Report

of the

Examination of

MGIC Reinsurance Corporation of Wisconsin

Milwaukee, Wisconsin

As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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January 11, 2018

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

Commissioner:

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

MGIC REINSURANCE CORPORATION OF WISCONSIN
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MGIC Reinsurance Corporation of Wisconsin (hereinafter also MRCW or the company) was conducted in 2012 and 2013 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the Financial Data section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on 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 (hereinafter also, the OCI). The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

MGIC Reinsurance Corporation of Wisconsin was incorporated under the laws of Wisconsin on February 15, 1996, and commenced operations on April 1, 1996. The company is a wholly owned subsidiary of Mortgage Guaranty Insurance Corporation (hereinafter also MGIC). MRCW is licensed solely in the state of Wisconsin.

MRCW was organized to provide MGIC with excess of loss reinsurance coverage on residential mortgage guaranty insurance risks in order to comply with certain states' limitations on coverage. MRCW's business consists of reinsurance of primary and pool insurance risks written on a direct basis by MGIC in all U.S. jurisdictions. MRCW assumes MGIC's liability for mortgage guaranty net losses in excess of 25% of the indebtedness to the insured. The company derives all of its written business from its assumption of risks written by MGIC, and does not cede any reinsurance. From May 1, 2016 to December 31, 2016, MRCW also provided its affiliate MGIC Indemnity Corporation with statutorily required excess reinsurance coverage.

MRCW was one of six affiliated reinsurers that had been organized in order for MGIC and MGIC Indemnity Corporation to comply with certain states' limitations on coverage. The other affiliated reinsurers were MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, MGIC Residential Reinsurance Corporation, MIC Reinsurance Corporation, and MIC Reinsurance Corporation of Wisconsin.

The regulatory limits on coverage have been repealed in all but one state, Ohio. MGIC and MGIC Indemnity Corporation determined that, as a result of revised state laws on coverage limits and the credit for reinsurance provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, subject to compliance with Wisconsin law, they would be entitled to statutory credit for business reinsured under all of their affiliated reinsurance treaties if the reinsurance obligations were transferred to MRCW, and therefore, the reasons for maintaining multiple affiliated reinsurers no longer applied. Effective May 1, 2016, MRCW entered into a series of assumption and novation agreements whereby such business of Mortgage Guaranty Insurance Corporation and MGIC Indemnity Corporation as had been reinsured by its affiliates MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, MGIC Residential

Reinsurance Corporation, MIC Reinsurance Corporation, and MIC Reinsurance Corporation of Wisconsin, was transferred to MRCW. In connection with the assumption and novation transactions, the assigning reinsurer transferred its reserves for unearned premiums, losses and loss adjustment expenses, together with any ceded reinsurance premium received on or after May 1, 2016. MGIC and MGIC Indemnity Corporation, as the ceding companies under the affiliated reinsurance treaties, then established and maintained the contingency reserves associated with these contracts.

Another advantage of the assumption and novation agreements was that the holding company system of which MRCW is a part (hereinafter also, the MGIC Group) was able to streamline its organizational structure. MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, and MGIC Residential Mortgage Corporation were dissolved effective October 1, 2016, while MIC Reinsurance Corporation and MIC Reinsurance Corporation of Wisconsin were dissolved effective October 10, 2016.

Effective January 1, 2017, in order to further simplify the MGIC Group's affiliated reinsurance accounting, all of the affiliated reinsurance treaties MRCW assumed and novated effective May 1, 2016, were commuted and replaced with a single reinsurance agreement between MGIC, as cedent, and MRCW, as reinsurer. MRCW's contingency reserve as of January 1, 2017 was established as $131,515, 369, which was the balance it accumulated and reported as of December 31, 2016, prior to the commutation. At the same time, MGIC Indemnity Corporation entered into an agreement whereby it would cede coverage in excess of 25% of the indebtedness to the insured to MGIC.

