Report

of the

Examination of

Mortgage Guaranty Insurance Corporation

Milwaukee, Wisconsin

As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

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January 11, 2018

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

MORTGAGE GUARANTY INSURANCE CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Mortgage Guaranty Insurance Corporation (hereinafter also MGIC or the company) was conducted in 2012 and 2013 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the Financial Data section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. 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 (hereinafter also, the OCI). The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Mortgage Guaranty Insurance Corporation was organized on February 20, 1979, under the name Liberty Mortgage Insurance Corporation (hereinafter also LMIC). LMIC was established as a subsidiary of the Verex Corporation, and was purchased by MGIC Investment Corporation (hereinafter also MGIC Investment) in November of 1984. The name of the company was changed to Mortgage Guaranty Insurance Corporation on March 1, 1985, when the company began writing new business.

Mortgage Guaranty Insurance Corporation has its origins in a corporation that once had the same name, which is now known as MGIC Indemnity Corporation (hereinafter also Old MGIC or MIC, the pre-February 28, 1985, MGIC legal entity). MGIC Indemnity Corporation was incorporated November 14, 1956, under the name Mortgage Guaranty Insurance Corporation and commenced operations in March, 1957, to insure financial institutions from losses on conventional residential mortgage loans. Old MGIC pioneered the revival of the mortgage guaranty line of business, since the earlier mortgage guaranty insurance industry had collapsed during the Great Depression. Old MGIC was privately held until 1960, at which time its common capital stock became publicly traded. In 1968, the former holding company, MGIC Investment Corporation (hereinafter also Old MGIC Investment, the pre-February 28, 1985, MGIC Investment Corporation) was established. Old MGIC became a subsidiary of Old MGIC Investment, and Old MGIC Investment became a publicly traded company.

Ownership and control of Old MGIC Investment and its subsidiaries, including Old MGIC, was acquired by Baldwin-United Corporation (hereinafter also Baldwin) effective March 9, 1982. The Baldwin enterprise became financially impaired in 1983 due to the holding company's excessive debt obligations, and Baldwin filed a petition for voluntary reorganization under Chapter 11 of the Federal Bankruptcy Code on September 26, 1983.

A 1984 financial examination of Old MGIC and its affiliated insurers determined that the companies were financially sound but that their ability to compete in their markets had been severely damaged by their affiliation with the financially impaired Baldwin. An Agreement and Plan of Acquisition and Assumption (the Plan) was approved by the Commissioner in November 1984, whereby the company, then known as Liberty Mortgage Insurance Corporation, held by a

holding company owned by The Northwestern Mutual Life Insurance Company and senior executives of Old MGIC Investment, acquired from Old MGIC Investment the right to carry on Old MGIC's insurance business, the rights to the name "Mortgage Guaranty Insurance Corporation," and the employees and operating assets of Old MGIC. As a part of the approved agreement, Old MGIC's remaining in-force renewal policies (the Old Book business) entered into runoff and Old MGIC's net retained liabilities for existing insurance risks were 100% reinsured under quota share reinsurance treaties with a group of international reinsurers.

The 1984 Plan was closed effective February 28, 1985, and Old MGIC's name was changed to Wisconsin Mortgage Assurance Corporation. Effective March 1, 1985, LMIC's name changed to Mortgage Guaranty Insurance Corporation (the present day MGIC), and the new MGIC continued the ongoing operations that were formerly in Old MGIC. Old MGIC was placed into liquidation upon the Plan closing date. The Old MGIC liquidation proceedings included the following provisions:

1. Old MGIC no longer wrote new business, but its Old Book insurance in-force, insurance policies non-cancelable by the company and renewable by its insureds, continued in force, with the company's net retained liabilities 100% ceded through quota share reinsurance treaties;
2. Old MGIC's contingency reserve requirement was waived by the Commissioner as a result of the 100% quota share reinsurance becoming effective. Substantially all of Old MGIC's remaining assets, after payments related to the quota share reinsurance treaties, were distributed to its parent, Baldwin, for distribution to Baldwin's creditors;
3. The quota share reinsurance became the primary source of payments for claims incurred on Old MGIC's in-force business; and
4. The new writer of insurance, MGIC, became the manager of Old MGIC's reinsured business, responsible to Old MGIC and its reinsurers for administration of Old MGIC's insurance in-force.

Old MGIC was financially solvent at the commencement of liquidation proceedings and has never been financially impaired. The liquidation proceeding became the method by which the interests of Old MGIC policyholders as of February 28, 1985, could be protected from the bankruptcy of Baldwin through an orderly runoff of Old MGIC's Old Book and was the method whereby the successful ongoing business of Old MGIC could be disassociated from the Baldwin bankruptcy and continue in the successor MGIC legal entity. Since 1985, Old MGIC's Old Book

claims have been paid in full by Old MGIC or its reinsurers, and the Old Book insurance in-force has gradually diminished by orderly runoff.

