Report of the Examination of

MGIC Assurance Corporation

Milwaukee, Wisconsin

As of December 31, 2021

TABLE OF CONTENTS

Page

November 18, 2022

Honorable Nathan D. Houdek
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 (MAC or the company) was conducted in 2017 and 2018 as of December 31, 2016.The current examination covered the intervening period ending December 31, 2021, and included a review of such subsequent 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 the 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 concerning the alternative or additional examination steps performed during the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance (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 (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 (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, were 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 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 until 2016.

In 2016, the company entered into a credit risk transfer transaction (the Deeper Insurance Pilot Project) with the Federal Home Loan Mortgage Corporation (Freddie Mac) and a credit insurance risk transfer transaction in the form of a quota share reinsurance agreement (CIRT) with Chimney Point Insurance IC, Inc., a Vermont captive insurer owned by the Federal National Mortgage Association (Fannie Mae). In both the Deeper Insurance Pilot Project and the CIRT, the government-sponsored enterprises, Freddie Mac and Fannie Mae (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 multiline insurers and reinsurers after acquired mortgage loans were organized by the GSEs into specific pools for the purpose of obtaining coverage.

In 2018, MAC amended its business plan to allow for additional credit risk transfer transactions with Fannie Mae through the CIRT program and Enterprise Paid Mortgage Insurance (EPMI) program, as well as with Freddie Mac through their Agency Credit Insurance Structure (ACIS) program. These programs are similar to CIRT programs discussed in the previous paragraph.

MAC is a member of a holding company system, and ultimate ownership and control of the company is held by MGIC Investment Corporation (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. In September 2018, the Certificate of Authority was amended, restricting business to insurance and reinsurance from Fannie Mae, Freddie Mac, and FHLBs and runoff of the lot loan insurance. MAC is licensed in the District of Columbia and all U.S. states except California, Connecticut, Kentucky, Maine, and New Hampshire.

In 2021, the company wrote direct premium in the following states:

Virginia	$121,399	94.4%
North Carolina	7,212	5.6%
Total	$128,611	100.0%

The following table is a summary of the net insurance premiums written by the company in 2021. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Net Premium**
Credit	$121,399	$8,888,896	$9,010,295
Write-ins for other lines of business:			
Other Commercial Lines	7,212		7,212
Total All Lines	$128,611	$8,888,896	$9,017,507

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of eight members. Eight directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Board members are also members of the MGIC Group's management.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Nathan R. Abramowski Muskego, WI	Vice President and Treasurer Mortgage Guaranty Insurance Corporation	2023
Paula C. Maggio Oak Park, IL	General Counsel Mortgage Guaranty Insurance Corporation	2023
Julie K. Sperber Waukesha, WI	Controller Mortgage Guaranty Insurance Corporation	2023
Nathaniel H. Colson Mequon, WI	Chief Financial Officer Mortgage Guaranty Insurance Corporation	2023
Timothy J. Mattke Whitefish Bay, I	Chief Executive Officer Mortgage Guaranty Insurance Corporation	2023
Steven M. Thompson Arkdale, WI	Chief Risk Officer Mortgage Guaranty Insurance Corporation	2023
Heidi A. Heyrman Pewaukee, WI	Vice President – Regulatory Relations Mortgage Guaranty Insurance Corporation	2023
Salvatore A. Miosi Pewaukee, WI	President and Chief Operating Officer Mortgage Guaranty Insurance Corporation	2023

Officers of the Company

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

Name	Office
Timothy J. Mattke	Chief Executive Officer
Salvatore A. Miosi	President & Chief Operating Officer
Julie K. Sperber	Vice President & Controller
Heidi A. Heyrman	Vice President & Secretary
Nathaniel H. Colson	Executive Vice President
Steven M. Thompson	Executive Vice President
Paula C. Maggio	Executive Vice President

