Report

of the

Examination of

MGIC Assurance Corporation

Milwaukee, Wisconsin

As of December 31, 2016

TABLE OF CONTENTS

Page

I. INTRODUCTION 2
II. HISTORY AND PLAN OF OPERATION 4
III. MANAGEMENT AND CONTROL 10
IV. AFFILIATED COMPANIES 12
V. REINSURANCE 16
VI. FINANCIAL DATA 17
VII. SUMMARY OF EXAMINATION RESULTS 28
VIII. CONCLUSION 30
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS 32
X. ACKNOWLEDGMENT 33

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

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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 ASSURANCE CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MGIC Assurance Corporation (hereinafter also MAC 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.

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

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

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

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

The company was acquired by MGIC to write mortgage guaranty, surety, and credit insurance products compatible with and complementary to the residential mortgage guaranty insurance and related business activities conducted by MGIC and its affiliates. In 1997, the company formed a mandatory segregated account established in accordance with s. 611.24 (1), Wis. Stat., and s. Ins 3.09 (12) (g), Wis. Adm. Code, to serve as a direct writer of mortgage guaranty insurance on second mortgages and home equity lines of credit in states that do not require a mortgage guaranty insurer to be monoline. Concurrent with the formation of MAC's mandatory segregated account, MGIC also established MGIC Credit Assurance Corporation (hereinafter also MCAC) to engage in residential mortgage guaranty of junior liens in those states in which only a monoline insurer is permitted to insure mortgage guaranty risks.

The company commenced writing business in 1997 and continued to issue new mortgage guaranty insurance policies on junior liens until December 31, 2001. Due to a lack of profitability, the company voluntarily stopped writing new business and entered runoff effective January 1, 2002. Effective December 31, 2004, under a plan approved by the OCI on September 22, 2003, MGIC Credit Assurance Corporation assumed all of the insurance in force of MAC's mandatory segregated account through an assumption reinsurance agreement. Under this assumption reinsurance agreement, MAC's mandatory segregated account paid MCAC an amount equal to the sum of the loss reserve, loss adjustment reserve, and unearned premium reserve balances transferred to MCAC. MAC's mandatory segregated account distributed to its parent, Mortgage Guaranty Insurance Corporation, a return of capital of $10,000,000 and a dividend of $9,256,308, which MGIC then contributed to the surplus of MCAC. Notices and certificates of assumption were issued by MCAC to policyholders confirming that their insurance in force had been assumed by MCAC. MAC's mandatory segregated account was terminated following this assumption of all of its liabilities and distribution of all of its assets. MGIC Assurance Corporation then entered a period of dormancy.

In 2007, the company began writing lot loan insurance, which provides lenders with credit insurance protection against loss from defaults on mortgage loans secured by unimproved properties. Due to the attention required of management and anticipated demands on its holding company system's capital occasioned by the 2007-08 financial collapse, the company voluntarily stopped writing this business in 2008 and entered runoff.

Effective July 15, 2013, the OCI approved a limited exemption from s. Ins 6.20 (8) (k), Wis. Adm. Code, whereby MAC 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 MAC 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.

In 2016, the company entered into a credit risk transfer transaction (hereinafter the Deeper Insurance Pilot Project) with the Federal Home Loan Mortgage Corporation (hereinafter also Freddie Mac) and a credit insurance risk transfer transaction in the form of a quota share reinsurance agreement (hereinafter the CIRT) with Chimney Point Insurance IC, Inc., a Vermont captive insurer owned by the Federal National Mortgage Association (hereinafter also Fannie Mae). In both the Deeper Insurance Pilot Project and the CIRT, the government-sponsored enterprises, Freddie Mac and Fannie Mae (hereinafter also collectively the GSEs and individually a GSE), are covered by a panel of insurers or reinsurers under their respective programs. The company is a direct writer of credit insurance for Freddie Mac and assumes credit insurance from Chimney Point Insurance IC, Inc., an affiliate of Fannie Mae, for groups of loans referred to as "covered pools." Under these insurance and reinsurance programs, the company shares the premiums and losses on each mortgage loan in the covered pool with other members of the GSEs' respective panels. The programs are distinguished from the GSEs' traditional back-end excess of loss pool insurance programs because coverage automatically and simultaneously attaches to each residential mortgage loan included in the covered pool upon acquisition of such residential mortgage loan by the GSE. Prior to these experimental programs, credit insurance and reinsurance programs intended by the GSEs to provide coverage in excess of primary mortgage insurance were underwritten largely by international multi-line insurers and reinsurers after acquired mortgage loans were organized by the GSEs into specific pools for the purpose of obtaining coverage.

