



DATE: September 3, 2020

TO: Amy J. Malm, Administrator, Division of Financial Regulation *AGM* 9/4/2020

FROM: Steven J. Junior, Insurance Program Manager

SUBJECT: Form A by Mortgage Guaranty Insurance Corporation and MGIC Investment Corporation dated September 1, 2020

## DESCRIPTION OF THE TRANSACTION

### Overview

Mortgage Guaranty Insurance Corporation filed a Form A, "Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer", dated September 1, 2020, which was received on the same date, whereby it proposed three transactions to reorganize certain aspects of its holding company system effective September 1, 2020:

1. MGIC Reinsurance Corporation of Wisconsin would merge with and into Mortgage Guaranty Insurance Corporation;
2. There would be a stock dividend of all of the common stock of MGIC Credit Assurance Corporation by Mortgage Guaranty Insurance Corporation to MGIC Investment Corporation; and
3. Prior to the merger of MGIC Reinsurance Corporation of Wisconsin with and into Mortgage Guaranty Insurance Corporation, MGIC Reinsurance Corporation of Wisconsin proposes to assign all right, title and interest, as the sole owner and member of MGIC Mortgage and Consumer Asset II, LLC, a Delaware limited liability company, to MGIC Credit Assurance Corporation.

Heidi A. Heyrman, Vice President – Regulatory Relations, Assistant General Counsel, and Assistant Secretary of Mortgage Guaranty Insurance Corporation, signed a cover letter introducing the filing on behalf of Mortgage Guaranty Insurance Corporation.

The reason for the proposed merger of MGIC Reinsurance Corporation of Wisconsin with and into Mortgage Guaranty Insurance Corporation is that, as an outgrowth of the work of the NAIC's Mortgage Guaranty Insurance Working Group, an effort was made to repeal all mandatory reinsurance requirements, which had not been helpful in enhancing the financial security of the mortgage guaranty industry during and after the 2007-2008 financial crisis and the ensuing "Great Recession". In time, all such requirements were repealed and, accordingly, MGIC Reinsurance Corporation of Wisconsin, which existed to reinsure Mortgage Guaranty Insurance Corporation to the extent necessary under the various states' mandatory minimum reinsurance laws, no longer has any business purpose. In addition, notwithstanding that MGIC Reinsurance Corporation of Wisconsin is a wholly-owned subsidiary of Mortgage Guaranty Insurance Corporation, Mortgage Guaranty Insurance Corporation receives no credit for any portion of the assets or equity of MGIC Reinsurance Corporation of Wisconsin under the capital standards of the Private Mortgage Insurer Eligibility Requirements of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation.

The reason for the proposed stock dividend of all of the common stock of MGIC Credit Assurance Corporation by Mortgage Guaranty Insurance Corporation to MGIC Investment Corporation is that the business of MGIC Credit Assurance Corporation is not subject to the Private Mortgage Insurer Eligibility

Requirements and, accordingly, MGIC Investment Corporation would like to reposition MGIC Credit Assurance Corporation out from under Mortgage Guaranty Insurance Corporation, which is subject to the Private Mortgage Insurer Eligibility Requirements and resultant de facto regulation by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Prior to the merger of MGIC Reinsurance Corporation of Wisconsin with and into Mortgage Guaranty Insurance Corporation, MGIC Reinsurance Corporation of Wisconsin proposes to assign all right, title and interest, as the sole owner and member of MGIC Mortgage and Consumer Asset II, LLC, a Delaware limited liability company, to MGIC Credit Assurance Corporation. Mortgage Guaranty Insurance Corporation is the sole owner of MGIC Mortgage and Consumer Asset I, LLC, a Delaware limited liability company and the sole limited partner of four separate limited partnerships. MGIC Mortgage and Consumer Asset II, LLC is the general partner of these limited partnerships. The assignment is being made to maintain ownership of the general and limited partners of these limited partnerships in two distinct entities.

