000 per committee meeting attended on any one day. The lead director of the board receives an additional fee of $25,000 for services provided. The chairperson of the Audit Committee receives an additional $20,000 fee. Non-chair directors of the Audit Committee receive an additional $5,000 fee annually. Other committee chairpersons receive an additional $10,000 fee. The board members also receive an annual share unit award under MGIC's Deferred Compensation Plan and in 2011 the fair value of such awards to non-management directors was $100,000 each. As an executive employee of the holding company system, Curt S. Culver receives no compensation specific to his service on the board of directors.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
James A. Abbott Charlotte, North Carolina	Chairman and Principal of American Security Mortgage Corporation	2013
Curt S. Culver Nashotah, Wisconsin	MGIC Investment Corporation Chairman of the Board and Chief Executive Officer	2013
Thomas M. Hagerty Boston, Massachusetts	Managing Director for Thomas H. Lee Partners, LP	2013
Tim A. Holt Glastonbury, Connecticut	Self-employed Consultant and former Senior Vice President of Aetna, Inc.	2013
Kenneth M. Jastrow, II Round Mountain, Texas	Forestar Group, Inc., Chairman of the Board	2013

Name and Residence	Principal Occupation	Term Expires
Daniel P. Kearney Chicago, Illinois	Self-employed Business Consultant and Private Investor	2013
Michael E. Lehman Saratoga, California	Chief Financial Officer of Palo Alto Networks, Inc.	2013
William A. McIntosh Kenilworth, Illinois	Retired Managing Director of Salomon Brothers	2013
Leslie M. Muma Belleair, Florida	Retired Chief Executive Officer of Fiserv, Inc.	2013
Donald T. Nicolaisen Califon, New Jersey	Retired Chief Accountant at the U.S. Securities and Exchange Commission	2013
Mark M. Zandi Malvern, Pennsylvania	Chief Economist for Moody's Analytics	2013

Officers of the Company

The executive and senior 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
Patrick Sinks	President and Chief Operating Officer	2,593,458
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
Lawrence J. Pierzchalski	Executive Vice President, Risk Management	1,760,633
Carla A. Gallas	Senior Vice President, Claims	712,482
James A. Karpowicz	Senior Vice President, Chief Investment Officer and Treasurer	861,429
Michael G. Meade*	Senior Vice President, Information Services and Chief Information Officer	938,745
Steven T. Snodgrass	Senior Vice President, Capital Market	675,104
Cheryl L. Webb	Senior Vice President, Field Operations	1,119,778
Michael J. Zimmerman	Senior Vice President, Investor Relations	602,829

* Mr. Meade retired on March 2, 2012. Mr. Gregory A. Chi was elected as Senior Vice President, Information Services, effective February 6, 2012, and was elected as Chief Information Officer effective March 5, 2012.

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:

Executive Committee
Curt S. Culver, Chair
Kenneth M Jastrow, II
Leslie M. Muma

Risk Management Committee
Donald T. Nicolaisen, Chair
James A. Abbott
William A. McIntosh
Mark M.Zandi

Management Development, Nominating and Governance Committee
Kenneth M. Jastrow, II, Chair
Thomas M. Hagerty
Leslie M. Muma
Donald T. Nicolaisen

Audit Committee
Michael E. Lehman, Chair
James A. Abbott
Daniel P. Kearney
Tim A. Holt
William A. McIntosh

Securities Investment Committee
Daniel P. Kearney, Chair
Tim A. Holt
Leslie M. Muma
William A. McIntosh

The board also formed a Senior Management Governance Committee at the company level in July of 2010 to formalize the oversight and coordination of the MGIC Group’s strategic business planning, major policy decisions, and business forecasts, which were items that were already being performed by the company’s executive management team prior to the board directive. The committee formally meets on a monthly basis. At the time of the examination the committee consisted of the following individuals:

Curt S. Culver, Chair
Patrick Sinks
Jeffrey H. Lane
J. Michael Lauer
Lawrence J. Pierzchalski

IV. AFFILIATED COMPANIES

Mortgage Guaranty Insurance 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.

MGIC Indemnity Corporation

MGIC Indemnity Corporation 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.

As described earlier in this report, 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

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

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.

