Report

of the

Examination of

MGIC Reinsurance Corporation

Milwaukee, Wisconsin

As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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April 19, 2013

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 REINSURANCE CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MGIC Reinsurance Corporation (hereinafter also the company or MRC) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 and 2013 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

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 Reinsurance Corporation was incorporated under the laws of Wisconsin on February 21, 1985, and commenced business on March 1, 1985. The company is a wholly owned subsidiary of MGIC Investment Corporation (hereinafter also MGIC Investment).

MRC was organized to provide its affiliate, Mortgage Guaranty Insurance Corporation (hereinafter also MGIC), with excess of loss reinsurance coverage on primary and pool residential mortgage guaranty insurance risks. The company's old book of business, now in run-off, encompasses reinsurance of risks written by MGIC on a direct basis in all U.S. jurisdictions except for six states from 1985 through 1996. The company's business was restructured in 1996 as a result of a restructure of business operations within the MGIC enterprise. MRC's current active business consists of reinsurance of risks written on a direct basis by MGIC in six states that do not permit a direct writing insurer to recognize balance sheet credit for reinsurance that is ceded to a subsidiary insurer.

MRC assumes from MGIC liability for mortgage guaranty net losses in excess of either 25% or 30% of the indebtedness to the insured, depending on the jurisdiction, pursuant to five reinsurance treaties. The company derives all of its written business from its assumption of risks written by MGIC. In 2011, the company assumed $30,937,577 of mortgage guaranty insurance premiums written by MGIC.

MRC 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 MRC'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 states of California, Illinois, Kansas, Maryland, New York, Texas, and Wisconsin.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	$0	$30,937,577	$2,780	$30,934,797
Total All Lines	$0	$30,937,577	$2,780	$30,934,797

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members, each of whom, with one exception, 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 MRC 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 MRC.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Curt S. Culver Nashotah, Wisconsin	MGIC Chairman of the Board and Chief Executive Officer	2013
Heidi A. Heyrman Pewaukee, Wisconsin	MGIC Vice President of Regulatory Relations, Assistant General Counsel and Assistant Secretary	2013
Jeffrey H. Lane Mequon, Wisconsin	MGIC Executive Vice President, General Counsel and Secretary	2013
J. Michael Lauer Elm Grove, Wisconsin	MGIC Executive Vice President and Chief Financial Officer	2013
Timothy J. Mattke Whitefish Bay, Wisconsin	MGIC Vice President, Controller and Chief Accounting Officer	2013
Lawrence J. Pierzchalski Oconomowoc, Wisconsin	MGIC Executive Vice President, Risk Management	2013
Patrick Sinks Mequon, Wisconsin	MGIC President and Chief Operating Officer	2013

Officers of the Company

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

Name	Office	2011 Compensation
Curt S. Culver	Chairman of the Board and Chief Executive Officer	$4,564,274
Heidi A. Heyrman	Vice President of Regulatory Relations, Assistant General Counsel and Secretary	437,383
Jeffrey H. Lane	Executive Vice President, General Counsel and Assistant Secretary	2,558,003
J. Michael Lauer	Executive Vice President and Chief Financial Officer	1,821,760
Timothy J. Mattke	Vice President and Controller	471,402
Patrick Sinks	President and Chief Operating Officer	2,593,458

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
J. Michael Lauer, Chair
Heidi A. Heyrman
Timothy J. Mattke

IV. AFFILIATED COMPANIES

MGIC Reinsurance Corporation is a member of a holding company system whose ultimate controlling parent is MGIC Investment Corporation. The organizational chart below 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, 2011

- MGIC Investment Corporation
  - Mortgage Guaranty Insurance Corporation
    - MGICA PTY Limited
      - MGIC Australia PTY Limited
    - MIC Reinsurance Corporation
    - MGIC Indemnity Corporation
      - MIC Reinsurance Corporation of Wisconsin
    - 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
    - eMagic.com, LLC
    - MGIC Mortgage and Consumer Asset I, LLC (Note #1)
      - CMI Investors LP 2 (99% ownership interest)
      - CMI Investors LP 5 (99% ownership interest)
      - CMI Investors LP 8 (99% ownership interest)
      - CMI Investors LP 9 (99% ownership interest)
  - MGIC Reinsurance Corporation
  - MGIC Mortgage Reinsurance Corporation
  - MGIC Residential Reinsurance Corporation
  - MGIC Insurance Services Corporation
  - MGIC Investor Services Corporation
    - MGIC Mortgage Services, LLC

Note # 1: MGIC Mortgage and Consumer Asset II, LLC, holds a 1% ownership interest in CMI Investors LPs; the remaining 99% interest is held in MGIC Mortgage and Consumer Asset I, LLC.

MGIC Investment Corporation

MGIC Investment 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.

As of January 17, 2012, Old Republic International Corporation owned 6.75% of the outstanding stock of MGIC Investment. As of September 30, 2012, the officers and directors of MGIC Investment, comprised of 17 individual shareholders, had ownership interest in MGIC Investment of approximately 1.7%. Interests held by directors included 451,001 share units held under MGIC Investment's directors' deferred compensation plan for which the holders currently do not have rights to exercise investment or voting power.

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 products and services to the mortgage finance industry, including contract underwriting, real estate valuations, loan servicing, administering special insurance bonds and policies, brokerage for errors and omissions policies, and internet-based technology services.