The business plan would further allow for the company to participate in the GSEs' back-end credit insurance and reinsurance programs, but there is no immediate prospect for such participation in the near-term.

In order to effectuate MAC's participation in the Deeper Insurance Pilot Program and the CIRT, the company and the OCI entered into a Stipulation and Order in the Matter of Case No. 16-C41384, whereby the company agreed that:

- Except for servicing its runoff of credit default coverage on loans secured by unimproved residential properties that ceased to be underwritten in 2008, the business of the company shall be limited to insurance against loss arising from the failure of debtors to meet financial obligations to the GSEs under evidences of indebtedness which are secured by a first lien on residential real estate designated for occupancy by not more than four families and without limitation on restoration, attorneys' fees, property damage not covered by hazard insurance, such as earthquakes and floods, and any other losses the GSEs would absorb, except for losses due to counterparty failure.
- For purposes of computing its compulsory surplus, the company shall, in addition to the calculation generally applicable to property and casualty credit insurers pursuant to s. Ins 51.80, Wis. Adm. Code, comply with the minimum policyholders position calculated in accordance with s. Ins 3.09 (5), Wis. Adm. Code. The Stipulation and Order includes provisions that ensure that the company may compute its minimum policyholders position on the same basis as any other mortgage guaranty insurer licensed in Wisconsin.
- The company shall report reasonable loss reserves in its annual and quarterly financial statements. Loss reserves shall be reflected in the company's annual financial statements at an amount for which a statement of opinion has been issued by a qualified actuary acceptable to the OCI. The company shall not establish a contingency reserve in accordance with s. Ins 3.09 (14), Wis. Adm. Code.

- Prior written nondisapproval of the OCI is required for the company to enter into any transaction with any affiliate.
- The company may receive contributions of capital or other assets up to a total contribution amount of $75,000,000 upon the company providing the OCI with ten days' prior notice of any contribution of capital or assets from an affiliate.
- The company's maximum liability for all Covered Amounts under programs with the GSEs shall not exceed 15% of the aggregate cash and invested assets of MAC and its affiliated insurers as reported in their most recent filed statutory financial statements.

In preparing its statutory financial statements, MAC is dependent on the GSEs for data on the Deeper Insurance Pilot Project and the CIRT and therefore reports on a one or two month lag. A letter from the OCI dated October 7, 2016, confirmed that the company should report on a lag using the latest reports available from the applicable GSE or GSE affiliate or contractor, rather than pursuing the alternative of monthly estimations and retroactive adjustments.

MAC follows the guidance of the NAIC's Statement of Statutory Accounting Principles No. 65 with respect to policies with coverage periods equal to or in excess of thirteen months, particularly, though not exclusively, as that guidance relates to the earning of premiums. In a letter dated March 23, 2017, the OCI confirmed the propriety of using this approach.

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

MAC has authority to write the following lines of business as defined in s. Ins 6.75, Wis. Adm. Code: (2) (a) fire, inland marine and other property insurance; (2) (d) liability and incidental medical expense insurance; (2) (g) surety insurance; (2) (j) credit insurance; (2) (m) credit unemployment insurance; and (2) (n) miscellaneous.

MAC is licensed in the District of Columbia and all U.S. states except California, Connecticut, Kentucky, Maine, and New Hampshire. In 2016, the company wrote direct premium in the following states:

Virginia	$1,364,783	97.37%
North Carolina	22,399	1.60
Ohio	13,629	0.97
Wisconsin	891	0.06
Total	$1,401,702	100.00%

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**
Credit	$1,364,783	$389,958	$0	$1,754,741
Other Commercial Lines	36,919	0	0	36,919
Total All Lines	$1,401,702	$389,958	$0	$1,791,660

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 MAC board of directors also serves as a member of other boards of directors in the holding company group and receives no specific compensation for services performed as a director of MAC.

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 Assurance Corporation 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 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.

The MGIC enterprise is principally engaged in writing mortgage guaranty insurance on residential mortgage loans. MGIC Investment Corporation's insurance 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 MAC as of December 31, 2016, and the results of that examination were expressed in a separate report.