The OCI entered into a Stipulation and Order (Case No. 09-C32599) with MRCW, together with certain other affiliates, allowing MRCW 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 this Stipulation and Order was in effect MRCW and its named affiliates 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 (Case No. 11-C33951) dated January 23, 2012, continued this exemption under substantially the same provisions until December 31, 2013. The Stipulation and Order in the Matter of Case No. 13-C35847 dated January 23, 2012, which applied only to MRCW, further continued this exemption under substantially the same provisions until December 31, 2015. This exemption was no longer deemed necessary for MRCW after that date.

Effective July 15, 2013, the OCI approved a limited exemption from s. Ins 6.20 (8) (k), Wis. Adm. Code, whereby MRCW and certain other named insurance affiliates may invest up to 30% of admitted assets in U.S. dollar denominated debt securities issued by non-U.S. and Canadian corporate and sovereign obligors. This limited exemption will continue until the earlier of (i) December 31, 2020 or (ii) rescission of this exemption by the OCI with notice to the company. This exemption was and continues to be given because MRCW and its affiliates demonstrated to the OCI's satisfaction that the 2% of admitted assets limitation on loans, securities, and investments in countries other than the United States and Canada established by s. Ins 6.20 (8) (k), Wis. Adm. Code, inhibits portfolio diversification across an optimal mix of highly rated corporate bonds within the context of these insurers' circumstances and the options available in the capital markets. In the exercise of its own judgement and without any consultation with the OCI, the New York Department of Insurance, since reorganized into the New York Department of Financial Services, limited the company's investment in U.S. dollar denominated debt securities issued by non-U.S. and Canadian corporate and sovereign obligors to 10% of admitted assets.

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

The following table is a summary of the net insurance premiums written by the company in 2016. 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	$0	$114,280,763	$0	$114,280,763
Total All Lines	$0	$114,280,763	$0	$114,280,763

III. MANAGEMENT AND CONTROL

Board of Directors

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

As of December 31, 2016, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expiry
Patrick Sinks Racine, Wisconsin	Chairman, President and Chief Executive Officer Mortgage Guaranty Insurance Corporation	2017
Heidi A. Heyrman Pewaukee, Wisconsin	Vice President – Regulatory Relations, Assistant General Counsel and Assistant Secretary Mortgage Guaranty Insurance Corporation	2017
Jeffrey H. Lane Mequon, Wisconsin	Executive Vice President, General Counsel and Secretary Mortgage Guaranty Insurance Corporation	2017
Stephen C. Mackey Mequon, Wisconsin	Executive Vice President – Chief Risk Officer Mortgage Guaranty Insurance Corporation	2017
Timothy J. Mattke Whitefish Bay, Wisconsin	Executive Vice President and Chief Financial Officer Mortgage Guaranty Insurance Corporation	2017
Lisa M. Pendergast Cedarburg, Wisconsin	Vice President and Treasurer Mortgage Guaranty Insurance Corporation	2017
Julie K. Sperber Waukesha, Wisconsin	Vice President and Controller Mortgage Guaranty Insurance Corporation	2017

Officers of the Company

The officers serving as of December 31, 2016 were as follows:

Officer	Office	2016 Compensation*
Patrick Sinks	President and Chief Executive Officer	$0
Timothy J. Mattke	Executive Vice President and Chief Financial Officer	0
Jeffrey H. Lane	Executive Vice President, General Counsel and Assistant Secretary	0
Stephen C. Mackey	Executive Vice President – Chief Risk Officer	0
Julie K. Sperber	Vice President and Controller	0
Heidi A. Heyrman	Vice President and Secretary	0

* No executive compensation expense was allocated to the company by the holding company system for 2016.

Committees of the Board

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

Securities Investment Committee
Timothy J. Mattke, Chair
Heidi A. Heyrman
Lisa M. Pendergast

IV. AFFILIATED COMPANIES

MGIC Reinsurance Corporation of Wisconsin is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. This report will confine its discussion of specific affiliates of the company to parents in the direct succession of control of the company and affiliates with which the company has significant contractual relationships.