As discussed previously, 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, Mortgage Guaranty Insurance 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. 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. 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.

Guarantee Agreement

MGIC entered into an agreement for the benefit of the Australian Prudential Regulation Authority (APRA) effective May 7, 2007, in connection with the APRA's licensing of MGIC Australia Pty Limited (hereinafter also MGIC Australia) to write mortgage guaranty insurance in Australia. Under this agreement MGIC has guaranteed to maintain MGIC Australia's capital at a sufficient level for MGIC Australia to pay its obligations. MGIC is limited to an aggregate contribution of $300 million in each 36-month period, the first of which commenced on May 1, 2007. To date, MGIC has not made any capital contributions to MGIC Australia under this agreement. MGIC has ensured under separate undertakings, dated May 7, 2007, that MGIC Australia sets a target adequacy multiple of its Minimum Capital Requirement (MRC) governed by laws of New South Wales, Australia, and that if MGIC Australia's capital base drops below 1.2 times MCR it will ensure that MGIC Australia's capital is increased to not less than 1.35 times MCR within three months.

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

Mortgage Guaranty Insurance Corporation's active reinsurance program encompasses two major components of business activity, "New Book-Affiliated" reinsurance and "Captive" reinsurance. There are also a few assumption and ceding reinsurance agreements that are considered immaterial to the company's operations as well as two non-affiliated "synthetic" contracts, which represent aggregate excess of loss reinsurance agreements involving specific groups of loans in-force as of the effective dates of the agreements. MGIC also has two inactive reinsurance business components, "Old Book" and "Foreign" reinsurance, both of which have been in run-off and are not material to the ongoing business activity of the company. Each of the company's current reinsurance treaties contains proper insolvency clauses.

New Book-Affiliated Reinsurance

MGIC cedes excess loss and quota share residential mortgage guaranty risks to affiliated mortgage guaranty insurers under numerous affiliated reinsurance contracts. The reinsurance cessions by MGIC are maintained to facilitate MGIC 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.

MGIC has four reinsurance agreements with MGIC Reinsurance Corporation of Wisconsin that provide for MRCW assumption of MGIC deep coverage primary and pool insurance. Under one reinsurance agreement, which applies to primary insurance, MGIC cedes to MRCW primary mortgage guaranty policy risks on losses up to 25% in excess of 25% of the indebtedness of the mortgage borrower. Under two excess of loss agreements, MGIC cedes to MRCW primary and pool mortgage guaranty risks in excess of 25% of the indebtedness of the mortgage borrower. Under the fourth agreement, MRCW assumes, on a 50% quota share basis, primary business which MGIC has assumed from the Massachusetts Housing Finance Agency. There is also an agreement whereby MRCW assumes primary business risks relating to MGIC's captive reinsurance program on a variable quota share basis, which ranges from 3.85% to 50% coverage and only applies to deep coverage certificates. The first four treaties MGIC has executed with MRCW covers business written in all U.S. jurisdictions except California, Illinois, Kansas, Maryland, New York, and Texas, while the treaty relating to ceded risks under MGIC's captive reinsurance program excludes the aforementioned jurisdictions as well as Ohio for specified periods or coverage.

Laws enacted in certain states do not allow a direct insurer to recognize credit for reinsurance ceded to a subsidiary insurer. For primary and pool mortgage guaranty insurance risks written in California, Illinois, Kansas, Maryland, New York, and Texas, excluding captive reinsurance risks, MGIC maintains six reinsurance treaties with three non-subsidiary affiliates. The treaties provide for cession to each respective reinsurer of one-third of the liability for losses in excess of loss liability of 25% of the indebtedness to the insured, which is retained by MGIC, for business written in those six states. The three affiliated reinsurers under these treaties are MGIC Reinsurance Corporation, MGIC Residential Reinsurance Corporation and MGIC Mortgage Reinsurance Corporation.

Four MGIC contracts with MGIC Reinsurance Corporation provide reinsurance coverages on primary mortgage guaranty insurance policies for losses in excess of 25% of the mortgage borrower's mortgage indebtedness on any single risk. Three of the contracts pertain to business written in all U.S jurisdictions except for six states and are in run-off. The fourth contract pertains to risks written on a direct basis by MGIC prior to July 1, 1996, in those six states that do not allow a ceding insurer to recognize credit for reinsurance ceded to a subsidiary affiliate reinsurer, as described in the preceding paragraph, which is also in run-off. A fifth MGIC agreement with MGIC Reinsurance Corporation provides for cession of business on a variable quota share basis relating to deep cover captive reinsurance written in California, Illinois, Kansas, Maryland, New York, and Texas.