Written Agreements with Affiliates

In addition to common staffing and management control, MGIC Assurance Corporation's relationship to its affiliates is affected by various written agreements and undertakings. 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, which includes MAC in an amendment effective September 12, 1995. Under this agreement, MGIC Investment Corporation files a consolidated U.S. Federal Income Tax Return that includes MAC 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 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, which includes MAC as a named party in the original version of the agreement. Under this agreement MGIC performs management and administrative services essential to the day-to-day operation of various affiliates within the MGIC holding company. Services provided by MGIC to its affiliates include provision of office space and employees; administration of underwriting, risk management and claims; performance as agent for funds collection and disbursement; maintenance of investment portfolios and execution of investment transactions; maintenance of depository accounts; maintenance of books and records including financial records; and the preparation and delivery of reports, tax returns, and documents and filings, as required. MGIC's direct costs and indirect expenses incurred in providing services to the individual affiliates are allocated to the respective affiliates each quarter, which is to be determined in accordance with generally accepted accounting principles and in a manner consistent with regulatory authorities having jurisdiction over members to the agreement. In practice, expenses associated with this agreement are allocated and settled monthly.

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V. REINSURANCE

MGIC Assurance Corporation has a nonaffiliated assumption reinsurance contract as a means of providing coverage to the Federal National Mortgage Association. Apart from this agreement, the company has not engaged in reinsurance transactions for the assumption or cession of insurance risk. The contract contains proper insolvency provisions. The company's nonaffiliated assumption reinsurance contract is summarized as follows:

Type:	Quota Share
Reinsured:	Chimney Point Insurance IC, Inc., a Vermont-domiciled captive insurer affiliated with the Federal National Mortgage Association
Scope:	Aggregate Excess of Loss Credit Insurance Policy WR-16-CIRT FE-01 issued to Federal National Mortgage Association
Retention:	Chimney Point Insurance Company IC, Inc. shall cede to MAC 100% of MAC's apportioned liability relative to other reinsurers on the panel of reinsurers arising out of directly or indirectly, in whole or in part or in connection with the Aggregate Excess of Loss Credit Insurance Policy
Coverage:	A portfolio of fixed rate residential mortgage loans meeting the eligibility criteria to be delivered during the period from October 1, 2016 through March 31, 2017, as selected randomly by the insured in its sole discretion and initially identified in one of the six set up files delivered during the fill up period provided that the total initial principal balance of covered loans shall not exceed $3,700,000,000.
Premium:	The monthly premium is calculated as the sum of the products of the monthly premium rate multiplied by the current principal balance of each covered loan and it is payable in arrears
Commissions:	The company shall allow Chimney Point Insurance Company IC, Inc. a ceding commission of $ 40,000 (or a proportionate share of such amount in the event of a Quota Share Reduction) per annum, to be taken as a deduction from the first monthly premium payment to the reinsurer at the commencement of this contract and at each annual anniversary to cover the reinsured's operational costs directly allocable to writing the business subject hereto.
Effective date:	October 1, 2016
Termination:	The agreement expires with the policy expiration or termination and all payments required under the policy have been made in full. The expiration date of the policy is March 31, 2027. The agreement can also be terminated under special circumstances at any time by giving written notice effective upon receipt to the company

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, the compulsory and security surplus calculation, and the minimum policyholders position calculation.

MGIC Assurance Corporation
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$10,194,410	$ 0	$10,194,410
Cash, cash equivalents, and short-term investments	1,467,310		1,467,310
Investment income due and accrued	41,308		41,308
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,724,285		1,724,285
Net deferred tax asset	100,895	95,890	5,005
Total Assets	$13,528,208	$95,890	$13,432,318

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

Losses		$ 63,606
Loss adjustment expenses		1,272
Taxes, licenses, and fees (excluding federal and foreign income taxes)		20,586
Current federal and foreign income taxes		138,564
Unearned premiums		1,641,765
Payable to parent, subsidiaries, and affiliates		12,690
Total Liabilities		1,878,483
Common capital stock	$3,500,000	
Gross paid in and contributed surplus	7,947,305	
Unassigned funds (surplus)	106,530	
Surplus as Regards Policyholders		11,553,835
Total Liabilities and Surplus		$13,432,318