Organizational Chart
As of December 31, 2016

- MGIC Investment Corporation
  - Mortgage Guaranty Insurance Corporation
    - MGICA PTY Limited
      - MGIC Australia PTY Limited
    - MGIC Indemnity Corporation
    - 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
    - MGIC Mortgage and Consumer Asset I, LLC (Note #1)
      - CMI Investors LP 2 (99.02% ownership interest)
      - CMI Investors LP 5 (99.02% ownership interest)
      - CMI Investors LP 8 (99.02% ownership interest)
      - CMI Investors LP 9 (99.02% ownership interest)
  - MGIC Insurance Services Corporation
  - MGIC Investor Services Corporation
    - MGIC Mortgage Services, LLC

Note # 1: MGIC Mortgage and Consumer Asset II, LLC, holds a 0.98% ownership interest in CMI Investors LPs; the remaining 99.02% interest is held in MGIC Mortgage and Consumer Asset I, LLC.

MGIC Investment Corporation

MGIC Investment Corporation 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, 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.

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 various services to the mortgage finance industry, including contract underwriting, analysis of loan originations and portfolios and mortgage lead generation.

As of December 31, 2016, MGIC Investment's consolidated GAAP basis audited financial statements reported total assets of $5,734,529,000, total liabilities of $3,185,687,000, and total shareholders' equity of $2,548,842,000. Operations for 2016 produced a net income of $342,517,000.

Mortgage Guaranty Insurance Corporation

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

MGIC provides residential mortgage guaranty insurance in all 50 U.S. states, the District of Columbia, Guam, and Puerto Rico. MGIC serves as the lead operating company in the MGIC Group and provides administrative and managerial services to its affiliates. MGIC's direct and indirect costs incurred in providing services to its affiliates are allocated to the respective affiliates pursuant to intercompany agreements. As of December 31, 2016, MGIC's statutory financial statements reported total admitted assets of $4,475,661,514, total liabilities of $2,970,932,327, and policyholders' surplus of $1,504,729,187. Operations for 2016 produced a net income of $68,340,157. MGIC was examined concurrently with MRCW as of December 31, 2016, and the results of that examination were expressed in a separate report.

MGIC Mortgage and Consumer Asset II, LLC

MMCA II is a limited liability corporation and a wholly owned subsidiary of MRCW. The company was incorporated on April 5, 1999, under the laws of Delaware, to own 0.98% of the CMI Investors LPs. As of December 31, 2016, the fair value of MRCW's investment in MMCA II was $0 and it produced no investment income in 2016.

CMI Investors 2 LP, CMI Investors 5 LP, CMI Investors 8 LP, and CMI Investors 9 LP (CMI LPs)

Each of the Delaware-domiciled CMI Investor LPs is owned by MMCA I (99.02%) and MGIC Mortgage and Consumer Asset II, LLC (0.98%). Each of the CMI Partnerships formerly bought and sold interests in mortgage securities from Credit-Based Asset Servicing & Securitization LLC and others and is now in runoff. CMI Investors 2 LP was formed on November 12, 1993. CMI Investors 5 LP was formed on December 3, 1993. CMI Investors 8 LP was formed on March 22, 1994. CMI Investors 9 LP was formed on July 7, 1994.

Agreements with Affiliates

In addition to common staffing and management control, MGIC Reinsurance Corporation of Wisconsin's relationship to its affiliates is affected by various written agreements and undertakings. A brief summary of these agreements 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 a number of 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 MRCW 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

MRCW 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 a number of 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. In practice, expenses associated with this agreement are allocated and settled monthly.

V. REINSURANCE

MGIC Reinsurance Corporation of Wisconsin was organized to provide its affiliate Mortgage Guaranty Insurance Corporation with excess of loss reinsurance coverage on residential mortgage guaranty insurance risks in order to comply with certain states' limitations on coverage. The regulatory limits on coverage have been repealed in all but one state, Ohio, which still requires that a mortgage guaranty insurer's retention under a single policy of insurance be limited to no more than 25% of debt of the mortgage borrower. MRCW's business consists of reinsurance of primary and pool insurance risks written on a direct basis by MGIC in all U.S. jurisdictions. MRCW assumes MGIC's liability for mortgage guaranty net losses in excess of 25% of the indebtedness to the insured. The company derives all of its written business from its assumption of risks written by MGIC and does not cede any reinsurance.