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

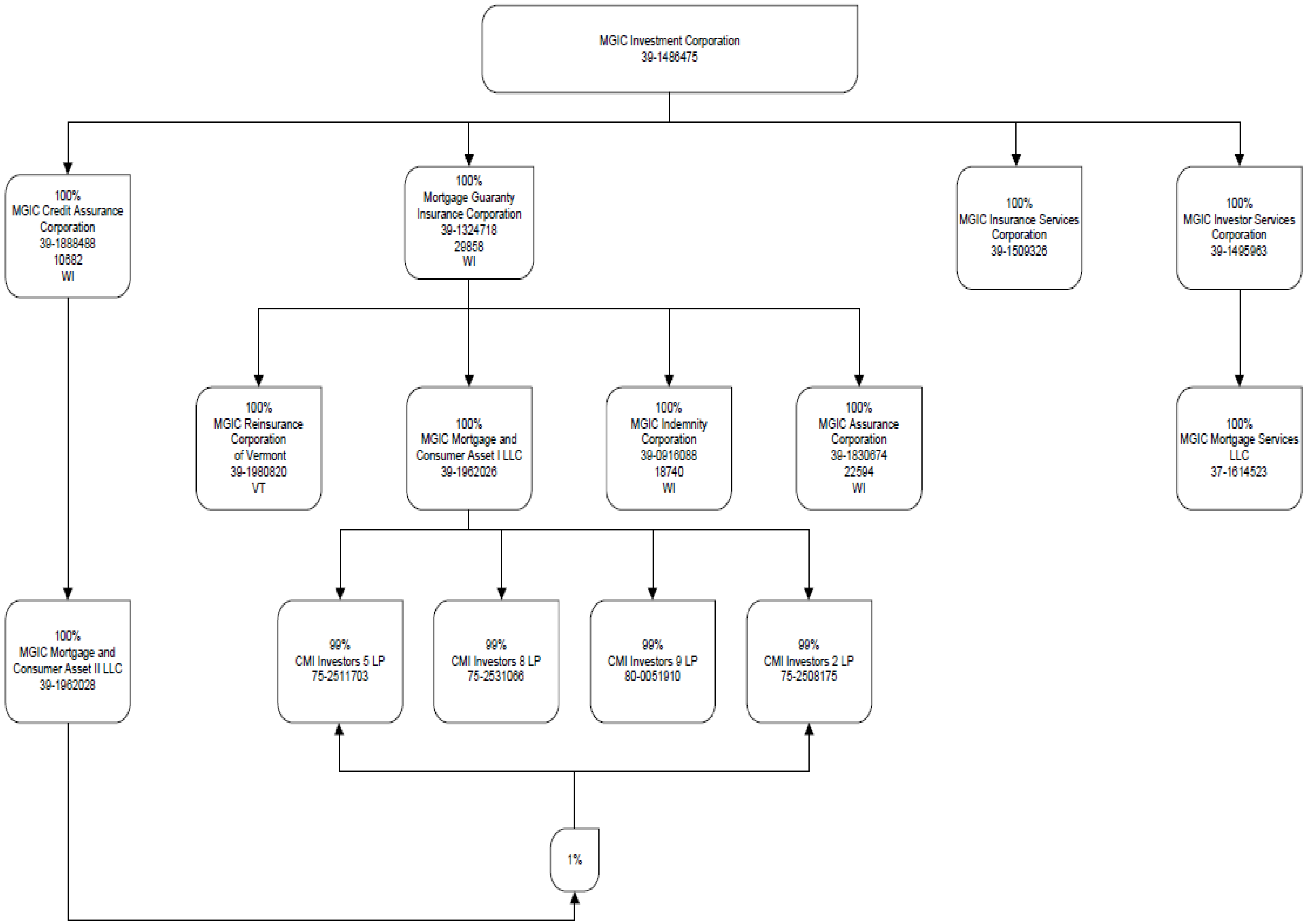
The committees at the time of the examination are listed below:

Securities Investment Committee	**Risk Committee**
Nathan R. Abramowski, Chair	Nathaniel H. Colson, Chair
Nathaniel H. Colson	Salvatore A. Miosi
Heidi A. Heyrman	Steven M. Thompson

IV. AFFILIATED COMPANIES

MGIC Assurance Corporation is a member of a holding company system. The organizational chart on the next page depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows.