As of December 31, 2011, MGIC Investment's consolidated GAAP basis audited financial statements reported total assets of $7,216,230,000, total liabilities of $6,019,415,000, and total shareholders' equity of $1,196,815,000. Operations for 2011 produced a net loss of $485,892,000.

Mortgage Guaranty Insurance Corporation

MGIC was incorporated under the laws of Wisconsin on February 20, 1979, as Liberty Mortgage Insurance Corporation (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 formerly had two classes of issued and outstanding common capital stock, Class A common stock and Class B common stock. MGIC Investment Corporation retained ownership of the MGIC Class B common stock and effective September 30, 1985, contributed 100% of the MGIC Class A common stock to the former MGIC Investment subsidiary Mortgage Guaranty Reinsurance Corporation (MGRC). Effective May 25, 1999, MGRC was dissolved pursuant to a plan of voluntary dissolution and liquidation approved by the Commissioner. Upon the dissolution of MGRC, all 35,000 issued and outstanding shares of MGIC Class B common stock held by MGIC Investment Corporation were redeemed at a price of $1,000 per share and the remaining assets and liabilities of the liquidated MGRC legal entity including 100% of the MGIC Class A common capital stock transferred to MGIC Investment Corporation. MGIC's capital stock presently is comprised solely of one class of common stock, wholly owned by MGIC Investment Corporation.

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. Excess of loss insurance coverages on risks written by MGIC are ceded to four MGIC affiliate insurers to enable MGIC to comply with statutory restrictions in some states that limit an insurer's net retention of mortgage guaranty insurance for any one risk to not more than either 25% or 30% of the total indebtedness to the insured, depending on the jurisdiction.

As of December 31, 2011, MGIC's statutory financial statements reported total admitted assets of $5,528,912,276, total liabilities of $3,960,130,146, and policyholders' surplus of $1,568,782,130. Operations for 2011 produced a net loss of $397,086,634.

MGIC Indemnity Corporation

MGIC Indemnity Corporation (hereinafter also MIC) is a Wisconsin-domiciled mortgage guaranty insurer originally incorporated in Wisconsin in 1956 under the name Mortgage Guaranty Insurance Corporation (Old MGIC). In 1984 the Commissioner approved a plan (the Plan) whereby the ongoing successful business enterprise of Old MGIC could be protected from the bankruptcy of Baldwin-United Corporation and be continued in a successor legal entity.

Pursuant to the Plan, effective February 28, 1985, the business operations of Old MGIC were transferred to a successor insurer named Mortgage Guaranty Insurance Corporation (the present-day MGIC), Old MGIC changed its name to Wisconsin Mortgage Assurance Corporation (WMAC), and WMAC entered into court-ordered liquidation proceedings under the supervision of the Commissioner.

Under the 1985 liquidation proceedings, WMAC discontinued issuance of new insurance business, its existing book of business entered run-off status managed by the present-day MGIC, and 100% of WMAC's existing net retained liability for insurance risks was ceded to a group of international reinsurers under quota share reinsurance treaties. In December 1998, the WMAC liquidation proceedings were terminated and WMAC entered rehabilitation proceedings. Mortgage Guaranty Insurance Corporation (the present-day MGIC) purchased WMAC as of December 31, 1998, under a plan of rehabilitation approved by the Commissioner. WMAC changed its name to the current MGIC Indemnity Corporation effective June 1, 2000. MIC has not written any new business since 1985, and its entire portfolio of business is comprised of renewal policies in run-off. All claims have been paid by WMAC or its reinsurers, and only a small amount of insurance in-force remains in run-off.

In 2009 MIC's reactivation plan was approved by this office, the Federal Home Loan Mortgage Corporation and certain named federal government-sponsored enterprises subject to certain conditions. In preparation of writing new mortgage risks MIC received a $200 million capital contribution from MGIC Investment in 2009. MIC has also been actively trying to obtain licenses to write business in all U.S. states and as of year-end 2011 has been successful in obtaining licensure in 52 jurisdictions (includes the District of Columbia and Puerto Rico), but has not begun writing any new business under the reactivation plan.

As of December 31, 2011, MIC's statutory financial statements reported total admitted assets of $234,900,424, total liabilities of $401,903, and policyholders' surplus of $234,498,521. Operations for 2011 produced net income of $4,777,300.

MGIC Assurance Corporation

MGIC Assurance Corporation (hereinafter also MAC) was organized under the laws of Oklahoma in 1937 under the name Insurers Indemnity and Insurance Company and was subsequently renamed Financial Security Assurance, Inc. of Oklahoma (FSAOK). FSAOK was acquired by MGIC in 1995 and effective November 18, 1996, redomesticated to Wisconsin and adopted the name MGIC Assurance Corporation.

All of the issued and outstanding capital stock of MAC was contributed to the MGIC subsidiary insurer, MGIC Surety Corporation (Surety), in 1997. MGIC Surety Corporation was merged with and into MGIC effective November 30, 2002. Upon the merger of Surety, the assets and liabilities of MGIC Surety Corporation, including 100% of the issued and outstanding capital stock of MAC, transferred to MGIC.

MAC established a segregated account in 1997 pursuant to the requirements of s. 611.24 (1), Wis. Stat., and s. Ins 3.09 (12) (g), Wis. Adm. Code, through which MAC was authorized to conduct junior lien guaranty insurance business. MAC commenced writing insurance on second mortgages and home equity lines of credit in 1997. MAC terminated writing new business in the segregated account effective January 1, 2002. Its portfolio of junior lien insurance risks consisting solely of renewal business on existing policies written through the segregated account was assumed by its affiliate, MGIC Credit Assurance Corporation, in December 2004. In 2007, MAC began writing credit default coverage on loans secured by unimproved residential properties in its general account, but in 2008 discontinued offering such coverage and is currently running off its business.

