

Report of the Examination of
MGIC Credit Assurance Corporation
Milwaukee, Wisconsin
As of December 31, 2021

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL.....	5
IV. AFFILIATED COMPANIES.....	7
V. REINSURANCE.....	11
VI. FINANCIAL DATA	12
VII. SUMMARY OF EXAMINATION RESULTS	21
VIII. CONCLUSION.....	23
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS	24
X. ACKNOWLEDGMENT.....	25



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 CREDIT ASSURANCE CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MGIC Credit Assurance Corporation (MCAC 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. 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. MGIC Credit Assurance Corporation was originally a subsidiary of Mortgage Guaranty Insurance Corporation (MGIC) until 2021. On January 1, 2021, MGIC transferred 100% of MCAC's common to MGIC Investment Corporation (MGIC Investment), making MCAC a wholly owned subsidiary of MGIC Investment.

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 Investment's establishment of MCAC, MGIC Investment also established MGIC Assurance Corporation (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 (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.

MCAC is a member of a holding company system, and ultimate ownership and control of the company is held by MGIC Investment Corporation. 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 (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". 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 2021. The growth of the company is discussed in the Financial Data section of this report.

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

Pennsylvania	\$1,936	84.8%
Vermont	154	6.7
California	92	4.0
Utah	54	2.4
Wisconsin	<u>48</u>	<u>2.1</u>
Total	<u>\$2,284</u>	<u>100.0%</u>

The company is still in runoff. The only business on its books is mortgage guaranty.

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	Reinsurance Ceded	Net Premium
Mortgage Guaranty	<u>\$2,284</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,284</u>
Total All Lines	<u>\$2,284</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,284</u>

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. Members of the company's board of directors may also be members of other boards of directors in the holding company group.

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, WI	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 & 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
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
Timothy J. Mattke	Chief Executive Officer
James J. Hughes	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