Captive Reinsurance

MGIC's captive reinsurance program consists of cessions to domestic or offshore captive reinsurers that are affiliated with mortgage lending institutions or cessions through MGIC Reinsurance Corporation of Vermont, a wholly-owned subsidiary of MGIC that is considered a sponsored captive. 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. The lender establishes a captive reinsurer and undertakes reinsurance assumptions through its captive so as to participate in the underwriting results on mortgage loans that are originated or serviced by the lender.

The use of captive reinsurance in the mortgage guaranty insurance industry began in the mid-1990s and had expanded significantly prior to the downturn in the U.S. economy. MGIC’s first captive reinsurance agreement was executed in December of 1996. The following schedule summarizes the history of the company’s non-sponsored captive reinsurance program since the prior examination:

MGIC Captive Reinsurance Ceded
For the Five-year Period Ending December 31, 2011

	2007	2008	2009	2010	2011*
Number of captives with treaties	67	61	53	47	44
Annual premiums ceded (000’s)	$155,269	$193,561	$94,439	$60,260	$44,311

∗ Please note that as of December 31, 2011, there were 44 entities (excluding sponsored captive participants) that had 60 executed captive treaties with MGIC, of which 49 were active and 11 were in run-off.

The typical captive reinsurance arrangement is between MGIC and a captive insurance subsidiary of a single lending institution or a group of lending institutions. The MGIC business subject to a captive reinsurance cession consists solely of business that is derived from MGIC’s guaranty of mortgages originated or serviced by the participating lending institution. There is no pooling of risk among captive reinsurance agreements. Prior to 2009, risk was transferred from MGIC to the captive reinsurer on an annual aggregate excess of loss basis or on a quota share basis; however, beginning in 2009, only quota share reinsurance structures have been offered. Under typical excess of loss agreements, the first layer of exposure is retained by MGIC, an excess layer of risk is ceded to the captive, and any remaining exposure is retained by MGIC. Contracts vary depending on whether the premium is transferred on a written or earned basis and on whether or not contingency reserves are ceded. Calendar year attachment points are determined based on the business produced. The majority of reinsurance coverage has a term of 120 months.

The captive reinsurers are generally not considered authorized reinsurers, and they often use collateral funding arrangements so that the reinsurance transaction may qualify for the recognition of ceded reinsurance credits by the company. Each of the MGIC captive reinsurance agreements provide for a trust or letter of credit to be established by the reinsurer. The entire ceded premium is paid into the trust. The majority of the agreements are aggregate excess of loss, whether in force or in run-off, whereby the reinsurer is required to fund the trust in an amount equal to 10% of the coverage in force under the reinsurance, with the funding requirement remaining applicable even if the assumed risk does not remain in-force. Amounts by which policyholder reserves (the market value of the trust less loss, loss adjustment expense, and unearned premium reserves) are in excess of 102% of the greater of the contingency reserve, or 20% of the remaining ceded coverage, or in the case of run-off, 100% of the remaining coverage, may be disbursed to the reinsurer under certain conditions and time restrictions.

Synthetic Reinsurance

MGIC established three affiliated special purpose reinsurance companies (Home Re) which placed a defined population of policies into a bond portfolio which was sold to investors who became reinsurers on those policies. The Home Re program is a form of an aggregate excess of loss reinsurance program, whereby layers were defined and losses and principal reductions would be applied as defined within the agreement. Investors bought into specific layers, and each layer offered different rates of interest (premium) for the investment. The top two layers and the lowest layer (UR) were retained by MGIC.

Each program was uniquely structured based upon the policies and market qualities at the time of issuance. Each deal had a period of time during which principal reductions were applied to the top two layers, and after which the reductions were then applied to the lowest of the investor levels, and then a period when principal reductions would be applied on a defined ratio basis to defined investor layers up to and including the top two MGIC layers. All losses paid were first applied to the lowest, UR layer, and once that was consumed, losses were applied to the next lowest (investor) layer in force. Losses paid within the investor level are recovered by MGIC from the trust in the month of reporting.