MGIC Assurance Corporation
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$150,866
Deductions:		
Losses incurred	$(83,006)	
Loss adjustment expenses incurred	(1,289)	
Other underwriting expenses incurred	153,476	
Total underwriting deductions		69,181
Net underwriting gain (loss)		81,685
Investment Income		
Net investment income earned	91,914	
Net realized capital gains (losses)	1,358	
Net investment gain (loss)		93,272
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		174,957
Federal and foreign income taxes incurred		177,951
Net Loss		$ (2,994)

MGIC Assurance Corporation
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$ 69,470
Net investment income			87,668
Total			157,138
Benefit and loss related payments		$ 30,468	
Commissions, expenses paid, and aggregate write-ins for deductions		133,539	
Federal and foreign income taxes paid (recovered)		46,005	
Total deductions			210,012
Net cash from operations			(52,874)
Proceeds from investments sold, matured, or repaid:			
Bonds	$3,600,000		
Total investment proceeds		3,600,000	
Cost of investments acquired (long-term only):			
Bonds	9,371,942		
Total investments acquired		9,371,942	
Net cash from investments			(5,771,942)
Cash from financing and miscellaneous sources:			
Capital and paid in surplus less treasury stock		3,048,259	
Other cash provided (applied)		1,962,336	
Net cash from financing and miscellaneous sources			5,010,595
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(814,221)
Cash, cash equivalents, and short-term investments:			
Beginning of year			2,281,531
End of year			$1,467,310

MGIC Assurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2016

Assets		$13,432,318
Less liabilities		1,878,483
Adjusted surplus		11,553,835
Annual premium:		
Lines other than accident and health	$1,791,660	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (or Deficit)		$ 9,553,835
Adjusted surplus (from above)		$11,553,835
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security Surplus Excess (or Deficit)		$ 8,753,835

MGIC Assurance Corporation
Minimum Policyholders Position Calculation*
December 31, 2016

Surplus as regards policyholders		$11,553,836	
Deferred risk premium maintained in unearned premium reserve		0	
Loss reserves on specified loans		0	
Total policyholders position			$11,553,836
Net minimum policyholders position:			
Group loans:			
Equity 20-50%, or equity plus prior insurance or a deductible 25-55%	$563,051		
Equity less than 20%, or equity plus prior insurance or a deductible less than 25%	12,070		
Total group loans		575,121	
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		0	
Total minimum policyholders position			575,121
Excess of total policyholders position over minimum policyholders position			$10,978,715

* Under the Stipulation and Order in the Matter of Case No. 16-C41384 by Wisconsin's Office of the Commissioner of Insurance dated September 16, 2016, for purposes of computing its compulsory surplus, the company is required, in addition to the calculation generally applicable to property and casualty credit insurers pursuant to s. Ins 51.80, Wis. Adm. Code, comply with the minimum policyholders position calculated in accordance with s. Ins 3.09 (5), Wis. Adm. Code. In addition, the company is to exclude from its policyholders position calculations individual or group loans in default for which the company has 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 company is less than its policyholders position as provided by s. Ins 3.09 (5), Wis. Adm. Code, the company is 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 is to account fairly for the effect of loss and loss adjustment expense reserves on the evaluation of the company's capital requirements relative to risk in-force. This change to the Policyholders Position Calculation is consistent with the approach taken by other domiciliary commissioners of mortgage guaranty insurers.

MGIC Assurance Corporation
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	$6,535,379	$10,257,141	$10,152,806	$10,066,586	$9,942,534
Net income	(2,994)	89,145	104,040	86,711	127,835
Change in net deferred income tax	117,340	(10,907)	295	(491)	(3,783)
Change in non-admitted assets	(95,890)				
Surplus adjustments: Paid in	3,048,259	(239,243)			
Dividends to stockholders		(3,560,757)			
Write-ins for gains and (losses) in surplus: Reclass relating to return of capital	1,951,741				
Surplus, end of year	$11,553,835	$6,535,379	$10,257,141	$10,152,806	$10,066,586

MGIC Assurance Corporation
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	16%	1%	1%	1%	1%
#2	Net Premium to Surplus	16	1	1	1	1
#3	Change in Net Premiums Written	5,148*	(39)*	(11)	(36)*	(4)
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0	0
#6	Investment Yield	1.0*	1.7*	2.5*	2.8*	3.0*
#7	Gross Change in Surplus	77*	(36)*	1	1	1
#8	Change in Adjusted Surplus	30*	(34)*	1	1	1
#9	Liabilities to Liquid Assets	16	3	3	3	4
#10	Agents' Balances to Surplus	15	0	0	0	0
#11	One-Year Reserve Development to Surplus	(2)	0	0	1	0
#12	Two-Year Reserve Development to Surplus	(1)	0	1	1	1
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

The exceptional result for Ratio No. 3, “Change in Net Premiums Written”, for 2015 was due to the ongoing run-off of lot loan insurance since 2008. The exceptional result for this ratio in 2016 was due to the company’s resumption in actively writing and assuming new business in that year, which relates to its participation in the GSEs’ Deeper Insurance Pilot Program and CIRT.