Organizational Chart
As of December 31, 2021



MGIC Investment Corporation

MGIC Investment Corporation is a holding company that is publicly traded. This company is the ultimate parent company of the group. The holding company issues the publicly traded stock of the group and issues the public debt of the group. As of December 31, 2021, the audited GAAP consolidated financial statements of MGIC Investment Corporation reported assets of $7,325,008 thousand, liabilities of $2,463,626 thousand, and total shareholder's equity of $4,861,382 thousand. Operations for 2021 produced net income of $634,983 thousand.

Mortgage Guaranty Insurance Corporation

Mortgage Guaranty Insurance Corporation (MGIC) is the direct parent company of MGIC Assurance Corporation. MGIC is a direct subsidiary of MGIC Investment Corporation. MGIC serves as the lead operating company in the MGIC Group and provides administrative and managerial services to its affiliates. MGIC is the insurer that writes the vast majority of the group's insurance business. MGIC only writes mortgage insurance. The 2021 audited statutory financial statements reported assets of $6,577,128 thousand, liabilities of $5,360,033 thousand, surplus of $1,217,095 thousand, and net income of $289,573 thousand.

MGIC Credit Assurance Corporation

MGIC Credit Assurance Corporation (MCAC) is a wholly owned subsidiary of MGIC Investment Corporation. Beginning in 1998, MCAC wrote mortgage guaranty insurance on junior liens. On January 1, 2002, MCAC stopped writing new business and is currently in runoff. The 2021 audited statutory financial statements reported assets of $9,331 thousand, liabilities of $200 thousand, surplus of $9,131 thousand, and net income of $79 thousand.

MGIC Indemnity Corporation

MGIC Indemnity Corporation (MIC), is an insurer that is essentially in runoff. MIC is a wholly owned subsidiary of Mortgage Guaranty Insurance Corporation. MIC is a sister company of MGIC Assurance Corporation. From August 2012 to August 2013, MIC wrote in jurisdictions where MGIC could not write due to not meeting certain state capital requirements. In 2019, MIC began writing new business through Freddie Mac's Integrated Mortgage Insurance (IMAGIN) program, and in 2020, MIC began insuring loans through Fannie Mae's Enterprise Paid Mortgage (EPMI) program. Under the IMAGIN program, MIC insures losses arising from single-family residential mortgage defaults, and the insurance policy would be issued directly to Freddie Mac, as compared to the loan originator. The EPMI program was discontinued in 2021. As of now, MIC is not writing new policies. The 2021 statutory financial statements reported assets of $168,537 thousand, liabilities of $62,170 thousand, surplus of $106,367 thousand, and net income of $2,396 thousand.

Agreements with Affiliates

Servicing Agreement

MAC entered into a Servicing Agreement, effective January 1, 1996, with MGIC Investment Corporation and certain named affiliates in 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 each of the Wisconsin-domiciled MGIC insurers, with the exception of MIC, 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 Group. 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..

Tax Sharing Agreement

Effective January 22, 1986, MGIC Investment Corporation entered into a tax sharing agreement with its affiliates, later including MAC to file a consolidated federal income tax return for the benefit of the group. This agreement provides tax computing, filing the return, audits and other adjustments, dispute resolution, and other administrative duties associated with taxes. The agreement calls for prompt settlement of estimated federal taxes and year-end calculated adjusted payments on the designated due dates.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below.

The company does not have any ceded reinsurance. The company's main business is reinsurance assumed under Fannie Mae's CIRT and EPMI programs and Freddie Mac's ACIS program. Credit risk transfer business is a form of reinsurance as the company is insuring a slice of the risk in loans. These loans either have high loan-to-value ratio or a mid to low loan-to-value ratio. The company started writing this business in 2016.