Effective May 1, 2016, MRCW entered into a series of assumption and novation agreements whereby such business of Mortgage Guaranty Insurance Corporation and MGIC Indemnity Corporation as had been reinsured by its affiliates MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, MGIC Residential Reinsurance Corporation, MIC Reinsurance Corporation, and MIC Reinsurance Corporation of Wisconsin, was transferred to MRCW. In connection with the assumption and novation transactions, each assigning reinsurer transferred its reserves for unearned premiums, losses and loss adjustment expenses, together with any ceded reinsurance premium received on or after May 1, 2016. MGIC and MGIC Indemnity Corporation, as the ceding companies under the affiliated reinsurance treaties, then established and maintained the contingency reserves associated with these contracts.

Effective January 1, 2017, in order to further simplify the MGIC Group's affiliated reinsurance accounting, all of the affiliated reinsurance treaties MRCW assumed and novated effective May 1, 2016, were commuted and replaced with a single reinsurance agreement between MGIC, as cedent, and MRCW, as reinsurer. The contract contains proper insolvency provisions. MRCW's contingency reserve as of January 1, 2017, was established as $131,515,369, which was the balance it accumulated and reported as of December 31, 2016, prior to the commutation. At the same time, MGIC Indemnity Corporation entered into an agreement whereby it would cede coverage in excess of 25% of the indebtedness to the insured to MGIC.

At the time of this examination, the company had one affiliated reinsurance assumption agreement, which is described below.

Type:	Quota Share
Reinsured:	Mortgage Guaranty Insurance Corporation
Scope:	All policies written or assumed by the Reinsured
Retention:	25% of the original unpaid principal balance of each mortgage loan insured under policies written or assumed by the Reinsured
Coverage:	Reinsurer participates on each policy at a rate related to the amount of coverage in excess of 25% of the original unpaid principal balance of each mortgage loan insured under policies written or assumed by the Reinsured. The cede rate is the net value of the amount of coverage provided as a percentage less 25%, divided by the amount of coverage provided, expressed as a percentage. For example, a policy providing 30% of coverage will have a cede rate of 16.67% [(30%-25%)/30%], and a pool policy providing 100% of coverage will have a cede rate of 75% [(100%-25%/100%]. In the event of termination, unless otherwise agreed by the parties, the liability of the Reinsurer and Reinsured with respect to risk reinsured hereunder prior to the effective date of such termination shall continue on a runoff basis until the expiration, cancellation, or termination of each certificate or coverage document reinsured prior to termination.
Premium:	A percentage of the Reinsured's premium written equal to the cede rate of coverage, less the ceding commission
Commissions:	20% of reinsurance premiums paid by the Reinsured, which commission payment is made by deduction by the Reinsured from the related reinsurance premiums
Effective date:	January 1, 2017
Termination:	Either party may terminate by providing 30 days' advance written notice, which termination shall be effective on the last day of the calendar quarter next following the calendar quarter during which such notice is given. Either party may terminate by providing 30 days' advance written notice in the event that the other party should at any time become insolvent, suffer any impairment of capital, go into or be placed in liquidation or rehabilitation, or has a receiver appointed.

Other:	The parties shall establish and maintain, in proportion to the particular risk or premium retained or assumed, all such reserves as may be required with respect to contingency reserves, claims, loss and loss adjustment expenses, unearned premium reserves, and the Reinsurer's Share under the GSEs Private Mortgage Insurer Eligibility Requirements.

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, 2016, annual statement. 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." 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.