The first Home Re program was terminated in 2008, while in 2011 each of the two remaining in force Home Re programs (Home Re 2005-2 and Home Re 2006) were in a position where each dollar of direct losses paid were recoverable from the programs. The impact to MGIC’s year-end 2011 financial statements for the combined Home Re programs was $12,779,228 of ceded paid losses. As of December 31, 2011, there was approximately $197,190,457 of total risk on policies in the program, of which approximately $23,769,594 was allocated to the various bond holders.

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."

Mortgage Guaranty Insurance Corporation
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$3,497,930,303	$ 0	$3,497,930,303
Stocks:			
Preferred stocks	1,454,836	0	1,454,836
Common stocks	538,851,005	0	538,851,005
Real estate:			
Occupied by the company	18,075,881	0	18,075,881
Properties held for sale	1,620,748	0	1,620,748
Cash, cash equivalents, and short-term investments	1,054,909,263	0	1,054,909,263
Other invested assets	851,239	547,449	303,790
Investment income due and accrued	36,588,974	0	36,588,974
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	71,067,906	0	71,067,906
Reinsurance:			
Amounts recoverable from reinsurers	160,685,694	0	160,685,694
Current federal and foreign income tax recoverable and interest thereon	16,654,687	16,654,687	0
Net deferred tax asset	153,801,596	11,337,477	142,464,119
Electronic data processing equipment and software	1,676,834	0	1,676,834
Furniture and equipment, including health care delivery assets	15,227,077	15,227,077	0
Receivable from parent, subsidiaries, and affiliates	2,615,286	0	2,615,286
Write-ins for other than invested assets:			
Other assets nonadmitted	125,297,924	125,297,924	0
Cash surrender value of split dollar life plan	667,637	0	667,637
Total Assets	$5,697,976,890	$169,064,614	$5,528,912,276

Mortgage Guaranty Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2011

Losses		$3,502,490,741
Loss adjustment expenses		78,981,549
Commissions payable, contingent commissions, and other similar charges		(1,129)
Other expenses (excluding taxes, licenses, and fees)		193,093,507
Taxes, licenses, and fees (excluding federal and foreign income taxes)		6,618,847
Current federal and foreign income taxes		27,000,445
Unearned premiums		96,107,901
Ceded reinsurance premiums payable (net of ceding commissions)		33,978,772
Amounts withheld or retained by company for account of others		18,009,858
Remittances and items not allocated		2,847,539
Provision for reinsurance		958,463
Payable to parent, subsidiaries, and affiliates		43,653
Total liabilities		3,960,130,146
Common capital stock	$ 5,000,000	
Gross paid in and contributed surplus	1,123,439,035	
Unassigned funds (surplus)	627,925,036	
Less treasury stock, at cost:		
Common	187,581,941	
Surplus as regards policyholders		1,568,782,130
Total Liabilities and Surplus		$5,528,912,276

Mortgage Guaranty Insurance Corporation
Summary of Operations
For the Year 2011

Underwriting Income		
Premiums earned		$ 986,344,716
Deductions:		
Losses incurred	$1,551,710,694	
Loss adjustment expenses incurred	(47,037,494)	
Other underwriting expenses incurred	154,768,319	
Total underwriting deductions		1,659,441,519
Net underwriting gain (loss)		(673,096,803)
Investment Income		
Net investment income earned	144,094,841	
Net realized capital gains (losses)	84,100,001	
Net investment gain (loss)		228,194,842
Other Income		
Net gain (loss) from agents' or premium balances charged off	286,446	
Write-ins for miscellaneous income:		
Other revenue	3,012	
Total other income		289,458
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(444,612,503)
Federal and foreign income taxes incurred		(47,525,869)
Net Loss		$ (397,086,634)