In December 1998, Mortgage Guaranty Insurance Corporation acquired ownership of Old MGIC through the purchase of Old MGIC's common capital stock. A rehabilitation plan providing for the acquisition of Old MGIC by MGIC was approved by the liquidation court and the Commissioner and effective December 22, 1998, Old MGIC's liquidation proceedings were terminated and the company became subject to rehabilitation proceedings supervised by the Commissioner. On December 31, 1998, pursuant to the plan of rehabilitation, MGIC acquired 100% of Old MGIC's common capital stock for the purchase price of $2 million, Old MGIC became a wholly owned subsidiary of MGIC, and the Old MGIC rehabilitation proceedings were terminated. The name of the company was changed to MGIC Indemnity Corporation effective June 1, 2000.

In 1985, MGIC issued two classes of common capital stock, Class A common stock and Class B common stock. Each class of MGIC stock was initially wholly owned by MGIC Investment Corporation. Effective September 30, 1985, MGIC Investment contributed 100% of the MGIC Class A common stock to the MGIC Investment subsidiary, Mortgage Guaranty Reinsurance Corporation (hereinafter also MGRC). MGIC Investment retained ownership of the MGIC Class B common stock. Effective May 25, 1999, MGRC was dissolved pursuant to a plan of voluntary dissolution 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 MGRC, 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 issued and outstanding common stock, wholly owned by MGIC Investment.

MGIC Mortgage Insurance Corporation, an indirect wholly owned subsidiary insurer, merged with and into MGIC effective October 31, 2005, with approval from the Wisconsin Office of the Commissioner of Insurance.

While, officially, the worst economic decline in the United States since the Great Depression began in December, 2007, and ended in June, 2009, the United States suffered from

historically high levels of mortgage foreclosures and declining home prices from 2007 to 2013, which affected both the number and severity of mortgage guaranty claims. Significant declines in housing values, sub-prime and low documentation lending practices and high unemployment led to record levels of delinquencies and foreclosures during this period, which severely challenged the industry. One of the major challenges that faced U.S. mortgage insurers was to ensure enough capital resources to not only meet current and future claim obligations, but also meet capital requirements of the states and other U.S. jurisdictions and the government-sponsored enterprises (hereinafter also GSEs), the Federal National Mortgage Association (hereinafter also Fannie Mae) and the Federal Home Loan Mortgage Corporation (hereinafter also Freddie Mac), to write new business.

As a result of the downturn in the U.S. economy and housing market, MGIC saw its delinquency inventory increase to record levels, which in turn placed strains on its capital position. Because of substantial uncertainty regarding the level of future losses, there were concerns that MGIC's capital position would decline to a level where the company would not comply with minimum capital requirements to write new business in certain jurisdictions. In light of these circumstances, MGIC management proposed to the OCI a reactivation plan of MGIC Indemnity Corporation, which included the following actions:

- MGIC would contribute capital of $1 billion to MIC in the form of a $500 million contribution in July 2009 and, subject to OCI's further approval, a contribution of up to an additional $500 million in January of 2011.
- MIC would take the actions necessary to meet the regulatory and business conditions for new business, including reinsurance with its subsidiary and a subsidiary of MGIC, but only as required by the laws of states where MIC will be licensed.
- MIC would begin to write business in place of MGIC based on the capital contribution made by MGIC.
- MIC would use the employees, information services, finance, claims, risk management and other systems, offices and business infrastructure of MGIC to conduct and support MIC's operations.
- MGIC would cease writing new business.

The reactivation plan was non-disapproved by this office in conjunction with the issuance of the Stipulation and Order in the Matter of Case No. 09-C32277 dated July 15, 2009, placed on the company and MIC. This Stipulation and Order established additional requirements

on MIC to enhance this office's ability to monitor the implementation of the reactivation plan, and to take action to ensure that MIC's surplus remains reasonable in relation to its outstanding liabilities and adequate to its financial needs in the implementation and continuation of its reactivation plan.

On July 17, 2009, Freddie Mac issued a decision to give MIC the status of an "Approved Insurer," subject to certain conditions. The conditions caused some minor conflicts with the original reactivation plan and resulted in MGIC filing an amendment to the plan. The amendment to the plan was non-disapproved by this office on July 31, 2009.