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 can be attributed to a conservative investment approach and the prolonged low interest rate environment in the United States during the period under examination.

Ratio #7, “Gross Change in Surplus,” is intended to be the ultimate measure of improvement or deterioration in an insurer’s financial condition during the year. The exceptional result for 2015 was principally due to a $3,800,000 net distribution to the company’s sole shareholder, Mortgage Guaranty Insurance Corporation, in consideration of the advanced and favorable state of its runoff, which was approved by the OCI on April 15, 2015. The original $5,000,000 approved distribution, which occurred on April 16, 2015, consisted of a $3,560,757 dividend and a $1,439,243 return of surplus. On September 25, 2015, following objections from the Commonwealth of Virginia that the company, as a result of this distribution, had breached its $3,000,000 minimum requirement for surplus (that is, the combination of paid-in surplus, unassigned funds, and any other form of policyholders’ surplus other than common and preferred capital stock) for stock insurers, the company restored $1,200,000 to paid-in surplus. The exceptional result for 2016 was due to a $5,000,000 contribution to surplus from MGIC made on November 7, 2016, to support the company’s participation in the GSEs’ Deeper Insurance Pilot Program and CIRT. This $5,000,000 contribution consisted of a $5,000,000 addition to gross paid-in and contributed surplus, of which $3,048,259 remained in gross paid-in and contributed surplus and $1,951,741 was allocated to unassigned funds with the consent of the OCI.

Ratio No. 8, “Change in Adjusted Surplus,” is intended to measure the improvement or deterioration in an insurer’s financial condition during the year based on operational results.

Changes in surplus notes, capital changes, and surplus adjustments are removed from the calculation in order to highlight the results of the insurer's operations. The exceptional result for 2015 was due to the $3,560,757 dividend paid in that year. The exceptional result for 2016 was due to the $1,951,741 portion of the $5,000,000 contributed to the company by MGIC that was allocated to unassigned funds. A contribution allocated to unassigned funds is not excluded from this ratio's calculation, unlike other forms of capital and surplus contributions.

Financial Experience of MGIC Assurance Corporation

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2016	$13,432,318	$1,878,483	$11,553,835	$ (2,994)
2015	6,741,067	205,688	6,535,379	89,145
2014	10,548,675	291,534	10,257,141	104,040
2013	10,495,024	342,218	10,152,806	86,711
2012	10,534,690	468,104	10,066,586	127,835
2011	10,389,198	446,664	9,942,534	141,238

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2016	$1,791,660	$1,791,660	$150,866	(55.9)%	8.6%	(47.3)%
2015	34,137	34,137	34,871	62.3%	387.6%	449.9%
2014	55,990	55,990	56,629	53.3%	236.2%	289.5%
2013	62,784	62,784	63,478	156.6%	208.7%	365.3%
2012	98,720	98,720	99,407	122.5%	137.8%	260.3%
2011	102,707	102,707	104,206	116.2%	148.3%	264.5%

MGIC Assurance Corporation was dormant following the 2003 transfer of its book of mortgage guaranty insurance on junior liens to its affiliate MGIC Credit Assurance Corporation. In 2007, the company began writing lot loan insurance, which provides lenders with credit insurance protection against loss from defaults on mortgage loans secured by unimproved properties. Due to the attention required of management and anticipated demands on its holding company system's capital occasioned by the 2007-08 financial collapse, the company voluntarily stopped writing this business in 2008 and entered runoff. In 2016, the company resumed the writing and assumption of new business through its participation in the GSEs' Deeper Insurance Pilot Program and CIRT.