As of December 31, 2011, MAC's statutory financial statements reported total admitted assets of $10,389,198, total liabilities of $446,664, and policyholders' surplus of $9,942,534. Operations for 2011 produced net income of $141,238.

MGIC Reinsurance Corporation of Wisconsin

MGIC Reinsurance Corporation of Wisconsin (hereinafter also MRCW) was incorporated under the laws of Wisconsin on February 15, 1996, and commenced operations on April 1, 1996. MRCW was established to provide reinsurance to MGIC for primary and pool mortgage guaranty policy liabilities in excess of 25% of the total indebtedness to the insured, for mortgage guaranty policies written in all jurisdictions except six states. MRCW assumes all of its business from MGIC and does not cede any reinsurance.

As of December 31, 2011, MRCW's statutory financial statements reported total admitted assets of $846,437,582, total liabilities of $745,199,995, and policyholders' surplus of $101,237,587. Operations for 2011 produced a net loss of $37,719,335.

MGIC Mortgage Reinsurance Corporation

MGIC Mortgage Reinsurance Corporation (hereinafter also MMRC) was organized under the laws of Wisconsin on July 1, 1996, and commenced business on the same date. MMRC provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MMRC's reinsurance on any loan is limited to a maximum of 25% of the total indebtedness to the insured. MMRC assumes all of its business from MGIC and does not cede any reinsurance.

As of December 31, 2011, MMRC's statutory financial statements reported total admitted assets of $27,694,271, total liabilities of $17,495,652, and policyholders' surplus of $10,198,619. Operations for 2011 produced a net loss of $75,992.

MGIC Residential Reinsurance Corporation

MGIC Residential Reinsurance Corporation (hereinafter also MRRC) was organized under the laws of Wisconsin on July 1, 1996, and commenced business on that date. MRRC provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MRRC reinsurance on any loan is limited to a maximum of 25% of the total indebtedness to the insured. MRRC assumes all of its business from MGIC and does not cede any reinsurance.

As of December 31, 2011, MRRC's statutory financial statements reported total admitted assets of $26,903,063, total liabilities of $17,495,634, and policyholders' surplus of $9,407,429. Operations for 2011 produced a net loss of $183,273.

MGIC Credit Assurance Corporation

MGIC Credit Assurance Corporation (hereinafter also MCAC) 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 MGIC and was established to write mortgage guaranty insurance for lenders in certain states on second mortgages and home equity lines of credit. MCAC commenced writing direct business in 1998 and terminated writing new business effective January 1, 2002. MCAC's current portfolio of insurance risks consists solely of renewal business on existing policies, and its entire book of business is in run-off.

As of December 31, 2011, MCAC's statutory financial statements reported total admitted assets of $43,367,930, total liabilities of $1,244,961, and policyholders' surplus of $42,122,969. Operations for 2011 produced a net loss of $62,097.

MGIC Reinsurance Corporation of Vermont

MGIC Reinsurance Corporation of Vermont (hereinafter also MRCV) was incorporated under the laws of Vermont on September 28, 1999, to operate as a sponsored captive insurance company pursuant to Title 8, Chapter 141 of the Vermont Statutes. The Vermont Statutes permit a licensed insurer and participating sponsors to establish a sponsored captive reinsurance company to reinsure business written by a licensed insurer. MRCV reinsures MGIC mortgage guaranty risks on loans that were originated, purchased, or serviced by mortgage lenders which participate in MRCV captive reinsurance. For the business assumed by MRCV on behalf of a participating sponsor, MRCV establishes a protected cell account in which assets of each such participant are separately maintained and accounted for with respect to the participant's liabilities for mortgage guaranty risks assumed by the participant. A separate participation agreement is established between MRCV and each respective participant. By establishing a participation agreement with MRCV, a lender which desires to engage in captive reinsurance is able to participate as a sponsored captive and is not required to establish a separate insurance or reinsurance legal entity.

As of December 31, 2011, MRCV's statutory financial statements reported total admitted assets of $14,827,442, including $11,089,334 of trust assets, total liabilities of

$7,652,600 and policyholders' surplus of $7,174,842. Operations for 2011 produced a net loss of $1,067,730.

MIC Reinsurance Corporation

MIC Reinsurance Corporation (hereinafter also MICRC) was organized and incorporated under the laws of the state of Wisconsin on December 3, 2009. MICRC was formed to provide reinsurance to MIC on mortgage guaranty primary coverage in excess of 25% of the total indebtedness to the insured on business written in five states as part of MIC's reactivation plan, which was discussed earlier. As of year-end 2011 MICRC has not commenced writing business.

As of December 31, 2011, the audited statutory financial statements of MICRC reported admitted assets of $3,014,630, liabilities of $4,507, and policyholders' surplus of $3,010,123. Operations for 2011 produced a net loss of $1,297.

MIC Reinsurance Corporation of Wisconsin

MIC Reinsurance Corporation of Wisconsin (hereinafter also MICRCW) was organized and incorporated under the laws of the state of Wisconsin on December 3, 2009. MICRCW was established to provide reinsurance to MIC for primary mortgage guaranty policy liabilities in excess of 25% of the total indebtedness to the insured, for mortgage guaranty policies written in all jurisdictions except five states as part of MIC's reactivation plan, which was discussed earlier. As of year-end 2011 MICRCW has not commenced writing business.