On October 14, 2009, Fannie Mae gave MIC conditional approval as a direct issuer of mortgage guaranty insurance policies under its Qualified Mortgage Insurer Approval Requirements, which conditions were markedly incompatible with the reactivation plan developed through the efforts of MGIC, the OCI, and the law firm and investment banking firm under contract with the OCI. In response, MGIC filed a second amendment to the reactivation plan for its subsidiary MIC. Under the amended business plan:

- MGIC was to contribute capital of $200 million to MIC on October 21, 2009.
- Subject to the OCI permitting MGIC to continue to write in jurisdictions in which MGIC does not comply with applicable capital requirements, and if MGIC determined that it would not comply with a jurisdiction's applicable capital requirements, MGIC would seek from that state a waiver of its applicable capital requirements to the extent that such waiver was allowed. In the event that such waiver was not allowed or was not obtained by MGIC, or if such waiver included conditions that differ substantially from the terms and conditions of the stipulation and order issued by the OCI and MGIC considered them to be burdensome, MGIC would seek the licensing or reactivation of MIC in such jurisdiction to replace MGIC as the writer of mortgage guaranty insurance in that jurisdiction. The conditional approval of Fannie Mae authorized MIC to write in the place of MGIC only in the following 16 jurisdictions: Arizona, California, Florida, Idaho, Illinois, Iowa, Kansas, Kentucky, Missouri, New York, New Jersey, North Carolina, Ohio, Oregon, Puerto Rico, and Texas. These jurisdictions, together with Wisconsin, are distinguished by having specific minimum policyholders' position requirements or risk-to-capital requirements.
- MIC would take the actions necessary to meet the regulatory and business conditions for writing in every jurisdiction in which Fannie Mae's conditional approval would permit them to write business.
- MIC would begin to write insurance in place of MGIC in those jurisdictions that cannot or will not issue a waiver of applicable capital requirements.
- MGIC would cease writing insurance in any jurisdiction once MIC began to write insurance in that jurisdiction.

- MIC would use the employees, information services, finance, claims, risk management and other systems, offices and business infrastructure of MGIC to conduct and support MIC's operations.

The OCI did not disapprove the second amendment to the reactivation plan, since Fannie Mae's approval for MIC to act as an eligible insurer of mortgages purchased by Fannie Mae was a practical necessity for the success of the reactivation plan given Fannie Mae's dominant position in the secondary market for mortgages in the U.S. One of the requirements in Fannie Mae's conditional approval was that MGIC would request from the OCI that MIC's risk to capital ratio not be restricted beyond the minimum policyholder position requirements under Wisconsin Statutes or the Wisconsin Administrative Code. As a result, the OCI modified the Stipulation and Order No. 09-C32277 to rescind provisions relating to MIC's minimum policyholders position requirements being stricter than the standard requirement under s. Ins 3.09 (5), Wis. Adm. Code.

Additionally, as a result in the second amendment to the reactivation plan, the OCI entered into an additional Stipulation and Order with MGIC, together with certain other affiliates, allowing MGIC to be exempted from compliance with compulsory surplus requirements represented by s. Ins 3.09 (5) (b), Wis. Adm. Code, until December 31, 2011. While this Stipulation and Order was in effect MGIC and its named affiliates could continue to write and reinsure new mortgage guaranty insurance policies for as long as each company maintained a policyholders' position for which the OCI determined was reasonably in excess of a level that would constitute a financially hazardous condition. A subsequent Stipulation and Order dated January 23, 2012, continued this exemption under substantially the same provisions until December 31, 2013. This exemption was no longer deemed necessary for MGIC after that date.

The effects of the downturn in the U.S. economy and housing market caused significant strains on the MGIC Group's capital position. As previously noted, the insurers of the MGIC Group have to meet certain capital requirements established by U.S. jurisdictions and the GSEs in order to continue writing new business. Some of the measures taken by the MGIC Group to raise capital since 2007 include:

- In September, 2007, Mortgage Guaranty Insurance Corporation completed a sale of a portion of its interests in Sherman Financial Group LLC for $240.8 million.

- In March, 2008, MGIC Investment completed a public offering of common stock and 9% convertible junior subordinated debentures due in 2063, which resulted in net proceeds of approximately $460 million and $377 million, respectively.
- In August, 2008, MGIC Investment sold its remaining interest in Sherman Financial Group, LLC, for $209.5 million.
- In April, 2010, MGIC Investment completed another public offering of its common stock, which produced net proceeds of $772.4 million.
- In April, 2010, concurrent to the sale of common shares, MGIC Investment completed the sale of $345 million principal amount of 5% convertible senior notes due in 2017, which produced net proceeds of about $334.4 million.
- In March, 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 surplus.

The MGIC Group took measures to preserve capital by discontinuing writing certain types of business previously offered (Pool, Bulk, etc.), raising rates on its primary mortgage insurance business at various times, restricting writing in certain states or markets, implementing stronger underwriting standards, repaying and retiring the revolving credit facility in 2009, deferring interest payments on MGIC Investment's outstanding convertible junior subordinated debentures, and repurchasing a portion of MGIC Investment's issued debt. Given the extended economic and housing recovery officially since June 2009, but more practically since 2013, prudent growth has supplanted capital preservation in the MGIC Group's corporate strategy.