Beginning in 2016, MAC began assuming credit risk transfer business from protected cell entities as a means of providing coverage to Fannie Mae. The first transaction occurred in 2016 with MAC assuming 5.1% of the pool from Chimney Point IC Inc., a special purpose entity established by Fannie Mae. After the 2016 transaction, MAC did not assume any new business until 2018. From 2018-2021, MAC entered into 15 transactions with various protected cell reinsurers established by Fannie Mae, and from 2020-2021, MAC entered into nine transactions with protected cell reinsurers established by Freddie Mac.

The following is a list of reinsurance credit risk transfer transactions which occurred during 2022.

Nonaffiliated Assuming Contracts

1.	Type:	Quota Share
	Reinsured:	Chimney Point Insurance IC, Inc., a Vermont-domiciled captive insurer affiliated with the Federal National Mortgage Association (Fannie Mae)
	Scope:	Aggregate Excess of Loss Credit Insurance Policy WR-22-CIRT 07 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. Fannie Mae retains $109,082,229 (0.55%) of the Total Initial Principal Balance. MAC's participation in the Quota Share is 3.33%
	Coverage:	A portfolio of fixed rate residential mortgage loans between September 1, 2021 and September 30, 2021. The Initial Principal Balance of the of covered loans is $19,833,132,645. Insurers limit of liability is $578,036,650. MAC's limit of liability is $19,248,620

	Effective date:	June 1, 2022
	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 November 30, 2034. The agreement can also be terminated under special circumstances at any time by giving written notice effective upon receipt to the company
2.	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-22-CIRT 09 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. Fannie Mae retains $114,915,194 (0.55%) of the Total Initial Principal Balance. MAC's participation in the Quota Share is 2.14%
	Coverage:	A portfolio of fixed rate residential mortgage loans between October 1, 2021 and October 31, 2021. The Initial Principal Balance of the covered loans is $20,893,671,721. Insurers limit of liability is $699,938,002. MAC's limit of liability is $14,336,673,242
	Effective date:	August 1, 2022
	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 January 1, 2035. The agreement can also be terminated under special circumstances at any time by giving written notice effective upon receipt to the company
3.	Type:	Quota Share
	Reinsured:	Mangrove Cell 5 IC insurer affiliated with the Federal Home Loan Mortgage Corporation (Freddie Mac)
	Scope:	Aggregate Excess of Loss Credit Insurance Policy 1-SPL5-01-2022 issued to the Federal Home Loan Mortgage Corporation
	Retention:	Mangrove Cell 5 IC, Inc. shall cede to Reinsurer 100% quota share of all Company's interests and liabilities that directly or indirectly, in whole or part, arise out of or in connection with the Aggregate Excess of Loss Credit Insurance Policy 1-SPL5-01-2022.MAC's participation in the quota share is 10.2458% of the class B-2 Reference Tranche
	Coverage:	A portfolio of residential mortgage loans between June 1, 2022 and June 30, 2022. Insurers limit of liability on B-2 Reference Tranche is $25,517,750. MAC's limit of liability is $2,614,497

Effective date:	July 29, 2022
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 January 1, 2035. The agreement can also be terminated under special circumstances at any time by giving written notice effective upon receipt to the company

4. Type: Quota Share

Reinsured:	Mangrove Cell 6 IC insurer affiliated with the Federal National Mortgage Association (Fannie Mae)
Scope:	Aggregate Excess of Loss Credit Insurance Policy 1-2022-11-2022 issued to Federal National Mortgage Association
Retention:	Mangrove Cell 6 IC, Inc. shall cede to Reinsurer 100% of the Company's liability arising out of directly or indirectly, in whole or in part or in connection with the Aggregate Excess of Loss Credit Insurance Policy 1-2022-11-2022. Fannie Mae retains $65,482,329 (0.65%) of the Total Initial Principal Balance. MAC's participation in the Quota Share is 3.50%
Coverage:	A portfolio of fixed rate residential mortgage loans between November 1, 2021 and December 31, 2021. The Initial Principal Balance of the covered loans is $10,074,204,387. Insurers limit of liability is $342,522,949. MAC's limit of liability is $11,988,303
Effective date:	October 1, 2022
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, 2035. 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, 2021, 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 compulsory and security surplus calculation.