As of December 31, 2011, MICRCW's statutory financial statements reported total admitted assets of $5,538,959, total liabilities of $501,017, and policyholders' surplus of $5,037,942. Operations for 2011 produced net income of $15,523.

Written Agreements with Affiliates

In addition to common staffing and management control, MGIC Reinsurance Corporation's relationship to its affiliates is affected by various written agreements and undertakings. Reinsurance agreements are described in Section V of this report entitled "Reinsurance." A brief summary of the other agreements and undertakings follows, arranged by effective date.

Tax Sharing Agreement

Effective January 22, 1986, MGIC Investment Corporation entered into a tax-sharing agreement with MGIC and specified affiliates of the MGIC Group that qualify for inclusion in such an agreement under the Internal Revenue Code. The agreement has been amended nine times to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement, which includes MRC as a named party in the original version of the agreement. Under this agreement, MGIC Investment Corporation files a consolidated U.S. Federal Income Tax Return that includes MGIC and other affiliates of the holding company group.

The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of the MGIC Group's consolidated U.S. federal income tax liability in accordance with a rational, systematic formula. The agreement provides for computation of tax, settlement of balances between affiliates, tax-sharing, filing the return, audits and other adjustments, dispute resolution and other administrative requirements. The agreement calls for the prompt settlement of estimated federal tax payments and final year-end calculated adjusted payments on the notified due dates.

Servicing Agreement

MGIC entered into a Servicing Agreement effective January 1, 1996, with MGIC Investment Corporation and certain named affiliates of the MGIC Group. The agreement has been amended nine times and ratified once to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement, which includes MRC as a named party in the original version of the agreement. Under this agreement MGIC performs management and administrative services essential to the day-to-day operation of various affiliates within the MGIC holding company. Services provided by MGIC to its affiliates include provision of office space and employees; administration of underwriting, risk management and claims; performance as agent for funds collection and disbursement; maintenance of investment portfolios and execution of investment transactions; maintenance of depository accounts; maintenance of books and records including financial records; and the preparation and delivery of reports, tax returns, and documents and filings, as required. MGIC's direct costs and indirect expenses incurred in providing services to the individual affiliates are allocated to the respective affiliates each quarter, which is to be determined in accordance with generally accepted accounting principles and in a manner consistent with regulatory authorities having jurisdiction over members to the agreement.

V. REINSURANCE

The reinsurance portfolio and strategy of MGIC Reinsurance Corporation is described below. The company's reinsurance contracts contain proper insolvency provisions.

All of MRC's business is derived from reinsurance assumption of primary and pool residential mortgage guaranty insurance risks that are written on a direct basis by MGIC. The reinsurance assumed from MGIC by MRC facilitates MGIC's compliance with the statutory requirements that limit a mortgage guaranty insurer's retention under a single policy of insurance to no more than either 25% or 30% of debt of the mortgage borrower, depending on the jurisdiction. In 2011 the company assumed $30,937,577 of mortgage guaranty insurance premium.

The company's old reinsurance assumption agreements (five treaties), now in run-off, were for insurance risks written in 44 states and other U.S. jurisdictions which allow an insurer to recognize credit for reinsurance ceded to a subsidiary insurer. The company's business was restructured in 1996, and MRC's current active business primarily consists of reinsurance assumption of risks, under two treaties, written on a direct basis by MGIC in the states of California, Illinois, Kansas, Maryland, New York, and Texas, which do not permit an insurer to recognize balance sheet credit for reinsurance that is ceded to a subsidiary insurer or formerly had such a requirement. Under the two reinsurance assumption agreements with MGIC for the six states, one effective August 1, 1996 (pool risks) and the other effective April 1, 1999 (primary risks), the company assumes one-third of the liability for net losses in excess of either 25% or 30% of the indebtedness to the insured, subject to the limit of a maximum assumption of either 25% or 30% of the indebtedness.

The company also has a reinsurance agreement with MGIC, effective January 1, 1992, whereby MRC assumes primary business risks relating to MGIC's captive reinsurance program on a variable quota share basis, which ranges from 3.85% to 50% coverage. The aforementioned coverage only applies to deep coverage certificates and covers business written in the following U.S. jurisdictions:

- Illinois, Kansas, Maryland, New York, and Texas prior to January 1, 2010;

- Illinois, New York, Ohio and Texas on or after January 1, 2010; and
- California for coverage of over 25%, but less than or equal to 30% of the indebtedness to the insured.

The specified territories covered under the agreement is also a result of the aforementioned states' laws not permitting an insurer to recognize balance sheet credit for reinsurance that is ceded to a subsidiary insurer in the periods or the coverage mentioned.

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, 2011, annual statement. 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. 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."