The merger of MGIC Reinsurance Corporation of Wisconsin with and into Mortgage Guaranty Insurance Corporation will serve to increase the assets and liabilities of Mortgage Guaranty Insurance Corporation, but should not result in a meaningful change to its policyholders' surplus. Since the policyholders' surplus of MGIC Credit Assurance Corporation as of June 30, 2020 is \$8,955,908, approval of the stock dividend would reduce the policyholders' surplus of Mortgage Guaranty Insurance Corporation by approximately \$8,955,908. Since the fair value of MGIC Mortgage and Consumer Asset II, LLC was reported as zero as of December 31, 2019, approval of the proposed reassignment of the membership interest in MGIC Mortgage and Consumer Asset II, LLC, would not reduce the policyholders' surplus of Mortgage Guaranty Insurance Corporation.

#### *Summary of the Key Documents*

There is a Plan and Agreement of Merger made and entered into effective as of the 1st day of September, 2020, by and between Mortgage Guaranty Insurance Corporation and MGIC Reinsurance Corporation of Wisconsin. Being a merger agreement between a parent insurer and a subsidiary insurer that has no extant business except for the reinsurance of its parent insurer, the agreement is very simple and is only four pages in length. Under the agreement, Mortgage Guaranty Insurance Corporation unequivocally assumes all of the assets and liabilities of MGIC Reinsurance Corporation of Wisconsin. I found no objectionable provisions in the agreement.

#### **OBSERVATIONS BASED ON REVIEW OF DOCUMENTS AND ON INQUIRIES**

##### Format and Informational Sufficiency of the Form A

The Form A filing was prepared in a format that complies with s. 611.72, Wis. Stat. The information contained in the filing and in the supplementary information obtained by OCI in connection with review of this filing is sufficient for OCI to make a decision concerning the proposed plan.

##### Legality and Fairness of the Proposed Plan

My review of the Form A included a review of the Plan and Agreement of Merger made and entered into effective as of the 1st day of September, 2020, by and between Mortgage Guaranty Insurance Corporation and MGIC Reinsurance Corporation of Wisconsin. My review of these agreements is evidenced by the summaries presented earlier in this memorandum.

This review of the Form A and the component agreements of the proposed plan, with due consideration to supplementary information filed in response to examiner inquiries, discloses no basis for denial of the application on a point of law.

I can find no basis on which the proposed acquisition, as disclosed in the Form A and its supplementary filings, should not be regarded as reasonable and fair to Southern Life and Health Insurance Company and to its policyholders, within the scope of Wisconsin's regulatory concern.

#### Satisfaction of Licensing Requirements Maintained

Execution of the transactions disclosed in the Form A according to the plan indicated would have no effect on the ability of Mortgage Guaranty Insurance Corporation or MGIC Credit Assurance Corporation to maintain their existing licenses to write the lines of insurance for which they are presently licensed.

#### Effect on Competition within the Wisconsin Insurance Marketplace

MGIC Reinsurance Corporation of Wisconsin writes no direct business. It has only one reinsured, Mortgage Guaranty Insurance Corporation, under one reinsurance treaty.

MGIC Credit Assurance Corporation was established by Mortgage Guaranty Insurance Corporation to serve as a direct writer of residential mortgage guaranty insurance on second mortgages and home equity lines of credit in states that require mortgage guaranty insurance to be written in a monoline insurer. MGIC Credit Assurance Corporation was placed into voluntary run-off on January 1, 2002 and there are no plans or proposals for it to resume writing new insurance risks.

The proposed plan will not create a monopoly or substantially lessen competition in any type or line of insurance in Wisconsin.