Mortgage Guaranty Insurance Corporation
Cash Flow
For the Year 2011

Premiums collected net of reinsurance			$ 921,171,492
Net investment income			178,249,927
Miscellaneous income			289,458
Total			1,099,710,877
Benefit- and loss-related payments		$2,253,070,550	
Commissions, expenses paid, and aggregate write-ins for deductions		213,367,115	
Federal and foreign income taxes paid (recovered)		(9,263,608)	
Total deductions			2,457,174,057
Net cash from operations			(1,357,463,180)
Proceeds from investments sold, matured, or repaid:			
Bonds	$3,606,906,788		
Stocks	1,104,050		
Real estate	8,762,303		
Other invested assets	536,313		
Net gains (losses) on cash, cash equivalents, and short-term investments	4,108		
Total investment proceeds		3,617,313,562	
Cost of investments acquired (long-term only):			
Bonds	2,647,271,351		
Real estate	3,623,412		
Other invested assets	3,220,000		
Total investments acquired		2,654,114,763	
Net cash from investments			963,198,799
Cash from financing and miscellaneous sources:			
Capital and paid in surplus less treasury stock		120,000,000	
Other cash provided (applied)		31,990,091	
Net cash from financing and miscellaneous sources			151,990,091
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(242,274,290)
Cash, cash equivalents, and short-term investments:			
Beginning of year			1,297,183,553
End of Year			$1,054,909,263

Mortgage Guaranty Insurance Corporation
Policyholders Position Calculation
December 31, 2011

Surplus as regards policyholders		$1,583,209,248	
Deferred risk premium maintained in unearned premium reserve		51,971	
Contingency reserve		344,224	
Less: Subsidiary's minimum policyholders position		110,429,105	
Total policyholders position			$1,473,176,338
Net minimum policyholders position:			
Individual loans:			
Loan-to-value more than 75%	$1,258,350,844		
Loan-to-value more than 50-75%	6,063,948		
Loan-to-value less than 50%	195		
Total individual loans		1,264,414,987	
Group loans:			
Equity 20-50%, or equity plus prior insurance or a deductible 20-55%	22,441,014		
Equity more than 50%, or equity plus prior insurance or a deductible more than 55%	596,958		
Total group loans		23,037,972	
Total minimum policyholders position			1,287,452,959*
Excess of total policyholders position over minimum policyholders position			$ 185,723,379

* 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.

Mortgage Guaranty Insurance 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	$1,709,048,924	$1,429,021,893	$1,529,002,246	$1,258,530,020
Net income	(397,086,634)	258,957,626	341,207,841	348,872,690
Change in net unrealized capital gains/losses	(24,809,668)	(104,286,552)	(329,049,128)	(372,785,067)
Change in net unrealized foreign exchange capital gains/losses	0	982,800	0	0
Change in net deferred income tax	154,051,289	(42,026,858)	(106,838,225)	(62,062,211)
Change in nonadmitted assets	6,777,821	(34,034,947)	(5,424,492)	(24,784,459)
Change in provision for reinsurance	800,398	434,962	123,651	1,231,271
Change in surplus notes				
Surplus adjustments:				
Paid in	120,000,000	200,000,000	0	550,000,000
Dividends to stockholders	0	0	0	(169,999,998)
Surplus, End of Year	$1,568,782,130	$1,709,048,924	$1,429,021,893	$1,529,002,246

Mortgage Guaranty Insurance 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	72%	69%	92%	108%
#2	Net Premium to Surplus	61	57	74	81
#3	Change in Net Premiums Written	(1)	(8)	(15)	6
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	117*	77	78	71
#6	Investment Yield	2.6*	3.1	3.6	3.8
#7	Gross Change in Surplus	(8)	20	(7)	21
#8	Change in Adjusted Surplus	(15)*	6	(7)	(22)*
#9	Liabilities to Liquid Assets	86	84	92	90
#10	Agents' Balances to Surplus	5	5	6	6
#11	One-Year Reserve Development to Surplus	0	(16)	20*	20*
#12	Two-Year Reserve Development to Surplus	(26)	1	3	19
#13	Estimated Current Reserve Deficiency to Surplus	52*	27*	6	50*