MGIC Reinsurance Corporation
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$216,256,665	$ 0	$216,256,665
Cash, cash equivalents, and short-term investments	59,533,144	0	59,533,144
Investment income due and accrued	3,120,016	0	3,120,016
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	5,886,124	0	5,886,124
Current federal and foreign income tax recoverable and interest thereon	847,302	0	847,302
Net deferred tax asset	76,505,906	76,505,906	0
Total Assets	$362,149,157	$76,505,906	$285,643,251

MGIC Reinsurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2011

Losses		$182,043,116
Reinsurance payable on paid loss and loss adjustment expenses		23,181,461
Loss adjustment expenses		1,820,436
Commissions payable, contingent commissions, and other similar charges		(264)
Other expenses (excluding taxes, licenses, and fees)		7,850,998
Unearned premiums		2,589,764
Ceded reinsurance premiums payable (net of ceding commissions)		367
Amounts withheld or retained by company for account of others		16
Payable to parent, subsidiaries, and affiliates		37,381
Write-ins for liabilities:		
Amounts payable to reinsurers		310
Total Liabilities		217,523,585
Common capital stock	$ 2,500,000	
Gross paid in and contributed surplus	227,500,000	
Unassigned funds (surplus)	(161,880,334)	
Surplus as Regards Policyholders		68,119,666
Total Liabilities and Surplus		$285,643,251

MGIC Reinsurance Corporation
Summary of Operations
For the Year 2011

Underwriting Income		
Premiums earned		$ 32,096,106
Deductions:		
Losses incurred	$45,422,218	
Loss adjustment expenses incurred	(4,246,960)	
Other underwriting expenses incurred	4,372,227	
Total underwriting deductions		45,547,485
Net underwriting gain (loss)		(13,451,379)
Investment Income		
Net investment income earned	6,563,622	
Net realized capital gains (losses)	(681,803)	
Net investment gain (loss)		5,881,819
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(7,569,560)
Federal and foreign income taxes incurred		367,115
Net Loss		$ (7,936,675)

MGIC Reinsurance Corporation
Cash Flow
For the Year 2011

Premiums collected net of reinsurance			$ 29,798,895
Net investment income			10,662,071
Total			40,460,966
Benefit- and loss-related payments		$ 85,094,226	
Commissions, expenses paid, and aggregate write-ins for deductions		4,881,897	
Federal and foreign income taxes paid (recovered)		(87)	
Total deductions			89,976,036
Net cash from operations			(49,515,070)
Proceeds from investments sold, matured, or repaid:			
Bonds	$203,592,918		
Other invested assets	242,616		
Total investment proceeds		203,835,534	
Cost of investments acquired (long-term only):			
Bonds	138,822,855		
Total investments acquired		138,822,855	
Net cash from investments			65,012,679
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		2,407	
Net cash from financing and miscellaneous sources			2,407
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			15,500,016
Cash, cash equivalents, and short-term investments:			
Beginning of year			44,033,128
End of Year			$ 59,533,144

MGIC Reinsurance Corporation
Policyholders Position Calculation
December 31, 2011

Surplus as regards policyholders		$68,775,837	
Less:			
Investments in excess of maximum allowable by ch. 620, Wis. Stat.		9,721.981	
Total policyholders position			$59,053,856
Net minimum policyholders position:			
Individual loans:			
Loan-to-value more than 75%	$23,806,199		
Loan-to-value more than 50-75%	84,485		
Total individual loans		23,890,684	
Group loans:			
Equity 20-50%, or equity plus prior insurance or a deductible 20-55%	825,943		
Equity more than 50%, or equity plus prior insurance or a deductible more than 55%	25,433		
Total group loans		851,376	
Total minimum policyholders position			24,742,060*
Excess of total policyholders position over minimum policyholders position			$34,311,796

* 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 Reinsurance Corporation
Analysis of Surplus
For the Four-Year Period Ending December 31, 2011

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

	2011	2010	2009	2008
Surplus, beginning of year	$74,693,620	$76,729,786	$108,714,356	$ 80,234,834
Net income	(7,936,675)	(1,783,967)	(31,849,181)	(145,056,487)
Change in net unrealized capital gains/losses	885,769	(163,928)	(88,003)	112,324
Change in net deferred income tax	4,272,846	2,688,318	1,669,684	66,640,038
Change in nonadmitted assets	(3,795,894)	(2,776,589)	(1,717,070)	(68,216,353)
Capital changes:				
Transferred to surplus	0	500,000	0	0
Surplus adjustments:				
Paid in	0	0	0	175,000,000
Transferred from capital	0	(500,000)	0	0
Surplus, End of Year	$68,119,666	$74,693,620	$ 76,729,786	$ 108,714,356

MGIC Reinsurance Corporation
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2011

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	2011	2010	2009	2008
#1	Gross Premium to Surplus	45%	41%	47%	63%
#2	Net Premium to Surplus	45	41	47	63
#3	Change in Net Premiums Written	0	(14)	(48)*	(10)
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	121*	183*	283*	200*
#6	Investment Yield	2.2*	2.6*	3.4	4.4
#7	Gross Change in Surplus	(9)	(3)	(29)*	35
#8	Change in Adjusted Surplus	(9)	(3)	(29)*	(183)*
#9	Liabilities to Liquid Assets	78	80	87	74
#10	Agents' Balances to Surplus	9	9	10	7
#11	One-Year Reserve Development to Surplus	(38)	(55)	(32)	66*
#12	Two-Year Reserve Development to Surplus	(71)	(48)	58*	106*
#13	Estimated Current Reserve Deficiency to Surplus	19	(115)	(186)	17

Ratio No. 3, “Change in Net Premiums Written,” measures the change in a company’s net writings from the prior year. The company had an exceptional result in 2009 and this is primarily attributable to MGIC’s gross premium writings decreasing by approximately 20.2% in 2009 compared to the previous year, which impacted the amount of risk ceded to its affiliates including MRC. As described in Section V of this report entitled “Reinsurance,” the company doesn’t write any business and only assumes business from MGIC in six states under reinsurance agreements. MGIC’s premium writings decreased in 2009 as a result of: running off its bulk and pool business; slower home sales in the U.S.; restricting or limiting writing premiums in certain areas of the U.S.; implementation of new underwriting standards and rate increases, all of which may have contributed to an increase in use of Federal Housing Administration insurance programs by MGIC’s customers.