The company is a provider of private mortgage guaranty insurance in the U.S., with approximately 17.8% market share of the national private mortgage insurance market at year-end 2016. Private mortgage insurance coverages are issued to mortgage lenders, including mortgage bankers, savings institutions, commercial banks, mortgage brokers, credit unions, and other lenders. Mortgage guaranty insurance is generally required by a lender to insure the lender's risk in originating a low-down-payment mortgage loan to a home buyer, and a lender typically requires mortgage insurance when the mortgage loan exceeds 80% of the value of the mortgaged real estate. In the event of borrower default, private mortgage insurance covers the agreed-upon risk exposure of the insured lender. Private mortgage insurance also facilitates the sale of low-equity mortgage loans in the secondary mortgage securities market, primarily to Fannie Mae and Freddie Mac. The insurance covers unpaid loan principal, delinquent interest,

and certain expenses associated with loan default and subsequent foreclosure in the event that the mortgage borrower defaults on a loan. The company generally pays the coverage percentage specified in the lender's primary policy, but the company has the option to pay 100% of the loss of the insured (the entire outstanding balance of the loan principal, unpaid interest, and other costs) and to acquire title of the defaulted mortgage real estate. The company rescinds coverage involving inaccurate information or fraud committed. Claims resolved by rescission peaked at approximately 28% of claims received in the first half of 2009.

Mortgage insurance premiums are usually paid by the mortgage borrower to the mortgage lender or servicer, which in turn remits the premium to the mortgage insurer. This form of payment is referred to as "borrower paid." In a "lender paid" payment structure the premium is paid by the mortgage lender to the mortgage insurer. The mortgage lender then typically recovers the premium through either an increase in the mortgage interest rate or through higher origination fees. Most of the company's primary mortgage insurance is structured on a borrower paid basis.

The company offers two basic types of premium payment plans: a monthly premium plan and a single premium plan. Under the monthly premium plan, the borrower or lender pays a premium payment on a monthly basis for each month of insurance coverage. Under the single premium plan, the premium would be paid in advance by adding the premium to the principal amount of the mortgage loan, or by paying in cash at the mortgage closing. The premium can either cover an initial fixed term with annual renewals or the entire term of the mortgage. In 2016, 80.9% of new primary insurance was written under the monthly premium plan, while 19.1% was written under a single premium plan.

Primary residential insurance generally applies to owner-occupied first mortgages on one-to-four family homes, including condominiums. Primary coverages are underwritten by the company on a loan-by-loan basis and can be issued on any type of residential mortgage loan instrument issued by the lender and approved for coverage by the company. A mortgage insurer may terminate mortgage insurance coverages only in the event of nonpayment of premium, and policies remain renewable for successive policy periods at the option of the insured lender.

MGIC offers primary insurance coverages that typically range from 17% to 35% of the original loan. In 2016, approximately 56% of MGIC's new risks written were issued on mortgages with an original loan-to-value ratio of 90.1% to 95%, while about 30% of new risks written by the company covered mortgages with a loan-to-value ratio of 85.1% to 90%. The insured coverage percentage is determined by the lender and often is established to comply with requirements established by Fannie Mae or Freddie Mac, regarding the portion of mortgage loan exposure that must be insured on securitized mortgages.

The company issues a mortgage guaranty master policy to each lender who meets company criteria as an acceptable mortgage loan producer. In general, the company underwrites each individual primary loan submitted by an insured lender and issues a separate certificate of insurance for each loan that meets company underwriting standards. The certificate of insurance for a primary loan attaches to the lender's master policy as an individual risk insured by the company. During 2016, the company issued coverages on 207,317 mortgage loans for all master policyholders.

In the past some of the primary insurance offered by MGIC, generally referred to as "bulk" primary insurance, provided coverage on each mortgage loan included in a defined portfolio of loans insured under a single bulk transaction. Bulk insurance typically insured the closed loans in an insured portfolio to specified levels of coverage. Bulk insurance coverages were provided to financial institutions, primarily in connection with securitizing the portfolio of loans for purposes of issuing an asset-backed investment security. By obtaining qualifying bulk mortgage guaranty insurance, the asset-backed security can qualify for an investment grade rating from independent credit rating agencies, which provided support for the perceived credit worthiness, marketability, and pricing of the bulk insured asset-backed security in the credit markets. The company stopped writing bulk transactions for home loan securitizations in 2007, but still had approximately $9.2 billion of insurance in force as of December 31, 2016, relating to bulk business, which was 5.1% of MGIC's total primary insurance in force.

In the past, MGIC also offered a pool mortgage guaranty business product. Under pool mortgage guaranty insurance, the company provided coverage on a pool of mortgage loans. Pool insurance is generally used as a credit enhancement supplementing individual loan primary

insurance for mortgage loan secondary market transactions involving the aggregation of mortgage loans into a pool for which a collateralized mortgage bond is underwritten, issued, and traded. Pool insurance typically covered loss on a defaulted individual mortgage loan included in the pool that is in excess of the loan's primary insurance coverage, as well as covering the total loss on a defaulted loan that did not require primary insurance at issuance.