Ratio No. 5, “Two-Year Overall Operating Ratio,” measures the company’s profitability over the previous two-year period and was exceptional in 2011. The exceptional ratio was impacted by decreased premium writings, increased underwriting expenses incurred in 2011 and significant losses and LAE incurred in 2010 and 2011 as a result of historically high levels of mortgage foreclosures and declining home prices in the U.S. which affected both the number and size of mortgage guaranty claims. The contingency reserve is a component of underwriting expenses and is usually a large liability that is required to be maintained for writing mortgage insurance business. Each calendar year a mortgage insurer adds to its contingency reserve an amount based on a percentage of its earned premium that year and remains in the aggregate reserve for 120 months and releases the amount of reserves that expire (exceeds 120 months). An insurer may also request from the commissioner, on a quarterly basis, provisional withdrawals from the contingency reserve when incurred losses and incurred loss expenses exceed the greater of either 35% of its net earned premium or 70% of the calculated amount to be contributed to the reserve in the year requested, as provided by s. Ins 3.09 (14) (d), Wis. Adm. Code. The company began requesting the release of contingency reserves for the second quarter of 2008. The provisional release of contingency reserves had been granted each quarter thereafter and the effects of such releases were reported as a subtraction from the company’s underwriting expenses, which resulted in the company reporting negative underwriting expense ratios in 2008, 2009 and 2010. In 2010 the withdrawals taken by the company reduced its contingency reserve to zero, which greatly reduced the impact of contingency reserve withdrawals on the company’s underwriting expenses in 2011.

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 2011. The exceptional ratio is primarily a result of the reduction in the company’s bond portfolio because proceeds from the disposal of bonds were used to fund claim obligations. The company’s low investment return was further affected by the sale of higher yielding bonds purchased in earlier years to fund claim payments and reinvesting at the very low rates available in the U.S. in recent years.

Ratio No. 8, “Change in Adjusted Policyholders’ Surplus,” measures the improvement or deterioration in the insurer’s financial condition based on operational results by factoring out changes in surplus notes, paid-in or transferred capital and surplus, which was considered exceptional in 2008 and 2011. The exceptional ratio in 2008 was primarily the result of the unrealized loss that was recorded by the company of $372.8 million, of which $348.3 million relates to its wholly-owned subsidiary MRCW, which incurred significant losses that year due to adverse development of 2006 and 2007 books of business assumed from MGIC. The exceptional result in 2011 was primarily attributable to significant losses and loss adjustment expenses incurred by the company, which was explained under Ratio No. 5.

Ratio No. 11, “One-Year Reserve Development to Surplus,” measures a company’s one-year loss reserve development as a percent of the prior years’ policyholders’ surplus and was considered exceptional in 2008 and 2009. This is attributable to the company strengthening its reserves in those years, which was caused by higher than anticipated levels of mortgage foreclosures and declining home prices in the U.S., which, in turn, affected both the number and size of mortgage guaranty claims.

Ratio No. 13, “Estimated Current Reserve Deficiency to Policyholders’ Surplus,” provides an estimate of the adequacy of an insurer’s stated reserves as a percentage of surplus, based on current net premiums earned and an average ratio of developed reserves to earned premiums for the previous two years. The results of this ratio in 2008, 2010 and 2011 were considered exceptional. Changes in expected future conditions of the U.S. economy in general and in the housing market in particular have resulted in significantly higher claim rates and claim severities for mortgage guaranty insurance than was previously anticipated by the company in those years.

Growth of Mortgage Guaranty Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2011	$5,528,912,276	$3,960,130,146	$1,568,782,130	$(397,086,634)
2010	6,508,900,558	4,799,851,634	1,709,048,924	258,957,626
2009	7,214,641,179	5,785,619,286	1,429,021,893	341,207,841
2008	7,624,463,520	6,095,461,274	1,529,002,246	348,872,690
2007	7,110,368,721	5,851,838,701	1,258,530,020	537,126,656

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2011	$1,135,275,688	$ 957,696,283	$ 986,334,716	152.5%	16.1%	168.6%
2010	1,174,047,428	970,469,892	1,016,519,367	125.7	(25.0)	100.7
2009	1,318,971,119	1,056,047,163	1,096,212,879	234.2	(138.2)	96.0
2008	1,652,693,313	1,237,699,153	1,199,290,499	195.7	(93.1)	102.6
2007	1,512,101,333	1,172,382,921	1,105,707,199	174.2	(87.4)	86.8

The company has experienced surplus growth of 24.7% over the four-year period under examination from 2008 to 2011, which is primarily attributable to capital contributions provided by its parent company, MGIC Investment, in order to meet capital requirements of certain U.S. states and the GSEs for continuing to write new business. The company's surplus without the capital contributions had been impacted by significant underwriting losses during this period due to distressed U.S. economic and housing market conditions.