Ratio No. 5, “Two-Year Overall Operating Ratio,” measures the company’s profitability over the previous two-year period and was exceptional in each of the years under examination. The exceptional ratios were the result of decreased premium writings and significant losses and loss adjustment expenses incurred during the period under examination as a result of historically high levels of mortgage foreclosures and declining home prices in the U.S., which affected both the number and size of mortgage guaranty claims. In 2009 the exceptional ratio was also affected by a significant increase in underwriting expenses incurred that year. The contingency reserve is a component of underwriting expenses and is usually a large liability that is required to be maintained for writing mortgage insurance business. Each calendar year a mortgage insurer adds to its contingency reserve an amount based on a percentage of its earned premium that year and this amount remains in the aggregate reserve for 120 months and releases are in the amount of reserves that expire (exceeds 120 months). An insurer may also request from the Commissioner on a quarterly basis withdrawals from the contingency reserve when incurred losses and loss adjustment expenses exceed the greater of either 35% of its net earned premium or 70% of the calculated amount to be contributed to the reserve in the year requested, as provided by s. Ins 3.09 (14) (d), Wis. Adm. Code. The company began requesting the release of contingency reserves in 2007. The provisional release of contingency reserves has been granted each quarter thereafter and the effects of such releases were reported as a subtraction from the company's underwriting expenses, which resulted in the company reporting negative underwriting expense ratios in 2007 and 2008. In 2008 the withdrawals taken by the company reduced its contingency reserve to zero, which greatly reduced the impact of contingency reserve withdrawals on the company's underwriting expenses in 2009.

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 2010 and 2011. The exceptional ratios in those two years are primarily a result of the reduction in cash, short-term investments and bond holdings, because cash and proceeds from the disposal of bonds were used to fund claim obligations. The company's low investment return was further affected by its sale of higher yielding bonds purchased in earlier years to fund claim payments and reinvesting at the very low rates available in the U.S. in recent years.

Ratio No. 7, "Gross Change in Surplus," was considered exceptional in 2009 and this was primarily the result of significant underwriting losses incurred by the company that year. As mentioned in the discussion of Ratio No. 5, due to historically high levels of mortgage foreclosures and declining home prices in the U.S. since 2007, both the number and size of mortgage guaranty claims have increased significantly.

Ratio No. 8, "Change in Adjusted Policyholders' Surplus," measures the improvement or deterioration in the insurer's financial condition based on operational results by factoring out changes in surplus notes, paid-in or transferred capital and surplus, which was considered exceptional in 2008 and 2009. The ratio was exceptional in those years for the same reasons as Ratio No. 7; however, in 2008 a capital contribution of $175 million provided by MGIC Investment, through MGIC, helped offset the effect of significant underwriting losses on the company's surplus that year, which was factored out of the calculation of this ratio.

Ratio No. 11, "One-Year Reserve Development to Surplus," measures a company's one-year loss reserve development as a percentage of the prior years' policyholders' surplus and was considered exceptional in 2008. This is attributable to the company significantly strengthening its reserves in that year, which was caused by higher than anticipated levels of mortgage foreclosures and declining home prices in the U.S., which, in turn, affected both the number and size of mortgage guaranty claims. Reserve strengthening was also impacted by changes in expected future conditions of the U.S. economy in general and in the housing market in particular.

Ratio No. 12, "Two-Year Reserve Development to Surplus," measures a company's two-year loss reserve development as a percent of the prior years' policyholders' surplus and was considered exceptional in 2008 and 2009 for the same reasons as Ratio No. 11.

Growth of MGIC Reinsurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2011	$285,643,251	$217,523,585	$ 68,119,666	$ (7,936,675)
2010	339,626,402	264,932,782	74,693,620	(1,783,967)
2009	381,485,799	304,756,013	76,729,786	(31,849,181)
2008	396,980,338	288,265,982	108,714,356	(145,056,487)
2007	350,630,072	270,395,238	80,234,834	(1,778,866)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2011	$30,937,577	$30,934,797	$32,096,106	128.3%	14.1%	142.4%
2010	30,815,004	30,814,079	31,994,946	130.9	15.7	146.6
2009	35,803,374	35,800,480	37,677,412	253.6	16.3	269.9
2008	68,902,481	68,900,007	68,595,445	385.4	(54.1)	331.3
2007	76,643,887	76,641,379	75,952,364	240.6	(122.5)	118.1