MGIC Assurance Corporation
Assets
As of December 31, 2021

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$249,734,932	$	$249,734,932
Cash, cash equivalents, and short-term investments	25,070,155		25,070,155
Investment income due and accrued	1,005,543		1,005,543
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	838,818		838,818
Current federal and foreign income tax recoverable and interest thereon	29,334		29,334
Net deferred tax asset	36,180	12,391	23,789
Write-ins for other than invested assets:			
Miscellaneous receivables	4,798		4,798
Total Assets	$276,719,760	$12,391	$276,707,369

MGIC Assurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2021

Losses		$ 337,658
Loss adjustment expenses		11,818
Taxes, licenses, and fees (excluding federal and foreign income taxes)		272
Unearned premiums		517,122
Payable to parent, subsidiaries, and affiliates		173,638
Write-ins for liabilities:		
Contingency Reserve		14,542,319
Total Liabilities		15,582,827
Common capital stock	$ 3,500,000	
Gross paid in and contributed surplus	244,947,305	
Unassigned funds (surplus)	12,677,237	
Surplus as Regards Policyholders		261,124,542
Total Liabilities and Surplus		$276,707,369

MGIC Assurance Corporation
Summary of Operations
For the Year 2021

Underwriting Income		
Premiums earned		$9,846,352
Deductions:		
Losses incurred	$ 89,530	
Loss adjustment expenses incurred	3,133	
Other underwriting expenses incurred	2,017,474	
Write-ins for underwriting deductions:		
Contingency Reserve Contribution	4,919,570	
Total underwriting deductions		7,029,707
Net underwriting gain (loss)		2,816,645
Investment Income		
Net investment income earned	1,806,777	
Net realized capital gains (losses)	(84,216)	
Net investment gain (loss)		1,722,561
Net income (loss) before federal and foreign income taxes		4,539,206
Federal and foreign income taxes incurred		1,015,386
Net Income (Loss)		$3,523,820

MGIC Assurance Corporation
Cash Flow
For the Year 2021

Premiums collected net of reinsurance			$ 8,897,880
Net investment income			6,587,726
Total			15,485,606
Commissions, expenses paid, and aggregate write-ins for deductions		$ 2,036,934	
Federal and foreign income taxes paid (recovered)		934,821	
Total deductions			2,971,755
Net cash from operations			12,513,851
Proceeds from investments sold, matured, or repaid:			
Bonds	$107,491,092		
Stocks	2,486,213		
Net gains (losses) on cash, cash equivalents, and short-term investments	(1,749)		
Miscellaneous proceeds	80,000		
Total investment proceeds		110,055,556	
Cost of investments acquired (long-term only):			
Bonds	137,260,158		
Total investments acquired		137,260,158	
Net cash from investments			(27,204,602)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		(116,197)	
Net cash from financing and miscellaneous sources			(116,197)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			(14,806,948)
Cash, cash equivalents, and short-term investments:			
Beginning of year			39,877,103
End of Year			$25,070,155

MGIC Assurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2021

Assets		$276,754,603
Less liabilities		15,630,062
Adjusted surplus		261,124,541
Annual premium:		
Lines other than accident and health	$9,017,507	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (Deficit)		$259,124,541
Adjusted surplus (from above)		$261,124,541
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 (Deficit)		$258,324,541

MGIC Assurance Corporation
Analysis of Surplus
For the Five-Year Period Ending December 31, 2021