Gross and net premium writings began to steadily decrease beginning in 2009 as a result of the company running off its bulk and pool business, slower home sales in the U.S., restricting or limiting writing premiums in certain areas of the U.S., implementation of new underwriting standards and rate increases, all of which may have contributed to an increase in use of Federal Housing Administration insurance programs by MGIC's customers. Premiums written in the last few years were also impacted by an increase in loan defaults. The company's gross and net writings ratios over the last four years have remained below 1 to 1, which is consistent with the company's long-term experience.

The company's expense ratio was negative in 2008, 2009 and 2010, which was mainly attributable to the effects of approved contingency reserve withdrawals in those years as indicated by the exceptional results of IRIS Ratio No. 5. In 2010, the withdrawals taken by the company reduced its contingency reserve to zero, which greatly reduced the impact of contingency reserve withdrawals on the company's underwriting expenses in 2011.

The company had not reported a net loss for over ten years prior to 2011. The company reported a net loss in 2011 as both premiums earned and net investment income decreased, while net losses incurred increased significantly and the company no longer reported negative underwriting expenses incurred as a result of having utilized all of its contingency reserves.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus of $1,568,782,130 reported by the company as of December 31, 2011, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Income Tax Reporting—It is recommended that the company disclose the tax strategies used to admit more deferred tax asset than calculated under SSAP No. 10, paragraph 10.

   Action—Compliance.

2. Income Tax Reporting—It is recommended that future Notes to Financial Statements regarding Revenue Agent Reports be specific with respect to the entities involved.

   Action—Compliance.

3. Executive Compensation—It is recommended that the company properly complete the "Report of Executive Compensation," as required by ss. 601.42 and 611.63 (4), Wis. Stat.

   Action—Compliance.

4. Losses and Loss Adjustment Expenses - Reconciliation of Company Data to Schedule P—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

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Premium Receivable Allowance

The review of the company's aging of uncollected premiums indicated that the company estimated a premium receivable allowance of $2,047,224 that was netted out of the amount reported in the 2011 Annual Statement, page 2, column 1, line 15.1 "Uncollected premiums and agents' balances in course of collection." The company's estimation methodology appears reasonable and the reporting of such an allowance met guidance under related NAIC Statutory Accounting Principles. Although the company's premium allowance estimation for potentially uncollectible premium receivable is considered a conservative practice and appears to be appropriate under current conditions, disclosure of the company's estimated premium receivable allowance in the Notes to Financial Statements would provide transparency and clarification for statement presentation purposes. It is recommended that the company disclose in the Annual Statement, Notes to Financial Statements, No. 1.B. "Use of Estimates," a description and calculated estimate of its premium receivable allowance and that the uncollected premiums and agents' balances in course of collection balance is reported net of the estimate.

VIII. CONCLUSION

As of December 31, 2011, the company reported assets of $5,528,912,276, 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. Prior to 2011 the company reported over ten consecutive years of net income. Over the four-year period under examination the company's reported policyholders' surplus increased by approximately 25%, primarily due to capital contributions provided by MGIC Investment Corporation. Gross and net premiums have steadily decreased since 2009 due to a number of factors, including running off certain blocks of loan coverages previously offered by the company, slower home sales in the U.S., and the implementation of stricter underwriting standards, to name a few. During the period under examination, the company's net loss and loss adjustment expense ratio has averaged 177.1% with the highest ratio of 234.2% being recorded in 2009. The operational results for MGIC 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 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 MGIC resulted in one recommendation, which was not a repeat of a previous examination recommendation, no adjustments to surplus and no reclassifications. The recommendation relates to disclosure of the company’s estimation of a premium receivable allowance and how it is presented in the company’s financial statements.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 45 - Premium Receivable Allowance—It is recommended that the company disclose in the Annual Statement, Notes to Financial Statements, No. 1.B. "Use of Estimates," a description and calculated estimate of its premium receivable allowance and that the uncollected premiums and agents' balances in course of collection balance is reported net of the estimate.

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.