The company has experienced a decline in surplus of 59.6% since 2008 and this was primarily attributable to the company incurring large underwriting losses in each of the years under examination due to distressed U.S. economic and housing market conditions that resulted in defaults on loans reinsured by the company. The reason why the company did not record a decrease in surplus in 2008 is because the company received a $175 million capital contribution from MGIC Investment that year. Gross and net premium writings steadily decreased over the period under examination, except for 2011 when they leveled off, as a result of the reduction of business directly written by MGIC and ceded to MRC. MGIC's business writings decreased during this period as a result of it running off its bulk and pool business, slower home sales in the U.S., restricting or limiting writing premiums in certain areas of the U.S., implementation of new underwriting standards and rate increases, all of which may have contributed to an increase in use of Federal Housing Administration insurance programs by MGIC's customers. Premiums written in the last few years were also impacted by an increase in loan defaults. The company's loss ratio has been quite high in each of the years under examination, which can be attributed to distressed U.S. economic and housing market conditions and decreased premium writings. The company's expense ratio was negative in 2008, which was mainly attributable to the effects of the company being approved by this office to make withdrawals from its contingency reserves in that year. The expense ratio steadily worsened for the three-year period beginning in 2009 as a result of the company utilizing all of its contingency reserves in 2008 and the reduction in premiums written during that period. The company has recorded a net loss in each of the four years under examination due to the negative underwriting results incurred by the company.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus of $68,119,666 reported by the company as of December 31, 2011, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Losses and Loss Adjustment Expenses—It is recommended that the company's actuarial report include documentation of a reconciliation of the company’s paid data, provided to the company’s actuary, to Schedule P in accordance with s. Ins 50.30, Wis. Adm. Code, and the NAIC Annual Statement Instructions – Property and Casualty.

   Action—Compliance.

2. Premium Deficiency Reserve—It is recommended that the company undertake periodic evaluations of whether a premium deficiency reserve should be established in accordance with SSAP No. 58, paragraph 23, of the NAIC Accounting Practices and Procedures Manual.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Investment Limitations

The examination completed a review of the company’s investment holdings as of year-end 2011 to verify that it was in compliance with applicable investment limitations under Wisconsin law. Chapter 620.22, Wis. Stat., establishes the limitations for investments that can be counted toward satisfaction of a mortgage insurance company's minimum policyholders position requirement. Investments that exceed limitations set forth in that statute cannot be counted towards satisfaction of the minimum policyholders position requirement. Section Ins 6.20 (8), Wis. Adm. Code, further defines authorized investments that can count towards the minimum policyholders position requirement. Section Ins 6.20 (8) (k), Wis. Adm. Code, states that “Loans, securities or investments in countries other than the U.S. and Canada which are of substantially the same kinds, classes and investment grades as those eligible for investment under ch. 6.20, Stats., and supplementary rules, but the aggregate of such investment shall not exceed 2% of the insurer’s assets; . . . .” Based on MRC's $285,643,251 in admitted assets as of December 31, 2011, the foreign investment limitation applicable to the company’s minimum policyholders position requirement is $5,712,865. The company had foreign investments with adjusted carrying book values totaling $29,708,009 as reported in its Schedule D - Summary By Country, Column 1, Line 10. Therefore, the company should not have included $23,995,144 towards its December 31, 2011, minimum policyholders position calculation that was filed with this office in accordance with s. Ins 3.09 (5), Wis. Adm. Code. At year-end 2011, MRC reported excess policyholders position over minimum policyholders position of $44,033,777. The reported excess would have to be reduced by the amount exceeding the limitation; however, there is a “basket” clause, s. 620.22 (9), Wis. Stat., that allows insurers to invest 5% of their first $500 million of assets in investments not otherwise permitted by statute. The adjustment, after the application of the basket clause, is reflected in Section VI of this report, under the subsection entitled “Policyholders Position

Calculation." It is recommended that the company adjust its assets as part of the calculation of its minimum policyholders position requirement to reflect investment holdings that exceed limitations governed by s. 620.22, Wis. Stat.

VIII. CONCLUSION

The company reported assets of $285,643,251, liabilities of $217,523,585, and policyholders' surplus of $68,119,666 for 2011. Operations for 2011 produced a net loss of $7,936,675 and the company has recorded a net loss in five consecutive years. Over the four-year period under examination, the company's policyholders' surplus has decreased by approximately 60%, primarily due to underwriting losses incurred by the company in each of those years. Premium volume has steadily decreased over the period under examination as a result of the reduction of business directly written by MGIC and ceded to MRC. During the period under examination, the company's net loss and loss adjustment expense ratio has averaged 224.6%, with the highest being recorded in 2008 of 385.4%. The operational results for MRC and members of the MGIC Group over the period under examination were significantly affected by distressed U.S. economic and housing market conditions.

The examination verified the financial condition of the company as reported in its annual statement as of December 31, 2011. The examination of MRC resulted in one recommendation, no adjustments to surplus and no reclassifications. The recommendation relates to the company not adjusting its minimum policyholders position calculation to reflect holdings in excess of Wisconsin's investment limitations.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 30 - Investment Limitations—It is recommended that the company adjust its assets as part of the calculation of its minimum policyholders position requirement to reflect investment holdings that exceed limitations governed by s. 620.22, Wis. Stat.

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
Ana J. Careaga	Insurance Financial Examiner – Journey
Victoria Y. Chi, CISA, CISM, CRISC	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Jerry C. DeArmond, CFE, FLMI, AIRC	Insurance Financial Examiner – Advanced, Loss Reserve Specialist
Tom M. Janke, CFSA, CISA, CRP	Insurance Financial Examiner – Journey
Mike E. Miller	Insurance Financial Examiner
Frederick H. Thornton, CFE, CPCU	Insurance Financial Examiner – Advanced, Exam Planning & Quality Control Specialist

Respectfully submitted,

John E. Litweiler
Examiner-in-Charge

XI. APPENDIX—SUBSEQUENT EVENTS

There were a number of events that transpired subsequent to December 31, 2011, which significantly impacted members of the company's holding company structure. A brief summary of those events follows.