From 2011 to 2015, gross and net premium steadily decreased as a result of the company running off its business. From 2011 to 2015, the company's combined ratio was very high. It is not unusual to see insurers that are in runoff reporting high combined ratios, as their premium writings steadily decrease but such companies still incur losses on the policies that remain in force and general expenses to continue operations. In 2015, admitted assets and surplus as regards policyholders dropped due to a $3,800,000 net distribution to the company's sole shareholder, Mortgage Guaranty Insurance Corporation, in consideration of the advanced and favorable state of its runoff.

In 2016, the company's financials reflected the resumption of new business in connection with the GSEs' Deeper Insurance Pilot Program and CIRT. Admitted assets and surplus as regards policyholders increased due to the $5,000,000 that MGIC contributed to support this new business. Gross and net premiums written increased greatly in percentage terms due to the company's resumption of new business. In 2016, the loss and loss adjustment expense ratio was a negative percentage due to reserve reductions that reflect favorable loss development, a decline in the default inventory and a general decrease in the severity of claims on its runoff book of lot loan insurance.

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 Assurance Corporation 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. The company was acquired by MGIC in 1995 to write mortgage guaranty, surety, and credit insurance products compatible with and complementary to the residential mortgage guaranty insurance and related business activities conducted by MGIC and its affiliates. In 1997, the company formed a mandatory segregated account established in accordance with s. 611.24 (1), Wis. Stat., and s. Ins 3.09 (12) (g), Wis. Adm. Code, to serve as a direct writer of mortgage guaranty insurance on second mortgages and home equity lines of credit in states that do not require a mortgage guaranty insurer to be monoline. The company commenced writing business in 1997 and continued to issue new mortgage guaranty insurance policies on junior liens until December 31, 2001. Due to a lack of profitability, the company voluntarily stopped writing new business and entered runoff effective January 1, 2002. In 2003, with the OCI's approval, the company transferred the runoff junior lien business to its affiliate, MGIC Credit Assurance Corporation and entered a period of dormancy.

MGIC Assurance Corporation was dormant following the 2003 transfer of its book of mortgage guaranty insurance on junior liens to its affiliate MGIC Credit Assurance Corporation. In 2007, the company began writing lot loan insurance, which provides lenders with credit insurance protection against loss from defaults on mortgage loans secured by unimproved properties. Due to the attention required of management and anticipated demands on its holding company system's capital occasioned by the 2007-08 financial collapse, the company voluntarily stopped writing this business in 2008 and entered runoff. In 2016, the company resumed the writing and assumption of new business through its participation in the GSEs' Deeper Insurance Pilot Program and CIRT.

As of December 31, 2016, the company reported assets of $13,432,318, liabilities of $1,878,483, and policyholders' surplus of $11,553,835. Operations for 2016 produced a net loss of $(2,994). Policyholders' surplus has increased from $9,942,534 as of year-end 2011 to $11,553,835 as of year-end 2016. This represents an increase of 16.2% 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	$ 9,942,534
Dividends to stockholders	(3,560,757)
Paid-in surplus adjustments	2,809,016
Reclass relating to return of capital	1,951,741
Net income	404,737
Change in net deferred income tax	102,454
Change in non-admitted assets	(95,890)
Policyholders' Surplus, December 31, 2016	$11,553,835

From 2011 to 2015, gross and net premium steadily decreased as a result of the company running off its business. From 2011 to 2015, the company's combined ratio was very high. It is not unusual to see insurers that are in runoff reporting high combined ratios, as their premium writings steadily decrease but such companies still incur losses on the policies that remain in force and general expenses to continue operations. In 2015, admitted assets and surplus as regards policyholders dropped due to a $3,800,000 net distribution to the company's sole shareholder, Mortgage Guaranty Insurance Corporation, in consideration of the advanced and favorable state of its runoff.

In 2016, the company's financials reflected the resumption of new business in connection with the GSEs' Deeper Insurance Pilot Program and CIRT. Admitted assets and surplus as regards policyholders increased due to the $5,000,000 that MGIC contributed to support this new business. Gross and net premiums written increased greatly in percentage terms due to the company's resumption of new business. In 2016, the loss and loss adjustment expense ratio was a negative percentage due to reserve reductions that reflect favorable loss development, a decline in the default inventory and a general decrease in the severity of claims on its runoff book of lot loan insurance.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no recommendations. There were no adjustments or reclassifications to the balance sheet amounts as a result of this examination

X. ACKNOWLEDGMENT

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

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

Name	Title
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,

Ana J. Careaga
Examiner-in-Charge