#### Future Plans after the Change in Control

Under the plan for the merger of MGIC Reinsurance Corporation of Wisconsin with and into Mortgage Guaranty Insurance Corporation, there will be no change in the ultimate controlling person, business operations, management or financial status of Mortgage Guaranty Insurance Corporation. MGIC Reinsurance Corporation of Wisconsin no longer serves any essential business purpose now that mortgage guaranty laws around the United States abolished mandatory minimum reinsurance requirements, thereby eliminating the need for affiliated reinsurers to provide back up in the event that reinsurance could not or would not be placed with nonaffiliated reinsurers. In addition, the merger will allow Mortgage Guaranty Insurance Corporation to include the assets now held by MGIC Reinsurance Corporation of Wisconsin in the capital standards of the Private Mortgage Insurer Eligibility Requirements of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Currently, notwithstanding that MGIC Reinsurance Corporation of Wisconsin is a wholly-owned subsidiary of Mortgage Guaranty Insurance Corporation, Mortgage Guaranty Insurance Corporation receives no credit for any portion of the assets or equity of MGIC Reinsurance Corporation of Wisconsin under the capital standards of the Private Mortgage Insurer Eligibility Requirements.

MGIC Credit Assurance Corporation is in run-off and there are no plans or proposals to reactivate it. The business of MGIC Credit Assurance Corporation is not subject to the Private Mortgage Insurer Eligibility Requirements of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Accordingly, MGIC Investment Corporation would like to reposition MGIC Credit Assurance Corporation out from under Mortgage Guaranty Insurance Corporation, which is subject to the Private Mortgage Insurer Eligibility Requirements and resultant de facto regulation by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Prior to the merger of MGIC Reinsurance Corporation of Wisconsin with and into Mortgage Guaranty Insurance Corporation, MGIC Reinsurance Corporation of Wisconsin proposes to assign all right, title and interest, as the sole owner and member of MGIC Mortgage and Consumer Asset II, LLC, a Delaware limited liability company, to MGIC Credit Assurance Corporation. Mortgage Guaranty Insurance Corporation is the sole owner of MGIC Mortgage and Consumer Asset I, LLC, a Delaware limited liability company and the sole limited partner of four separate limited partnerships. MGIC Mortgage and

Consumer Asset II, LLC is the general partner of these limited partnerships. The assignment is being made to maintain ownership of the general and limited partners of these limited partnerships in two distinct entities.

Financial Soundness of Prospective Affiliates

The MGIC Group does have financial risk associated with any economic fallout from the ongoing pandemic crisis in the United States. However, each of MGIC Investment Corporation, Mortgage Guaranty Insurance Corporation, MGIC Reinsurance Corporation, and MGIC Credit Assurance Corporation appear reasonably capitalized. Recent periods' financial data for MGIC Investment Corporation, Mortgage Guaranty Insurance Corporation, MGIC Reinsurance Corporation, and MGIC Credit Assurance Corporation are as follows.

**Recent Periods' Financial Experience of the MGIC Investment Group**

MGIC Investment Corporation (Consolidated GAAP Basis)

	<b>06/30/2020</b>	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2017</b>
Assets	\$6,574,588,000	\$6,229,571,000	\$5,667,802,000	\$5,619,499,000
Liabilities	2,191,233,000	1,920,337,000	2,095,911,000	2,464,973,000
Shareholders' Equity	4,383,355,000	4,309,234,000	3,581,891,000	3,154,526,000
Direct Premiums Written	557,948,000	1,124,196,000	1,103,332,000	1,121,776,000
Assumed Premiums Written	6,758,000	6,446,000	271,000	1,905,000
Ceded Premiums Written	(97,314,000)	(129,334,000)	(111,341,000)	(125,726,000)
Net Premiums Written	467,392,000	1,001,308,000	975,162,000	934,747,000
Net Income/(Loss)	163,852,000	673,763,000	670,097,000	355,761,000
Dividends to Stockholders	41,426,000	41,914,000	0	0
Net Stock Repurchases/(Issued)	110,229,000	114,126,000	174,273,000	(21,740,000)
Net Repayment/(Issuance) of Debt	0	0	0	145,620,000

\* Repurchase of outstanding common shares, less treasury share reissuance and newly issued