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

	2021	2020	2019	2018	2017
Surplus, beginning of year	$257,546,748	$202,740,058	$ 49,756,897	$14,399,079	$11,553,835
Net income	3,523,820	4,798,324	2,986,590	1,219,718	268,798
Change in net unrealized capital gains/losses		154	(154)		
Change in net deferred income tax	66,365	8,212	(3,275)	(168,671)	32,654
Change in nonadmitted assets	(12,391)			52,098	43,792
Cumulative effect of changes in accounting principles				(245,327)	
Surplus adjustments:					
Paid in		50,000,000	150,000,000	34,500,000	2,500,000
Surplus, End of Year	$261,124,542	$257,546,748	$202,740,058	$49,756,897	$14,399,079

MGIC Assurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2021

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	2021	2020	2019	2018	2017
#1	Gross Premium to Surplus	3%	4%	3%	4%	17%
#2	Net Premium to Surplus	3	4	3	4	17
#3	Change in Net Premiums Written	-18	65*	225*	-14	34*
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	52	35	18	-2	-35
#6	Investment Yield	0.7*	1.6*	2.2	2.0*	1.4*
#7	Gross Change in Surplus	1	27	307*	246*	25
#8	Change in Adjusted Surplus	1	2	6	6	3
#9	Liabilities to Liquid Assets	6	4	3	3	24
#10	Agents' Balances to Surplus	0	0	0	0	23
#11	One-Year Reserve Development to Surplus	0	0	0	0	0
#12	Two-Year Reserve Development to Surplus	0	0	0	0	-1
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Ratio No. 3 is the change in net premiums written compared to the prior year in a percentage. There have been large changes during the exam period as the company started writing more credit risk transfer business from the GSEs. MGIC contributed additional capital into MAC in order to support this additional business.

Ratio No. 6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. The company is mostly invested in bonds which typically produce a low investment yield especially in a low interest rate environment which was the case during the entire examination period.

Ratio No. 7 is the gross change in surplus expressed as a percentage. The large changes in 2018 and 2019 are a result of capital contributions from MGIC of $34.5 million and $150 million, respectively. The capital being contributed to MAC in both of those years was to support the collateral requirements for its assumed reinsurance business.

Growth of MGIC Assurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2021	$276,707,369	$15,582,827	$261,124,542	$3,523,820
2020	269,109,349	11,562,601	257,546,748	4,798,324
2019	208,634,295	5,894,237	202,740,058	2,986,590
2018	51,341,548	1,584,651	49,756,897	1,219,718
2017	17,827,771	3,428,692	14,399,079	268,798
2016	13,432,318	1,878,483	11,553,835	(2,994)

Year	Direct Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2021	$128,611	$9,017,507	$9,846,352	0.9%	76.9%	77.8%
2020	269,205	11,061,189	11,118,407	2.2%	75.1%	77.3%
2019	322,881	6,703,326	5,519,921	0.1%	68.7%	68.8%
2018	356,970	2,065,719	1,846,457	0.9%	55.1%	56.0%
2017	746,103	2,395,913	624,616	2.8%	7.5%	10.3%
2016	1,401,702	1,791,660	150,866	-55.9%	8.6%	-47.3%

The company has net income due to profitable underwriting and investment returns. Losses on the ACIS and CIRT transactions have remained very low as the GSEs retain an expected loss layer. Liabilities are rising largely due to the contingency reserves. The company has been investing excess cash into bond investments. The company has positive cash flow from operations. Surplus has increased in 2018, 2019, and 2020 from contributions from MGIC in preparation for writing increased credit risk transfer business. The increase in surplus from 2021 is a result of normal operations.

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, 2021 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

MAC has been increasing the credit risk transfer business during the examination period. The company has had additional capital contributed in 2018, 2019, and 2020 which resulted in significantly increased bond investments. There were no adjustments to the company's surplus as a result of the examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

X. ACKNOWLEDGMENT

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

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

Name	**Title**
Ana Careaga	Insurance Financial Examiner
Marisa Rodgers	Insurance Financial Examiner
Ian Andersen	Insurance Financial Examiner
Junji Nartatez, CISA	IT Specialist
Nicholas Hartwig	Quality Control Specialist
Jerry DeArmond, CFE	Data Specialist

Respectfully submitted,

Jake Burkett

Jacob Burkett
Examiner-in-Charge