Nathan R. Abramowski, Chair

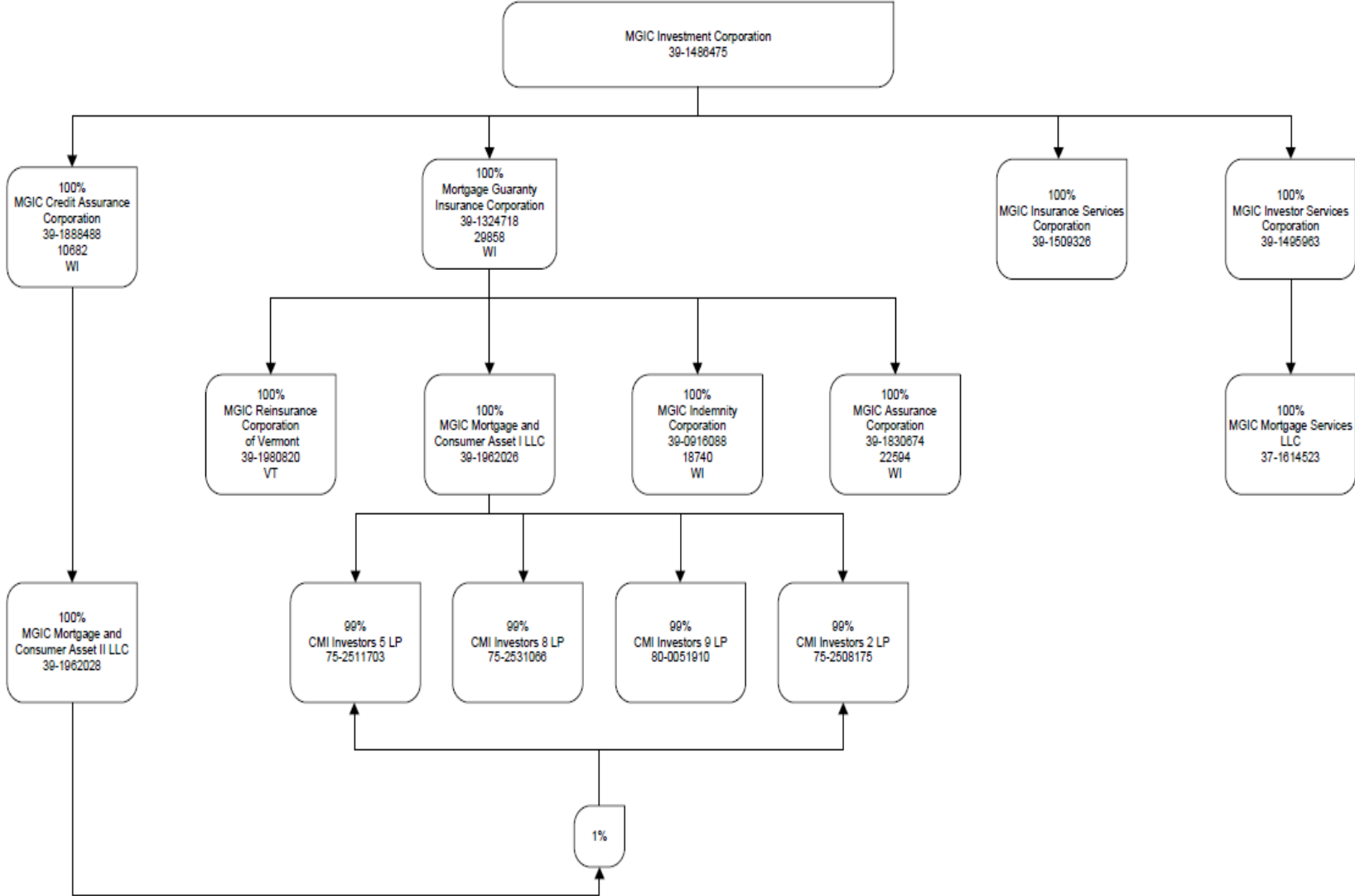
Nathan H. Colson

Heidi A. Heyrman

IV. AFFILIATED COMPANIES

MGIC Credit 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 the organizational chart.

**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 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 Assurance Corporation

MGIC Assurance Corporation (MAC) is a wholly owned subsidiary of MGIC. MAC is writing credit risk transfer (CRT) business for the GSEs. Through the CRT market, investors transfer mortgage credit risk on loans with loan-to-value ("LTV") ratios above 80%, attaching after the first-dollar loss borne by traditional private mortgage insurance, as well as mortgage credit risk on loans with LTVs of 60% to 80%. The 2021 audited statutory financial statements reported assets of \$276,707 thousand, liabilities of \$15,583 thousand, surplus of \$261,124 thousand, and net income of \$3,524 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. 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 IMAGIN direct mortgage insurance program. Under this program, MIC insures losses arising from single-family residential mortgage defaults, and the insurance policy was issued directly to Freddie Mac, as compared to the loan originator. The

IMAGIN program was discontinued in 2021. In 2020, MIC issued a direct insurance policy to Fannie Mae under its Enterprise Paid Mortgage Insurance Program. Both the Freddie Mac and Fannie Mae direct policies are in runoff. As of now, MIC is not writing new policies. The 2021 audited 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

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 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 MCAC, 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

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, 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 minimum policyholder position calculation.

MGIC Credit Assurance Corporation
Assets
As of December 31, 2021

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$5,148,826	\$	\$5,148,826
Cash, cash equivalents, and short-term investments	4,050,730		4,050,730
Investment income due and accrued	19,575		19,575
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	5		5
Current federal and foreign income tax recoverable and interest thereon	111,546		111,546
Write-ins for other than invested assets:			
Miscellaneous receivables	<u>267</u>	—	<u>267</u>
Total Assets	<u>\$9,330,949</u>	<u>\$0</u>	<u>\$9,330,949</u>

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

Taxes, licenses, and fees (excluding federal and foreign income taxes)		\$ 100
Net deferred tax liability		1,349
Remittances and items not allocated		9,161
Payable to parent, subsidiaries, and affiliates		15,492
Write-ins for liabilities:		
Contingency Reserve		<u>173,698</u>
Total Liabilities		199,800
Common capital stock	\$ 3,000,000	
Gross paid in and contributed surplus	11,156,308	
Unassigned funds (surplus)	<u>(5,025,159)</u>	
Surplus as Regards Policyholders		<u>9,131,149</u>
Total Liabilities and Surplus		<u>\$9,330,949</u>

MGIC Credit Assurance Corporation
Summary of Operations
For the Year 2021

Underwriting Income		
Premiums earned		\$ 2,284
Deductions:		
Losses incurred	\$(300,381)	
Loss adjustment expenses incurred	2,221	
Other underwriting expenses incurred	263,841	
Write-ins for underwriting deductions:		
Contingency reserve contribution	<u>1,142</u>	
Total underwriting deductions		<u>(33,177)</u>
Net underwriting gain (loss)		35,461
Investment Income		
Net investment income earned	64,451	
Net realized capital gains (losses)	<u>229</u>	
Net investment gain (loss)		<u>64,680</u>
Net income (loss) before federal and foreign income taxes		100,141
Federal and foreign income taxes incurred		<u>21,574</u>
Net Income (Loss)		<u>\$ 78,567</u>

MGIC Credit Assurance Corporation
Cash Flow
For the Year 2021

Premiums collected net of reinsurance		\$ 2,315
Net investment income		<u>77,108</u>
Total		79,423
Benefit- and loss-related payments	\$ (300,381)	
Commissions, expenses paid, and aggregate write-ins for deductions	295,172	
Federal and foreign income taxes paid (recovered)	<u>(1,656)</u>	
Total deductions		<u>(6,865)</u>
Net cash from operations		86,288
Proceeds from investments sold, matured, or repaid:		
Bonds	1,515,000	
Cost of investments acquired (long-term only):		
Bonds	<u>3,009,535</u>	
Net cash from investments		(1,494,535)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>6,324</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(1,401,923)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>5,452,653</u>
End of Year		<u>\$ 4,050,730</u>