**Mortgage Guaranty Insurance Corporation (NAIC #29858)**

	<b>06/30/2020</b>	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2017</b>
Assets	\$5,719,293,694	\$5,701,025,039	\$4,974,334,147	\$4,756,229,109
Liabilities	4,473,054,399	4,082,156,585	3,292,999,126	3,135,817,335
Contingency Reserve	3,168,394,149	2,997,471,241	2,138,332,061	1,654,130,802
Capital and Surplus	1,246,239,295	1,618,868,454	1,681,335,021	1,620,411,774
Gross Premiums Written	557,402,820	1,121,080,594	1,099,216,244	1,111,580,191
Direct Premiums Written	556,121,719	1,117,636,027	1,097,872,732	1,111,324,736
Net Premiums Written	460,279,160	979,602,677	872,652,190	866,261,976
Net Income	(4,971,561)	273,238,200	324,975,805	271,687,669
Dividends/Distributions to Sole Shareholder	390,000,000	280,000,000	220,000,000	0
Policyholders' Position in Excess of the Minimum Policyholders' Position	2,860,225,523	2,982,876,825	2,609,356,147	2,130,324,339

**MGIC Reinsurance Corporation of Wisconsin (NAIC #10247)**

	<b>06/30/2020</b>	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2017</b>
Assets	\$251,304,920	\$243,506,698	\$642,112,214	\$588,171,193
Liabilities	2,089,342	11,000	398,185,569	394,936,776
Contingency Reserve	0	0	58,529,222	58,731,138
Capital and Surplus	249,215,578	243,495,698	243,926,645	193,234,417
Gross Premiums Written	0	12,512,190	115,988,677	121,132,974
Direct Premiums Written	0	0	0	0
Net Premiums Written	0	12,512,190	115,988,677	121,132,974
Net Income	5,511,842	26,610,282	44,070,311	34,854,304
Dividends/Distributions to Sole Shareholder	0	0	0	0
Policyholders' Position in Excess of the Minimum Policyholders' Position	249,215,578	243,495,698	290,751,041	193,393,193

**MGIC Credit Assurance Corporation (NAIC #10682)**

	<b>06/30/2020</b>	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2017</b>
Assets	\$9,211,452	\$9,035,525	\$8,756,850	\$8,666,641
Liabilities	255,544	227,352	198,131	266,048
Contingency Reserve	171,152	168,476	161,802	151,655
Capital and Surplus	8,955,908	8,808,173	8,558,719	8,400,593
Gross Premiums Written	3,286	10,588	19,089	32,175
Direct Premiums Written	3,286	10,588	19,089	32,175
Net Premiums Written	3,286	10,588	19,089	32,175
Net Income	139,521	247,947	147,747	208,971
Dividends/Distributions to Sole Shareholder	0	0	0	0
Policyholders' Position in Excess of the Minimum Policyholders' Position	9,089,600	8,929,930	8,653,013	8,447,859

As of December 31, 2019, the fair value of pension plan assets amounted to \$402,691,000, while the projected pension benefit obligations amounted to \$413,350,000. As of the same date, the fair value of other post-retirement benefit plan assets amounted to \$99,590,000, while the projected post-retirement benefit plan obligations amounted to \$27,496,000.

The financial condition of Mortgage Guaranty Insurance Corporation and MGIC Credit Assurance Corporation, each individually, and the MGIC Group, taken as a whole, are unlikely to be jeopardized by the proposed merger of MGIC Reinsurance Corporation of Wisconsin and the proposed change in control that would be effectuated by the stock dividend of all of the common stock of MGIC Credit Assurance Corporation from Mortgage Guaranty Insurance Corporation to MGIC Investment Corporation, or to prejudice the interests of the respective Wisconsin policyholders of Mortgage Guaranty Insurance Corporation or MGIC Credit Assurance Corporation.

Competence and Integrity of Prospective Management

The merger of MGIC Reinsurance Corporation with and into Mortgage Guaranty Insurance Corporation will not result in any change to the officers and directors of the survivor of the merger, Mortgage Guaranty Insurance Corporation. The stock dividend of all of the common stock of MGIC Credit Assurance

Corporation from Mortgage Guaranty Insurance Corporation to MGIC Investment Corporation will not result in any change to the officers and directors of MGIC Credit Assurance Corporation.