The company's risk in a pool policy was generally limited to an aggregate loss percentage, typically one to five percent of the aggregate original principal balance of the loans in the pool. Historically, the company's participation in pool insurance had largely been limited to pools of fixed-rate 30-year loans sold to Freddie Mac and Fannie Mae (agency pool insurance), to the Federal Home Loan Banks under their mortgage purchase programs, and to pools associated with loans insured under state housing finance programs. In the period covered under the previous examination, banks began to originate pools of mortgage loans that they have underwritten for sale to Freddie Mac and Fannie Mae, as well as to the Federal Home Loan Banks, under which a mortgage guaranty insurer insures the pool under an agency pool insurance policy or special pool policy developed for the Federal Home Loan Banks. Effective November, 2007, the company would only write pool business for Freddie Mac and Fannie Mae and no longer offered new special pool coverage to the Federal Home Loan Banks. In 2010, the company discontinued offering any pool coverage but still has direct exposure to this business of approximately $547 million of risk in force as of December 31, 2016.

Mortgage Guaranty Insurance Corporation is licensed and actively writing residential mortgage guaranty insurance in all 50 states, the District of Columbia, Guam, and Puerto Rico. The distribution of direct premiums written in 2016 by state or other jurisdiction was as follows:

State	**Direct Premiums Written**	**Percentage**
California	$ 98,397,408	9.00%
Texas	72,673,533	6.65
Florida	66,105,932	6.05
Pennsylvania	55,677,069	5.09
Ohio	47,659,035	4.36
Illinois	47,250,324	4.32
All other states and jurisdictions	705,352,275	64.53
Total	$1,093,115,576	100.0%

MGIC's sales and business development group is structured into five sales regions located throughout the U.S. Each sales region is supervised by a managing director who is responsible for the operations of the sales team within their region. The company's sales team is comprised of about 60 account managers who evaluate customer needs and offer MGIC products to customers. Five national account managers maintain MGIC's relationship with MGIC's national accounts, defined as lenders who have multi-regional locations and a substantial mortgage insurance volume. The national account managers coordinate the efforts of the sales regions with regards to the national accounts. The field operations underwriting group is comprised of three underwriting offices and three regional processing centers. The underwriting offices perform underwriting of individual loans and maintain company relationships with clients. Loan files are submitted to an underwriting field office which evaluates the loan and issues an insurance underwriting decision.

MGIC has the benefit of a permitted practice, a temporary and limited exemption from a provision of the Wisconsin Administrative Code, and an approved table of monthly unearned premium factors applied to its single premium policies.

Effective September 30, 2012, and until further notice, the OCI approved a permitted practice to allow MGIC to continue to report its net deferred tax asset as an admitted asset in an amount not to exceed 10% of adjusted surplus as regards policyholders, notwithstanding contrary provisions in the NAIC's Statement of Statutory Accounting Principles No. 101. The application of Statement of Statutory Accounting Principles No. 101 is otherwise unchanged by this decision. This permitted practice was given because MGIC demonstrated to the OCI's satisfaction that timely realization of the net deferred tax asset is probable. Due to the deferred tax asset valuation allowance reversal as of September 30, 2015, MGIC no longer relies on the permitted practice and the deferred tax asset is admitted according to the stated provisions of the NAIC's Statement of Statutory Accounting Principles No. 101.

Effective July 15, 2013, the OCI approved a limited exemption from s. Ins 6.20 (8) (k), Wis. Adm. Code, whereby MGIC and certain other named insurance affiliates may invest up to 30% of admitted assets in U.S. dollar denominated debt securities issued by non-U.S. and

Canadian corporate and sovereign obligors. This limited exemption will continue until the earlier of (i) December 31, 2020, or (ii) rescission of this exemption by the OCI with notice to the company. This exemption was and continues to be given because MGIC and its affiliates demonstrated to the OCI's satisfaction that the 2% of admitted assets limitation on loans, securities, and investments in countries other than the United States and Canada established by s. Ins 6.20 (8) (k), Wis. Adm. Code, inhibits portfolio diversification across an optimal mix of highly rated corporate bonds within the context of these insurers' circumstances and the options available in the capital markets. In the exercise of its own judgement and without any consultation with the OCI, the New York Department of Insurance, since reorganized into the New York Department of Financial Services, limited the company's investment in U.S. dollar denominated debt securities issued by non-U.S. and Canadian corporate and sovereign obligors to 10% of admitted assets.

On November 27, 2013, the OCI approved the use of a table of factors for unearned premium to allow premium to be earned monthly for all borrower paid single premium policies, as opposed to the annual premium period tables set forth in s. Ins 3.09 (13) (b), Wis. Adm. Code. In arriving at the monthly factors, the tables in s. Ins 3.09 (13) (b), Wis. Adm. Code, were utilized to achieve the required unearned premium factor for each annual valuation date within the table. This approved table is intended to allow single premiums collected on borrower paid single premium policies to be earned over the period in which the mortgage loan amortizes to a loan-to-value ratio of approximately 78%, based on the original amortization schedule, which is the point at which coverage terminates automatically under the Homeowners Protection Act of 1998 in most circumstances.