MGIC Credit Assurance Corporation
Minimum Policyholders Position Calculation
December 31, 2021

Surplus as regards to policyholders	\$9,131,149	
Contingency Reserve	<u>173,698</u>	
Total Policyholders position		\$9,304,847
Net minimum policyholders position:		
Group loans:		
Equity less than 20%, or equity plus prior insurance or a deductible less than 25%	<u>6,061</u>	
Total minimum policyholders position		<u>6,061</u>
Excess of total policyholders position over minimum policyholders position		<u>\$9,298,786</u>

MGIC Credit 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	\$8,911,559	\$8,808,173	\$8,558,719	\$8,400,593	\$8,160,167
Net income	78,567	229,160	247,947	147,747	208,971
Change in net unrealized capital gains/losses		375	(375)		
Change in net deferred income tax	3,090	11,784	1,882	10,379	31,455
Change in nonadmitted assets	<u>137,933</u>	<u>(137,933)</u>	<u> </u>	<u> </u>	<u> </u>
Surplus, End of Year	<u>\$9,131,149</u>	<u>\$8,911,559</u>	<u>\$8,808,173</u>	<u>\$8,558,719</u>	<u>\$8,400,593</u>

The company's surplus has been increasing every year under examination due to net income and the company reported favorable loss development resulting from recoveries on previously paid claims. The company is in runoff and is not actively writing additional business.

MGIC Credit 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	0%	0%	0%	0%	0%
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	-59*	-48*	-45*	-41*	-39*
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	0	0	0	0	0
#6 Investment Yield	0.7*	1.1*	1.7*	1.6*	1.5*
#7 Gross Change in Surplus	2	1	3	2	3
#8 Change in Adjusted Surplus	2	1	3	2	3
#9 Liabilities to Liquid Assets	2	2	3	2	3
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	-3	-5	-4	-4	-6
#12 Two-Year Reserve Development to Surplus	-8	-9	-8	-10	-14
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Ratio No. 3 is the change in net premiums written expressed as a percentage. This has been decreasing significantly during the examination period due to being in a state of runoff.

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. This value is low due to the low interest rate environment and also because the company holds a significant portion of its invested assets in cash equivalents.

Growth of MGIC Credit Assurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2021	\$9,330,949	\$199,800	\$9,131,149	\$78,567
2020	9,139,193	227,634	8,911,559	229,160
2019	9,035,525	227,352	8,808,173	247,947
2018	8,756,850	198,131	8,558,719	147,747
2017	8,666,641	266,048	8,400,593	208,971
2016	8,485,935	325,768	8,160,167	310,049

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2021	\$2,284	\$2,284	\$2,284	-13,054.3%	11,601.7%	-1,452.6%
2020	5,505	5,505	5,505	-7,347.4%	3,770.2%	-3,577.2%
2019	10,588	10,588	11,067	-3,054.9%	1,842.0%	-1,212.9%
2018	19,089	19,089	20,294	-1,540.5%	1,465.9%	-74.6%
2017	32,175	32,175	33,335	-1,335.3%	904.2%	-431.1%
2016	52,722	52,722	56,008	-961.0%	519.2%	-441.8%

Net premium written consistently declined each year as the company has been in runoff since 2004. The loss and loss adjustment expense ratios are skewed because of the low premium volume. The company is stable in terms of admitted assets and surplus. Loss and loss adjustment expense ratios are also negative due to reserve reductions that are due to favorable loss development.

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 recommendations in the previous examination report.

Summary of Current Examination Results

The current examination resulted in no adverse or material findings.

VIII. CONCLUSION

The company is in runoff and is not actively writing any additional business. The company has no plans to write new business in the future. The company was involved in a reorganization of the holding company in 2021 which resulted in MGIC Investment Corporation becoming the direct parent company of MCAC instead of Mortgage Guaranty Insurance Corporation. The change did not affect the company's financial condition. The company has admitted assets of \$9,330,949, liabilities of \$199,800 and surplus as regards to policyholders of \$9,131,149 as of December 31, 2021.

Written premium continues to sharply decrease every year as a result of the runoff of the business. Loss and loss adjustment expense ratios are also negative due to reserve reductions that are due to favorable loss development.

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 the examination.

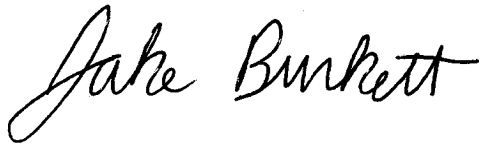
X. ACKNOWLEDGMENT

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 Anderson	Insurance Financial Examiner
Junji Nartatez, CISA	IT Specialist
Nicholas Hartwig	Quality Control Specialist
Jerry DeArmond, CFE	Data Specialist

Respectfully submitted,



Jacob Burkett
Examiner-in-Charge