Report

of the

Examination of

MGIC Credit Assurance Corporation

Milwaukee, Wisconsin

As of December 31, 2016

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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 CREDIT ASSURANCE CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MGIC Credit Assurance Corporation (hereinafter also, MCAC 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. 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 Credit Assurance Corporation was organized under the laws of Wisconsin on April 30, 1997, and commenced business on May 21, 1997. MCAC is a wholly owned subsidiary of Mortgage Guaranty Insurance Corporation (hereinafter also MGIC).

The company was established by MGIC to serve as a direct writer of residential mortgage guaranty insurance on second mortgages and home equity lines of credit in a limited number of states. Concurrent with MGIC's establishment of MCAC, MGIC also established MGIC Assurance Corporation (hereinafter also MAC) to engage in residential mortgage guaranty of junior liens accounted for through the MAC mandatory segregated account. Insurance laws in certain states do not allow a mortgage guaranty insurer to engage in any other line of insurance, even if accounted for through a segregated account, and MAC was unable to issue mortgage guaranty insurance in those states. MCAC was formed to write junior lien insurance in states that require a mortgage guaranty company to be a monoline insurer.

The company commenced writing direct business in 1998 and continued to issue new policies of mortgage guaranty insurance on junior liens through December 31, 2001. MCAC and MAC each terminated writing new business effective January 1, 2002. Effective December 31, 2004, under a plan approved by the Wisconsin Office of the Commissioner of Insurance (hereinafter also the OCI) on September 22, 2003, MCAC 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.

MCAC's entire book of business is in runoff. The company currently does not plan to resume writing new insurance risks.

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

MCAC 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). MCAC 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 (hereinafter the MGIC Group), description of MCAC's significant affiliates, and description of the company's intercompany agreements are included in the section of this report captioned "Affiliated Companies."

In 2016, the company wrote direct premium in the following states:

Wisconsin	$35,482	67.3%
Pennsylvania	9,970	18.9
Utah	5,904	11.2
Hawaii	436	0.8
All others	930	1.8
Total	$52,722	100.0%

The company is licensed in the following 25 jurisdictions: Alabama, Arizona, California, Colorado, Connecticut, District of Columbia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New York, North Dakota, Ohio, Oregon, Pennsylvania, South Dakota, Utah, Virginia, and Wisconsin.

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	$52,722	$0	$0	$52,722
Total All Lines	$52,722	$0	$0	$52,722

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members, each of whom is an officer of the company. The directors are elected at the annual shareholder's meeting to serve a one-year term. Officers are elected at board meetings and are to hold those positions until the earlier of their resignation or removal by the board of directors. Each member of the MCAC 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 MCAC.

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 Credit 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 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 MCAC as of December 31, 2016, and the results of that examination were expressed in a separate report.

Agreements with Affiliates

In addition to common staffing and management control, MGIC Credit 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 MCAC 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 MCAC 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

MCAC entered into a Servicing Agreement effective April 30, 1997, 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 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. In practice, expenses associated with this agreement are allocated and settled monthly.

V. REINSURANCE

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 MGIC Assurance Corporation's mandatory segregated account through an assumption reinsurance agreement. MCAC has not entered into any other reinsurance treaties, whether for the assumption or cession of insurance risks, since its incorporation on April 30, 1997.

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 Credit Assurance Corporation
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$7,201,516	$0	$7,201,516
Cash, cash equivalents, and short-term investments	1,164,979		1,164,979
Investment income due and accrued	91,108		91,108
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,770		1,770
Current federal and foreign income tax recoverable and interest thereon	26,562		26,562
Total Assets	$8,485,935	$0	$8,485,935

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

Losses		$ 95,030
Loss adjustment expenses		1,653
Taxes, licenses, and fees (excluding federal and foreign income taxes)		47
Net deferred tax liability		59,939
Unearned premiums		2,844
Payable to parent, subsidiaries, and affiliates		31,267
Contingency reserve		134,988
Total Liabilities		325,768
Common capital stock	$ 3,000,000	
Gross paid in and contributed surplus	11,156,308	
Unassigned funds (surplus)	(5,996,141)	
Surplus as Regards Policyholders		8,160,167
Total Liabilities and Surplus		$8,485,935

MGIC Credit Assurance Corporation
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$ 56,008
Deductions:		
Losses incurred	$(551,454)	
Loss adjustment expenses incurred	13,239	
Other underwriting expenses incurred	245,761	
Write-ins for underwriting deductions:		
Contingency reserve contributions	28,004	
Total underwriting deductions		(264,450)
Net underwriting gain (loss)		320,458
Investment Income		
Net investment income earned	132,365	
Net realized capital gains (losses)	1,607	
Net investment gain (loss)		133,972
Other Income		
Net gain (loss) from agents' or premium balances charged off	33	
Total other income		33
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		454,463
Dividends to policyholders		0
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		454,463
Federal and foreign income taxes incurred		144,414
Net Income		$310,049

MGIC Credit Assurance Corporation
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$ 53,515
Net investment income			292,082
Miscellaneous income			33
Total			345,630
Benefit and loss related payments		$(427,289)	
Commissions, expenses paid, and aggregate write-ins for deductions		260,541	
Federal and foreign income taxes paid (recovered)		51,708	
Total deductions			(115,040)
Net cash from operations			460,670
Proceeds from investments sold, matured, or repaid:			
Bonds	$740,000		
Net gains (losses) on cash, cash equivalents, and short-term investments	1		
Total investment proceeds		740,001	
Cost of investments acquired (long-term only):			
Bonds	510,000		
Total investments acquired		510,000	
Net cash from investments			230,001
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		490	
Net cash from financing and miscellaneous sources			490
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			691,161
Cash, cash equivalents, and short-term investments:			
Beginning of year			473,818
End of year			$1,164,979