MGIC Indemnity Corporation

In August of 2012, MIC began writing new business in those jurisdictions for which MGIC did not have active waivers of capital requirements and through September 30, 2012, MIC's new insurance written was $587 million. Jurisdictions for which MIC was writing new mortgage insurance in included Florida, Idaho, New Jersey, New York, Ohio, Puerto Rico and Texas.

Permitted Practice

On September 28, 2012, this office granted MGIC a permitted practice to report its net deferred tax asset as an admitted asset in an amount not to exceed 10% of policyholders' surplus without regard to the limitations and requirements in Statement of Statutory Accounting Principles (SSAP) No. 101, paragraph 11. The application of SSAP No. 101 is otherwise unchanged by this decision. This permitted practice is defined as a percentage of policyholders' surplus, so the dollar amount associated with the permitted practice would vary as policyholders' surplus varies over time. The financial impact of the permitted practice for MGIC as of September 30, 2012, was approximately a $90 million increase to policyholders' surplus.

Actions by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)

In a letter dated July 24, 2012, MGIC requested that Freddie Mac authorize its use of MIC to write new business in seven states in addition to those already permitted by Freddie Mac in a letter dated January 23, 2012, as part of MGIC management's reactivation plan mentioned earlier in this report. Freddie Mac responded to this request on August 1, 2012, by temporarily allowing MIC, as a limited insurer, to write new business in the requested jurisdictions as long as certain named conditions were agreed to and followed by MGIC. The aforementioned temporary approval was amended in a letter from Freddie Mac dated September 28, 2012, which expanded the number of territories MIC could write new business in to 16 without obtaining Freddie Mac's prior approval through December 31, 2013, and included the following conditions be met that replaced certain ones named in the January and August 2012 letters from Freddie Mac in addition to other conditions named in them:

- MGIC Investment must contribute $100 million to MGIC by December 1, 2012;
- MGIC and Freddie Mac must reach an agreement as to substantially all terms by October 31, 2012, to resolve their pool policy insurance dispute then in litigation; and
- This office must provide written confirmation to Freddie Mac that MIC's capital will be unconditionally available to MGIC to support MGIC's policyholder obligations without segregation of those obligations.

Negotiations between MGIC and Freddie Mac, which included the direct involvement of this office and Federal Housing Finance Agency (FHFA), Freddie Mac's conservator, took place to resolve any disagreements regarding the conditions in Freddie Mac's September 28, 2012, letter.

As part of the negotiations MGIC, Freddie Mac, and FHFA came to a tentative agreement prior to October 31, 2012, to resolve the litigated pool policy insurance dispute, which was later approved by each party's respective board of directors in November of 2012. Under the terms of the settlement MGIC agrees to pay Freddie Mac $267.5 million in claims, with $100 million payable by December 11, 2012, and $167.5 million payable in 48 monthly installments beginning on January 2, 2013.

Additionally, as a result of negotiations, this office issued a Stipulation and Order on MGIC and MIC dated November 29, 2012, that in the event (A) OCI determines a reasonable probability that MGIC will be unable to make policy payments in full at any time within five years of a financial exam, or (B) MGIC fails to pay valid policy claims when due, OCI will conduct a review within 60 days to quantify the maximum single dividend MIC could prudently pay to MGIC, taking account of MIC's policyholders' interests, applicable law and MIC's financial circumstances at that time, after which OCI will authorize MIC to pay such dividend within 30 days.

As a result of the actions taken by parties involved in the negotiations, some of which were described in the previous two paragraphs, on November 30, 2012, Freddie Mac continued to approve MGIC's use of MIC as a limited mortgage insurer through December 31, 2013; however, this approval may still be withdrawn by Freddie Mac at any time. On December 3, 2012, MGIC Investment transferred $100 million to MGIC to meet one of the remaining outstanding conditions required by Freddie Mac to continue its approval of MIC as a limited mortgage insurer.

On the same day Freddie Mac issued its letter regarding MIC's eligibility as a limited mortgage insurer, Fannie Mae sent a letter dated November 30, 2012, conditionally approving MIC to write new insurance business in any jurisdictions, in addition to the 16 specified jurisdictions approved in the January 19, 2012, Fannie Mae letter, in which MGIC is not able to write business. The approval is for 60 days from the date MGIC is prohibited from writing new business in a jurisdiction while Fannie Mae evaluates approving MIC in such jurisdiction for a longer period. As with Freddie Mac's approval, Fannie Mae's agreement terminates December 31, 2013. However, in the event MGIC is not allowed to write new business in the state of Wisconsin, the approvals granted MIC by Fannie Mae shall be revoked.

Public Offering by MGIC Investment Corporation and Capital Contribution to Mortgage Guaranty Insurance Corporation

On March 12, 2013, MGIC Investment Corporation received aggregate net proceeds, after underwriting discounts, commissions, and estimated offering expenses, of approximately $1.15 billion from the sale of 135 million shares of common stock and $500 million of 2% convertible senior notes due 2020. MGIC Investment Corporation transferred $800 million to Mortgage Guaranty Insurance Corporation to increase its capital. This transfer restored MGIC's risk to capital to approximately 20 to 1 and, as a result, MGIC met the capital requirements of all jurisdictions having specific capital requirements for mortgage guaranty insurers without the need for any waiver.