MGIC Reinsurance Corporation of Wisconsin
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$492,459,357	$	$492,459,357
Cash, cash equivalents, and short-term investments	19,311,648		19,311,648
Investment income due and accrued	4,632,055		4,632,055
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	23,132,162		23,132,162
Current federal and foreign income tax recoverable and interest thereon	830,837	222,442	608,395
Net deferred tax asset	244,889,763	224,913,967	19,975,796
Total Assets	$785,255,822	$225,136,409	$560,119,413

MGIC Reinsurance Corporation of Wisconsin
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Losses		$224,209,999
Reinsurance payable on paid loss and loss adjustment expenses		20,445,210
Loss adjustment expenses		2,238,559
Unearned premiums		25,883,141
Payable to parent, subsidiaries, and affiliates		48,366
Write-ins for liabilities:		
Contingency reserve		131,515,369
Accrual for premium refunds		2,631,000
Total Liabilities		406,971,644
Common capital stock	$ 2,000,000	
Gross paid in and contributed surplus	1,003,000,000	
Unassigned funds (surplus)	(851,852,231)	
Surplus as Regards Policyholders		153,147,769
Total Liabilities and Surplus		$560,119,413

MGIC Reinsurance Corporation of Wisconsin
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$108,748,612
Deductions:		
Losses incurred	$25,223,707	
Loss adjustment expenses incurred	694,101	
Other underwriting expenses incurred	22,960,075	
Write-ins for underwriting deductions:		
Contingency reserve contributions	53,841,376	
Total underwriting deductions		102,719,259
Net underwriting gain (loss)		6,029,353
Investment Income		
Net investment income earned	8,195,113	
Net realized capital gains (losses)	300,058	
Net investment gain (loss)		8,495,171
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		14,524,524
Dividends to policyholders		0
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		14,524,524
Federal and foreign income taxes incurred		(192,056)
Net Income		$ 14,716,580

MGIC Reinsurance Corporation of Wisconsin
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$110,188,253
Net investment income			14,668,088
Total			124,856,341
Benefit and loss related payments		$ 2,446,268	
Commissions, expenses paid, and aggregate write-ins for deductions		23,023,379	
Federal and foreign income taxes paid (recovered)		654,226	
Total deductions			26,123,873
Net cash from operations			98,732,468
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 98,255,852		
Net gains (losses) on cash, cash equivalents, and short-term investments	22		
Total investment proceeds		98,255,874	
Cost of investments acquired (long-term only):			
Bonds	180,325,961		
Total investments acquired		180,325,961	
Net cash from investments			(82,070,087)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		19,149	
Net cash from financing and miscellaneous sources			19,149
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			16,681,530
Cash, cash equivalents, and short-term investments:			
Beginning of year			2,630,118
End of year			$ 19,311,648

MGIC Reinsurance Corporation of Wisconsin
Minimum Policyholders Position Calculation
December 31, 2016

Surplus as regards policyholders		$153,147,769	
Contingency reserve		131,515,369	
Loss reserves on specified loans		4,255,962	
Total policyholders position			$288,919,100
Net minimum policyholders position:			
Individual loans:			
Loan-to-value more than 75%	$170,718,343		
Loan-to-value more than 50-75%	117,463		
Total individual loans		170,835,806	
Group loans:			
Equity 20-50%, or equity plus prior insurance or a deductible 25-55%	11,131,392		
Equity more than 50%, or equity plus prior insurance or a deductible less than 25%	399,697		
Total group loans		11,531,089	
Deduction of individual or group loans for Which the insurer has established a loss And LAE reserve greater than or equal To the minimum policyholders position For said loan		(12,825,957)	
Total minimum policyholders position			169,540,938*
Excess of total policyholders position over minimum policyholders position			$119,378,162

* 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.

Under the Stipulation and Order in the Matter of Case No. 14-C40387 by Wisconsin's Office of the Commissioner of Insurance dated February 25, 2015, the company is entitled to credit for the share of loss for which JPMorgan Chase Bank, N.A., Chase Home Finance LLC, and Bank of America, N.A. have agreed to compensate the company. The reduction in collective risk exposure for all members of the MGIC Group for the settlement with JPMorgan Chase Bank, N.A., Chase Home Finance LLC and Bank of America, N.A. is limited to a maximum of $870,000,000. The reduction of the direct total minimum policyholders position for all members of the MGIC Group for the settlement with JPMorgan Chase Bank, N.A., Chase Home Finance LLC and Bank of America, N.A. is limited to a maximum of $27,000,000. As of December 31, 2016, the company's direct minimum policyholders' position was reduced by $1,952,000 under the Stipulation and Order in the Matter of Case No. 14-C40387.