MGIC is a member of a holding company system, and ultimate ownership and control of the company is held by MGIC Investment. MGIC is the lead operating company in the MGIC Group and performs all of the business operations of its affiliated insurers pursuant to an intercompany services agreement. Further discussion of the MGIC Investment Corporation holding company system (hereinafter the MGIC Group), description of MGIC's significant affiliates, and description of the company's intercompany agreements are included in the section of this report captioned "Affiliated Companies."

The following table is a summary of the net insurance premiums written by the company in 2016. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	$1,093,115,576	$665,813	$249,806,888	$843,974,501
Total All Lines	$1,093,115,576	$665,813	$249,806,888	$843,974,501

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 10 members. The directors are elected at the annual shareholders' meeting to serve a one-year term. Officers are elected at the board's annual meetings and are to hold those positions until the earlier of their resignation or removal by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The non-employee board members currently receive a $125,000 annual retainer for serving on the board. In addition, after the fifth board or committee meeting attended, they receive $3,000 per board meeting attended and $2,000 per committee meeting attended on any one day. The Chairman of the Board receives annual retainer of $250,000. The lead director of the board receives an additional fee of $25,000 for services provided. The chairpersons of the Audit Committee and the Management Development, Nominating and Governance Committee receive an additional annual retainer of $25,000. Non-chair directors of the Audit Committee receive an additional annual retainer of $15,000. Other committee chairpersons receive an additional $5,000 annual retainer. The board members also receive an annual share unit award under MGIC's Deferred Compensation Plan and in 2016 the fair value of such awards to non-management directors was $100,000 each. As an executive employee of the holding company system, Patrick Sinks receives no compensation specific to his service on the board of directors.

As of December 31, 2016, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Term Expiry
Daniel A. Arrigoni Wayzata, Minnesota	Retired President and Chief Executive Officer U.S. Bank Home Mortgage Corporation	2018
Cassandra C. Carr San Antonio, Texas	Consultant	2018
C. Edward Chaplin Greenwich, Connecticut	Former President and Chief Financial Officer MBIA Inc.	2018
Curt S. Culver Nashotah, Wisconsin	Chairman and Retired Chief Executive Officer MGIC Investment Corporation	2018
Timothy A. Holt Glastonbury, Connecticut	Retired Senior Vice President and Chief Investment Officer of Aetna Inc.	2018

Kenneth M. Jastrow, II Round Mountain, Texas	Lead Director of MGIC Board Retired Chairman and Chief Executive Officer . Temple-Inland Inc	2018
Michael E. Lehman Madison, Wisconsin	Interim Vice Chancellor for Finance and Administration University of Wisconsin – Madison	2018
Gary A. Poliner Whitefish Bay, Wisconsin	Retired President Northwestern Mutual Life Insurance Company	2018
Patrick Sinks Racine, Wisconsin	President and Chief Executive Officer Mortgage Guaranty Insurance Corporation	2018
Dr. Mark M. Zandi Malvern, Pennsylvania	Chief Economist Moody's Analytics	2018

Officers of the Company

The officers serving as of December 31, 2016 were as follows:

Officer	Office	2016 Compensation*
Patrick Sinks	President and Chief Executive Officer	$5,054,984
Jeffrey H. Lane	Executive Vice President, General Counsel and Secretary	2,909,971
Timothy J. Mattke	Executive Vice President and Chief Financial Officer	2,338,789
Stephen C. Mackey	Executive Vice President – Chief Risk Officer	984,807
Gregory A. Chi	Senior Vice President – Chief Information Officer	1,111,694
Sean A. Dilweg	Senior Vice President – Government Relations	592,825
Carla A. Gallas	Senior Vice President – Claims	955,063
James J. Hughes	Senior Vice President – Sales & Business Development	995,862
Salvatore A. Miosi	Senior Vice President – Business Strategy and Operations	967,177
Kurt J. Thomas	Senior Vice President – Chief Human Resources Officer	916,433
Michael J. Zimmerman	Senior Vice President – Investor Relations	857,516
Lisa M. Pendergast	Vice President and Treasurer	620,176
Julie K. Sperber	Vice President – Controller and Chief Accounting Officer	587,929

* The 2016 compensation includes base salary, annual bonus, retirement plan contributions, restricted stocks, employer paid health and dental insurance, fringe benefits.