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

Surplus as regards policyholders		$8,160,167	
Contingency reserve		134,988	
Total policyholders position			$8,295,155
Net minimum policyholders position:			
Group loans:			
Equity less than 20%, or equity plus prior insurance or a deductible less than 25%	129,501		
Total group loans		129,501	
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		(2,436)	
Total minimum policyholders position			127,065*
Excess of total policyholders position over minimum policyholders position			$8,168,090

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

MGIC Credit 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	$7,845,489	$44,223,462	$43,064,396	$42,243,373	$42,122,969
Net income	310,049	778,724	1,166,937	821,023	120,404
Change in net deferred income tax	4,629	(56,697)	(13,015)	(474,097)	116,265
Change in non-admitted assets			5,144	474,097	(116,265)
Surplus adjustments:					
Paid in		(37,100,000)			
Surplus, end of year	$8,160,167	$ 7,845,489	$44,223,462	$43,064,396	$42,243,373

MGIC Credit 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	1%	1%	0%	0%	0%
#2	Net Premium to Surplus	1	1	0	0	0
#3	Change in Net Premiums Written	(34)*	(42)*	(11)	(22)	(33)*
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0	136*
#6	Investment Yield	1.6*	1.3*	2.5*	2.7*	2.9*
#7	Gross Change in Surplus	4	(82)*	3	2	0
#8	Change in Adjusted Surplus	4	2	3	2	0
#9	Liabilities to Liquid Assets	4	5	1	2	2
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	(8)	(1)	(2)	(1)	(1)
#12	Two-Year Reserve Development to Surplus	(2)	(2)	(2)	(2)	(2)
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

The exceptional results for Ratio #3, "Change in Net Premiums Written", for 2012, 2015 and 2016 were due to the company being in run-off since January 1, 2002. The cumulative decline in net premiums written from 2011 to 2016 was 82.6%.

Ratio No. 5, “Two-Year Overall Operating Ratio,” measures the company’s profitability over the previous two-year period and was exceptional in 2012. The exceptional result for 2012 is attributable to the ongoing runoff. 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. Incurred losses were sizable in 2012 as a result of the continuing distress of the U.S. economy and the housing market after the downturn in 2007. Circumstances improved markedly beginning in 2013.

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 results from 2012 to 2016 inclusive 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 $37,100,000 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 $40,000,000 approved distribution, which occurred on April 16, 2015, constituted a 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 $2,900,000 to paid-in surplus.

Financial Experience of MGIC Credit Assurance Corporation

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2016	$ 8,485,935	$ 325,768	$ 8,160,167	$ 310,049
2015	8,276,384	430,895	7,845,489	778,724
2014	44,704,691	481,229	44,223,462	1,166,937
2013	43,766,259	701,863	43,064,396	821,023
2012	43,256,785	1,013,412	42,243,373	120,404
2011	43,367,930	1,244,961	42,122,969	(62,097)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2016	$ 52,722	$ 52,722	$ 56,008	(961.0)%	519.2%	(441.8)%
2015	80,339	80,339	97,134	(380.7)%	345.3%	(35.4)%
2014	139,273	139,273	116,833	(228.7)%	293.9%	65.2%
2013	156,846	156,846	156,892	145.3%	251.6%	396.9%
2012	202,127	202,127	202,169	597.3%	122.8%	720.1%
2011	302,950	302,950	302,848	576.5%	86.7%	663.2%

Gross and net premium have steadily decreased over the period under examination as a result of the company running off its business beginning on January 1, 2002. During the period under examination, the company experienced positive net income attributable to income from its investment holdings and, to a lesser extent, negative federal income taxes incurred as a result of operating losses carried forward. The loss and loss adjustment expense ratio has been a negative percentage since 2014 due to reserve reductions that reflect favorable loss development, a decline in the default inventory, and a general decrease in the severity of claims. In 2015, the company, in consideration of the advanced and favorable state of its runoff returned $37,100,000 in paid-in surplus to the company's sole shareholder, Mortgage Guaranty Insurance Corporation, which was approved by the OCI.

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 Credit 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 established by MGIC in 1997 to serve as a direct writer of mortgage guaranty insurance on second mortgages and home equity lines of credit in states that require a mortgage guaranty insurer to be monoline. The company commenced writing business in 1998 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 run-off effective January 1, 2002. Effective December 31, 2004, with the OCI's approval, the company assumed the runoff junior lien business of its affiliate, MGIC Assurance Corporation. The company currently has no plans to resume writing new insurance risks.

As of December 31, 2016, the company reported assets of $8,485,935, liabilities of $325,768, and policyholders' surplus of $8,160,167. Operations for 2016 produced a net income of $310,049. Policyholders' surplus has decreased from $42,122,969 as of year-end 2011 to $8,160,167 as of year-end 2016. This represents an decrease of 80.6% 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	$42,122,969
Return of surplus to sole shareholder	(37,100,000)
Net income	3,197,137
Change in net deferred income tax	(422,915)
Change in non-admitted assets	362,976
Policyholders' Surplus, December 31, 2016	$ 8,160,167

Gross and net premium have steadily decreased over the period under examination as a result of the company running off its business beginning on January 1, 2002. During the period under examination, the company experienced positive net income attributable to income from its investment holdings and, to a lesser extent, negative federal income taxes incurred as a result of operating losses carried forward. The loss and loss adjustment expense ratio has been a negative percentage since 2014 due to reserve reductions that reflect favorable loss development, a decline in the default inventory and a general decrease in the severity of claims. In 2015, the company, in consideration of the advanced and favorable state of its runoff returned $37,100,000 in paid-in surplus to the company's sole shareholder, Mortgage Guaranty Insurance Corporation, which was approved by the OCI.

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
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Respectfully submitted,

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