MGIC Reinsurance Corporation of Wisconsin
Analysis of Surplus
For the Five-Year Period Ending December 31, 2016

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

	2016	2015	2014	2013	2012
Surplus, beginning of year	$130,298,981	$18,484,805	$14,598,888	$19,877,725	$101,237,587
Net income	14,716,580	(48,991)	3,862,313	(5,258,114)	(83,409,722)
Change in net unrealized capital gains/losses					1,343,235
Change in net deferred income tax	(4,325,337)	249,215,100		(1,097,727)	(219,322,637)
Change in non-admitted assets	12,457,545	(237,351,933)	23,604	1,077,004	220,029,262
Surplus adjustments:					
Paid in		100,000,000			
Surplus, end of year	$153,147,769	$130,298,981	$18,484,805	$14,598,888	$19,877,725

MGIC Reinsurance Corporation of Wisconsin
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2016

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	2016	2015	2014	2013	2012
#1	Gross Premium to Surplus	75%	74%	538%	534%	430%
#2	Net Premium to Surplus	75	74	538*	534*	430*
#3	Change in Net Premiums Written	18	(3)	27	(9)	(13)
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	89	96	102*	149*	161*
#6	Investment Yield	1.8*	1.6*	1.5*	1.4*	1.2*
#7	Gross Change in Surplus	18	605*	27	(27)*	(80)*
#8	Change in Adjusted Surplus	18	64*	27*	(27)*	(80)*
#9	Liabilities to Liquid Assets	79	77	100*	100*	100*
#10	Agents' Balances to Surplus	15	15	99*	106*	86*
#11	One-Year Reserve Development to Surplus	(27)	(123)	(163)	(146)	(2)
#12	Two-Year Reserve Development to Surplus	(240)	(220)	(113)	22*	(30)
#13	Estimated Current Reserve Deficiency to Surplus	1	68*	751*	325*	1,024*

Ratio No. 2, "Net Premium to Surplus", measures the adequacy of the policyholders' surplus cushion, net of the effect of premiums ceded to reinsurers. The higher the ratio, the more risk the insurer bears in relation to policyholders' surplus. The company does not have any ceded reinsurance, so the gross and net premiums to surplus ratios are identical. The exceptional ratios for 2012 to 2014 inclusive can be attributed to the company's exceptionally low level of surplus as a result of the significant losses and loss adjustment expenses paid by the company since 2007 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.

Ratio No. 5, "Two-Year Overall Operating Ratio," measures the company's profitability over the previous two-year period and was exceptional from 2012 to 2014. The exceptional ratios were the result of significant losses and loss adjustment expenses incurred during this period 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.

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 each of the years under examination. The exceptional ratios are primarily a result of the need for the company to maintain a relatively high degree of liquidity during the period under examination, together with a conservative investment approach and the prolonged low interest rate environment in the United States during the period under examination.

Ratio No. 7, "Gross Change in Surplus," was exceptional in 2012, 2013, and 2015. In 2012 and 2013, the company incurred significant underwriting losses due to historically high levels of mortgage foreclosures and declining home prices in the U.S. From 2007 until 2013, both the number and size of mortgage guaranty claims increased significantly. While direct writers of mortgage guaranty insurance began to experience better results in 2013, the company's status as a reinsurer meant that there was a lag in its results relative to MGIC. In 2015 the company received a $100,000,000 capital contribution from MGIC, which offset the effects of the poor underwriting results in earlier years, while in 2015 the capital contribution significantly exceeded the operational loss for that year.

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 from 2012 to 2015 inclusive. The ratio was exceptional in 2012 and 2013 primarily due to the company incurring significantly large underwriting losses in those years. In 2014, the company experienced a significant decrease in incurred loss and loss adjustment expenses, favorable loss development from prior years, and significantly increased premiums as a result of a change to the reinsurance structure that generated higher assumed premium rates and a decrease in the return premium accrual. In 2015, results continued to improve as losses received on new default notices declined and favorable loss development from prior years continued.