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:

Executive Committee
Patrick Sinks, Chair
Curt S. Culver
Kenneth M. Jastrow, II

Audit Committee
Michael E. Lehman, Chair
Daniel A. Arrigoni
Timothy A. Holt
Gary A. Poliner

Risk Management Committee
Gary A. Poliner, Chair
Daniel A. Arrigoni
C. Edward Chaplin
Mark M. Zandi

Securities Investment Committee
Timothy A. Holt, Chair
C. Edward Chaplin
Gary A. Poliner

Management Development, Nominating and Governance Committee
Kenneth M. Jastrow, II, Chair
Cassandra C. Carr
Michael E. Lehman

The board also formed a Senior Management Oversight Committee at the company level in July of 2010 to formalize the oversight and coordination of the MGIC Group's strategic business planning, major policy decisions, business forecasts, and reviews significant corporate risk exposures, loss development trends, premium rate changes and significant changes to the underwriting guidelines. The committee formally meets on a monthly basis. At the time of the examination the committee consisted of the following individuals:

Patrick Sinks, President and Chief Executive Officer
Timothy Mattke, Executive Vice President and Chief Financial Officer
Steven Mackey, Executive Vice President and Chief Risk Officer
Jeffrey Lane, Executive Vice President and General Counsel
James Hughes*, Executive Vice President of Sales and Business Development
Salvatore Miosi*, Executive Vice President of Business Strategy and Operations

* Messrs. Hughes and Miosi were both promoted to Executive Vice President on January 24, 2017.

IV. AFFILIATED COMPANIES

Mortgage Guaranty Insurance Corporation is a member of a holding company system whose ultimate controlling person is MGIC Investment Corporation. MGIC Investment Corporation is a stock holding company, whose common shares are publicly-traded on the New York Stock Exchange, which, through its subsidiaries, provides products and services that protect mortgage investors from credit losses, principally through private mortgage insurance. Private mortgage insurance is a critical component of the residential mortgage finance system in the United States that helps families and individuals achieve homeownership by making low down payment mortgages possible. Business is actively conducted in all U.S. States, the District of Columbia, Puerto Rico, and Guam.

Since 2011, the holding company structure has been streamlined through the dissolution of eMagic.com, LLC in 2015, and the dissolution of five Wisconsin-domiciled reinsurers that provided excess of loss coverage solely to affiliates in 2016.

MGIC's subsidiary, eMagic.com, LLC was organized in February 2000 to provide business-to-business internet technological facility to the mortgage finance industry that pertained to the origination of mortgage loans. On October 1, 2015, eMagic.com, LLC was dissolved, resulting in a realized loss of $103,926,341.

MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, MGIC Residential Reinsurance Corporation, MIC Reinsurance Corporation, and MIC Reinsurance Corporation of Wisconsin provided affiliates Mortgage Guaranty Insurance Corporation and MGIC Indemnity Corporation with excess of loss reinsurance coverage solely in order to comply with certain states' risk limitations that limited any mortgage guaranty insurer's liability for net losses to 25% of the indebtedness to the insured. These affiliated reinsurers derived all of their business from assumption of risks written by either MGIC or MGIC Indemnity Corporation and did not cede any reinsurance themselves.

The regulatory limits on coverage have been repealed in all but one state, Ohio. MGIC and MGIC Indemnity Corporation determined that, as a result of revised state laws on coverage limits and the credit for reinsurance provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, subject to compliance with Wisconsin law, they would be entitled

to statutory credit for business reinsured under all of their affiliated reinsurance treaties if the reinsurance obligations were transferred to MGIC Reinsurance Corporation of Wisconsin (hereinafter also MRCW), and therefore, the reasons for maintaining multiple affiliated reinsurers no longer applied. Effective May 1, 2016, MRCW entered into a series of assumption and novation agreements whereby such business of Mortgage Guaranty Insurance Corporation and MGIC Indemnity Corporation as had been reinsured by its affiliates MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, MGIC Residential Reinsurance Corporation, MIC Reinsurance Corporation, and MIC Reinsurance Corporation of Wisconsin, was transferred to MRCW. MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, and MGIC Residential Mortgage Corporation were dissolved effective October 1, 2016, while MIC Reinsurance Corporation and MIC Reinsurance Corporation of Wisconsin were dissolved effective October 10, 2016.

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, 2016

- MGIC Investment Corporation
  - Mortgage Guaranty Insurance Corporation
    - MGICA PTY Limited
      - MGIC Australia PTY Limited
    - MGIC Indemnity Corporation
    - MGIC Credit Assurance Corporation
    - MGIC Reinsurance Corporation of Wisconsin
      - MGIC Mortgage and Consumer Asset II, LLC (Note #1)
    - MGIC Assurance Corporation
    - MGIC Reinsurance Corporation of Vermont
    - MGIC Mortgage and Consumer Asset I, LLC (Note #1)
      - CMI Investors LP 2 (99.02% ownership interest)
      - CMI Investors LP 5 (99.02% ownership interest)
      - CMI Investors LP 8 (99.02% ownership interest)
      - CMI Investors LP 9 (99.02% ownership interest)
  - MGIC Insurance Services Corporation
  - MGIC Investor Services Corporation
    - MGIC Mortgage Services, LLC

Note # 1: MGIC Mortgage and Consumer Asset II, LLC, holds a 0.98% ownership interest in CMI Investors LPs; the remaining 99.02% interest is held in MGIC Mortgage and Consumer Asset I, LLC.