The Board of Directors of MGIC Investment Corporation and Mortgage Guaranty Insurance Corporation are identical and at the time of this review were as follows:

<b>Name and Residence</b>	<b>Principal Occupation</b>
Daniel A. Arrigoni Wayzata, Minnesota	Retired President and Chief Executive Officer U.S. Bank Home Mortgage Corp.
C. Edward Chaplin Greenwich, Connecticut	Retired President and Chief Financial Officer MBIA Inc.
Curt S. Culver Nashotah, Wisconsin	Chairman of the Board MGIC Investment Corporation Mortgage Guaranty Insurance Corporation
Jay C. Hartzell	President University of Texas at Austin
Timothy A. Holt Glastonbury, Connecticut	Senior Vice President and Chief Investment Officer and Member of the Executive Committee of the Board of Directors Aetna, Inc.
Kenneth M. Jastrow, II Round Mountain, Texas	Lead Director MGIC Investment Corporation Mortgage Guaranty Insurance Corporation  Retired Chairman Forestar Group Inc.
Jodeen A. Kozlak Truckee, California	Founder and Chief Executive Officer Kozlak Capital Partners, LLC
Michael E. Lehman Madison, Wisconsin	Special Advisor to the Chancellor and Interim Chief Operating Officer University of Wisconsin School of Business
Melissa B. Lora Orange County, California	Retired President Taco Bell International
Timothy J. Mattke Whitefish Bay, Wisconsin	Chief Executive Officer MGIC Investment Corporation Mortgage Guaranty Insurance Corporation
Gary A. Poliner Whitefish Bay, Wisconsin	Retired President The Northwestern Mutual Life Insurance Company
Sheryl L. Sculley	Retired City Manager City of San Antonio, Texas
Dr. Mark M. Zandi Malvern, Pennsylvania	Chief Economist Moody's Analytics, Inc.

The principal executive officers of Mortgage Guaranty Insurance Corporation at the time of this review were as follows. The officers of MGIC Investment Corporation are denoted with an asterisk and serve identical roles for both MGIC Investment Corporation and Mortgage Guaranty Insurance Corporation.

<b>Name</b>	<b>Office</b>
Curt S. Culver*	Chairman
Timothy J. Mattke*	Chief Executive Officer
Salvatore A. Miosi*	President and Chief Operating Officer
Nathan H. Colson*	Executive Vice President and Chief Financial Officer
James J. Hughes*	Executive Vice President - Sales and Business Development
Paula C. Maggio*	Executive Vice President, General Counsel and Secretary
Steven M. Thompson*	Executive Vice President and Chief Risk Officer
Annette Adams	Senior Vice President – Chief Human Resources Officer
Robert J. Candelmo	Senior Vice President - Information Services and Chief Information Officer

The Board of Directors of MGIC Credit Assurance Corporation at the time of this review were as follows:

<b>Name and Residence</b>	<b>Principal Occupation</b>
Heidi A. Heyrman Pewaukee, Wisconsin	Vice President – Regulatory Relations, Assistant General Counsel, and Assistant Secretary Mortgage Guaranty Insurance Corporation
Paula C. Maggio Oak Park, Illinois	Executive Vice President, General Counsel and Secretary MGIC Investment Corporation Mortgage Guaranty Insurance Corporation
Timothy J. Mattke Whitefish Bay, Wisconsin	Chief Executive Officer MGIC Investment Corporation Mortgage Guaranty Insurance Corporation
Salvatore A. Miosi Pewaukee, Wisconsin	President and Chief Operating Officer MGIC Investment Corporation Mortgage Guaranty Insurance Corporation
Lisa M. Pendergast Cedarburg, Wisconsin	Vice President and Treasurer Mortgage Guaranty Insurance Corporation
Julie K. Sperber Waukesha, Wisconsin	Vice President and Controller Mortgage Guaranty Insurance Corporation
Steven M. Thompson Arkdale, Wisconsin	Executive Vice President and Chief Risk Officer MGIC Investment Corporation Mortgage Guaranty Insurance Corporation