Ratio No. 9, “Liabilities to Liquid Assets,” measures the company’s ability to meet the financial demands that may be placed upon it and was considered exceptional from 2012 to 2014 inclusive. The exceptional results for those years are primarily attributable to significant reserve strengthening and increased claim obligations to MGIC under various affiliated reinsurance agreements during those years.

Ratio No. 10, “Agents’ Balances to Surplus,” measures premiums booked as written and billed in relation to the insurer’s policyholders’ surplus. The exceptional ratios for 2012 to 2014 inclusive can be attributed to the company’s exceptionally low level of surplus as a result of the significant losses and loss adjustment expenses paid by the company since 2007 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.

Ratio No. 12, “Two-Year Reserve Development to Surplus,” measures a company’s two-year loss reserve development as a percent of the prior years’ policyholders’ surplus and was considered exceptional in 2013. The exceptional result for 2013 is attributable to a large loss settlement during 2012, the value of which was more than what was previously reserved as of December 31, 2011.

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 were considered exceptional from 2012 to 2015 inclusive due to the significant losses and loss adjustment expenses paid by the company during much of the period under examination 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. In each of the company's Actuarial Opinions as of December 31, 2012, 2013, 2014, and 2015, the company's independent actuary asserts that the results for this ratio are not meaningful because the earned premium and the losses in each of those years are not comparable on a calendar year basis because a significant portion of the earned premium in each of those years reflects more recent policy years that have a lower propensity for losses. These assertions would seem to be borne out by the results for Ratio No. 11, "One –Year Reserve Development to Surplus," and Ratio No. 12, "Two-Year Reserve Development to Surplus," for the period under examination, which have generally evidenced substantially favorable reserve developments.

Financial Experience of MGIC Reinsurance Corporation of Wisconsin

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2016	$560,119,413	$406,971,644	$153,147,769	$ 14,716,580
2015	454,547,804	324,248,823	130,298,981	(48,991)
2014	355,326,940	336,842,135	18,484,805	3,862,313
2013	421,861,172	407,262,284	14,598,888	(5,258,114)
2012	544,614,241	524,736,516	19,877,725	(83,409,722)
2011	846,437,582	745,199,995	101,237,587	(37,719,335)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2016	$114,280,763	$114,280,763	$108,748,612	23.8%	67.2%	91.0%
2015	96,487,453	96,487,453	90,224,778	35.4%	66.4%	101.8%
2014	99,415,447	99,415,447	93,727,284	49.9%	51.6%	101.5%
2013	78,014,987	78,014,987	76,638,773	98.1%	18.6%	116.7%
2012	85,416,962	85,416,962	97,430,848	175.0%	14.3%	189.3%
2011	97,749,475	97,749,475	108,088,616	143.5%	14.1%	157.6%

Until 2014, MRCW continued to experience substantial financial stress due to the significant losses and loss adjustment expenses paid by the company since 2007 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.

From 2014 to the present, improvements in the U.S. economic condition and a recovery in housing prices have been reflected in the company's recovery. In 2014, the company benefited from a change to the reinsurance structure that generated higher assumed premium rates and a decrease in the return premium accrual. In 2015, MGIC contributed $100,000,000 to the company, which partially offset the effects of the poor underwriting results in earlier years.

Effective May 1, 2016, MRCW entered into a series of assumption and novation agreements whereby such business of Mortgage Guaranty Insurance Corporation and MGIC Indemnity Corporation as had been reinsured by its affiliates MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, MGIC Residential Reinsurance Corporation, MIC Reinsurance Corporation, and MIC Reinsurance Corporation of Wisconsin, was transferred to MRCW. In connection with the assumption and novation transactions, the assigning reinsurer transferred its reserves for unearned premiums, losses and loss adjustment expenses, together with any ceded reinsurance premium received on or after May 1, 2016. MGIC and MGIC Indemnity Corporation, as the ceding companies under the affiliated reinsurance treaties, then established and maintained the contingency reserves associated with these contracts. For MRCW, the effect of the assumption and novation agreements was to increase assets, liabilities, and gross, net and earned premiums substantially in comparison to 2015.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2016, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

Summary of Current Examination Results

The current examination resulted in no adverse or material findings.

VIII. CONCLUSION

MGIC Reinsurance Corporation of Wisconsin is a direct wholly owned subsidiary of Mortgage Guaranty Insurance Corporation and an indirect wholly owned subsidiary of MGIC Investment Corporation, its ultimate controlling person. MRCW was organized in 1996 to provide MGIC with excess of loss reinsurance coverage on residential mortgage guaranty insurance risks in order to comply with certain states' limitations on coverage.

As of December 31, 2016, the company reported assets of $560,119,413, liabilities of $406,971,644, and policyholders' surplus of $153,147,769. Operations for 2016 produced a net income of $14,716,580. Policyholders' surplus has increased from $101,237,587 as of year-end 2011 to $153,147,769 as of year-end 2016. This represents an increase of 51.3% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2011, when policyholders' surplus was last verified by examination, to December 31, 2016:

Policyholders' surplus, December 31, 2011	$101,237,587
Paid-in surplus adjustments	100,000,000
Net income	(70,137,934)
Change in net deferred income tax	24,469,399
Change in non-admitted assets	(3,764,518)
Change in net unrealized capital gains/(losses)	1,343,235
Policyholders' Surplus, December 31, 2016	$153,147,769

Until 2014, MRCW continued to experience substantial financial stress due to the of the significant losses and loss adjustment expenses paid by the company since 2007 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 .

From 2014 to the present, improvements in the U.S. economic condition and a recovery in housing prices have been reflected in the company's recovery. In 2014, the company benefited from a change to the reinsurance structure that generated higher assumed premium rates and a decrease in the return premium accrual. In 2015, MGIC contributed $100,000,000 to the company, which partially offset the effects of the poor underwriting results in earlier years.

Effective May 1, 2016, MRCW entered into a series of assumption and novation agreements whereby such business of Mortgage Guaranty Insurance Corporation and MGIC Indemnity Corporation as had been reinsured by its affiliates MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, MGIC Residential Reinsurance Corporation, MIC Reinsurance Corporation, and MIC Reinsurance Corporation of Wisconsin, was transferred to MRCW. In connection with the assumption and novation transactions, the assigning reinsurer transferred its reserves for unearned premiums, losses and loss adjustment expenses, together with any ceded reinsurance premium received on or after May 1, 2016. MGIC and MGIC Indemnity Corporation, as the ceding companies under the affiliated reinsurance treaties, then established and maintained the contingency reserves associated with these contracts. For MRCW, the effect of the assumption and novation agreements was to increase assets, liabilities, and gross, net and earned premiums substantially in comparison to 2015.

Effective January 1, 2017, in order to further simplify the MGIC Group's affiliated reinsurance accounting, all of the affiliated reinsurance treaties MRCW assumed and novated effective May 1, 2016 were commuted and replaced with a single reinsurance agreement between MGIC, as cedent, and MRCW, as reinsurer. MRCW's contingency reserve as of January 1, 2017 was established as $131,515, 369, which was the balance it accumulated and reported as of December 31, 2016 prior to the commutation. At the same time, MGIC Indemnity Corporation entered into an agreement whereby it would cede coverage in excess of 25% of the indebtedness to the insured to MGIC.

IX. 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
Nicholas J. Barsuli	Insurance Financial Examiner
Jerry C. DeArmond	Insurance Financial Examiner – Advanced, Loss Reserve Specialist
Tom M. Janke	Insurance Financial Examiner – Journey
Adrian A. Jaramillo	Insurance Financial Examiner
John E. Litweiler	Insurance Financial Examiner – Advanced, Exam Planning & Quality Control Specialist
Eleanor Lu	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Vickie O. Ostien	Insurance Financial Examiner – Journey
Yi Xu	Insurance Financial Examiner

Respectfully submitted,

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Examiner-in-Charge