The officers of MGIC Credit Assurance Corporation at the time of this review were as follows:

<b>Name</b>	<b>Office</b>
Timothy J. Mattke	Chief Executive Officer
Salvatore A. Miosi	President and Chief Operating Officer
Nathan H. Colson	Executive Vice President and Chief Financial Officer
James J. Hughes	Executive Vice President - Sales and Business Development
Paula C. Maggio	Executive Vice President and General Counsel

Steven M. Thompson	Executive Vice President and Chief Risk Officer
Heidi A. Heyrman	Vice President and Secretary
Julie K. Sperber	Vice President and Controller

Review of the composition of the board of directors and management of MGIC Investment Corporation, Mortgage Guaranty Insurance Corporation, and MGIC Credit Assurance Corporation discloses no basis for disapproval of the Form A. The competence and integrity of the persons who would control the operation of Mortgage Guaranty Insurance Corporation and MGIC Credit Assurance Corporation are such that it is in the interest of their respective policyholders and of the public to permit the proposed plan.

#### Summary of Observations

1. The Form A filing was prepared in a format that complies with s. Ins 40.02, Wis. Adm. Code. The information contained in the Form A filing, together with supplementary information obtained by OCI, is sufficient to the transaction.
2. The plan would not violate the law or be contrary to the interests of Mortgage Guaranty Insurance Corporation or MGIC Credit Assurance Corporation or their respective policyholders.
3. After the acquisition of control, neither Mortgage Guaranty Insurance Corporation nor MGIC Credit Assurance Corporation will experience a change that would cause them to become unable to satisfy the requirements for the issuance of a license to write the lines of insurance for which they are presently licensed.
4. The proposed plan will not create a monopoly or substantially lessen competition in any type or line of insurance in Wisconsin.
5. The financial condition of Mortgage Guaranty Insurance Corporation and MGIC Credit Assurance Corporation, each individually, and the MGIC Group, taken as a whole, are unlikely to be jeopardized by the proposed merger of MGIC Reinsurance Corporation of Wisconsin and the proposed change in control that would be effectuated by the stock dividend of all of the common stock of MGIC Credit Assurance Corporation from Mortgage Guaranty Insurance Corporation to MGIC Investment Corporation, or to prejudice the interests of the respective Wisconsin policyholders of Mortgage Guaranty Insurance Corporation or MGIC Credit Assurance Corporation.
6. The plan results in a change in control for both MGIC Reinsurance Corporation of Wisconsin, in that it will merge with and into Mortgage Guaranty Insurance Corporation and thereby cease to exist, and for MGIC Credit Assurance Corporation, in that its direct ownership will be transferred from Mortgage Guaranty Insurance Corporation to MGIC Investment Corporation. The plan does not appear to be adverse to the respective policyholders of Mortgage Guaranty Insurance Corporation, MGIC Reinsurance Corporation of Wisconsin, and MGIC Credit Assurance Corporation, or to conflict with the public interest.
7. The competence and integrity of the persons who would control the operation of Mortgage Guaranty Insurance Corporation and MGIC Credit Assurance Corporation are such that it is in the interest of their respective policyholders and of the public to permit the proposed plan.

#### **RECOMMENDATION**

I recommend that the following transactions be approved effective September 1, 2020:

1. The merger of MGIC Reinsurance Corporation of Wisconsin with and into Mortgage Guaranty Insurance Corporation;



2. A stock dividend of all of the common stock of MGIC Credit Assurance Corporation by Mortgage Guaranty Insurance Corporation to MGIC Investment Corporation; and
3. Prior to the merger of MGIC Reinsurance Corporation of Wisconsin with and into Mortgage Guaranty Insurance Corporation, the assignment of all right, title and interest, as the sole owner and member of MGIC Mortgage and Consumer Asset II, LLC, a Delaware limited liability company, by MGIC Reinsurance Corporation of Wisconsin to MGIC Credit Assurance Corporation.