Parent and Ultimate Controlling Person

MGIC Investment Corporation

MGIC Investment Corporation was incorporated in Wisconsin on June 22, 1984, under the name Management Financing Corporation. MGIC Investment was established as a holding company to consolidate the ownership and capitalization of the legal entities within the MGIC enterprise. The initial capital funding of Management Financing Corporation was provided by The Northwestern Mutual Life Insurance Company and by senior executive officers of MGIC. The holding company name was changed to MGIC Investment Corporation effective March 1, 1985. An initial public offering of MGIC Investment common capital stock was completed in August, 1991, and a second public offering was completed in June, 1992. The issued and outstanding shares of MGIC Investment's common capital stock are traded on the New York Stock Exchange under the ticker symbol MTG.

The MGIC enterprise is principally engaged in writing mortgage guaranty insurance on residential mortgage loans. MGIC Investment Corporation's insurance subsidiaries provide mortgage guaranty insurance to mortgage lenders, and its non-insurance operating subsidiaries provide various services to the mortgage finance industry, including contract underwriting, analysis of loan originations and portfolios, and mortgage lead generation.

As of December 31, 2016, MGIC Investment's consolidated GAAP basis audited financial statements reported total assets of $5,734,529,000, total liabilities of $3,185,687,000, and total shareholders' equity of $2,548,842,000. Operations for 2016 produced a net income of $342,517,000.

Subsidiaries

MGIC Indemnity Corporation

MGIC Indemnity Corporation is a Wisconsin-domiciled mortgage guaranty insurer originally incorporated in Wisconsin in 1956 under the name Mortgage Guaranty Insurance Corporation. In 1984 the Commissioner approved a 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 (hereinafter also 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 runoff 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 MGIC Indemnity Corporation effective June 1, 2000. From March 1, 1985, until August 2012, MIC did not write any new business, and its entire portfolio of business was comprised of renewal policies in runoff. All claims have been paid by MIC (WMAC) or its reinsurers.

As described earlier in this report, in 2009 MGIC developed a contingency plan for the MIC to write new business in any jurisdiction that was either legally unable to grant a waiver of capital requirements to its parent, MGIC, or was unwilling to do so. MIC is licensed to write business in all U.S. states, the District of Columbia and Puerto Rico. In preparation of writing new mortgage risks, MIC received a $200 million surplus contribution from its parent in 2009 and another $200 million surplus contribution in 2012. MIC resumed writing new business from August 2012 to August 2013 in jurisdictions that were unable or unwilling to grant MGIC a waiver of its minimum capital requirements when it breached the 25 to 1 risk-to-capital standard and the comparable requirements of the minimum policyholders' position in July 2012. During this time, MIC was the MGIC Group's sole direct writer in the following eight jurisdictions: Florida, Idaho, Missouri, New Jersey, New York, North Carolina, Ohio, and Puerto Rico. MIC wrote a modest amount of new business in other states to provide accommodation to certain lenders. The last new commitments for mortgage insurance were made on July 1, 2013. Thereafter, MGIC resumed its status as the sole direct writer of new business in the MGIC Group.

As of December 31, 2016, MIC's statutory financial statements reported total admitted assets of $140,014,573, total liabilities of $50,089,919, and policyholders' surplus of $89,924,654. Operations for 2016 produced net income of $1,528,535. MIC was examined concurrently with MGIC as of December 31, 2016, and the results of that examination were expressed in a separate report.

MGIC Reinsurance Corporation of Wisconsin

MGIC Reinsurance Corporation of Wisconsin was incorporated under the laws of Wisconsin on February 15, 1996, and commenced operations on April 1, 1996. MRCW was organized to provide MGIC with excess of loss reinsurance coverage on residential mortgage guaranty insurance risks in order to comply with certain states' limitations on coverage. From its inception through April 30, 2016, MRCW had reinsured MGIC in all U.S. states, except California, Illinois, Kansas, Maryland, New York, and Texas. Those six states did not permit mortgage guaranty insurance to be reinsured by a subsidiary of the ceding company. Since May 1, 2016, MRCW's business has consisted of reinsurance of primary and pool insurance risks written on a direct basis by MGIC in all U.S. jurisdictions. MRCW assumes MGIC's liability for mortgage guaranty net losses in excess of 25% of the indebtedness to the insured. The company derives all of its written business from its assumption of risks written by MGIC, and does not cede any reinsurance. From May 1, 2016, to December 31, 2016, MRCW also provided its affiliate MGIC Indemnity Corporation with statutorily required excess reinsurance coverage.

The regulatory limits on coverage have been repealed in all but one state, Ohio. MGIC and MGIC Indemnity Corporation determined that, as a result of revised state laws on coverage limits and the credit for reinsurance provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, subject to compliance with Wisconsin law, they would be entitled to statutory credit for business reinsured under all of their affiliated reinsurance treaties if the reinsurance obligations were transferred to MRCW, and therefore, the reasons for maintaining multiple affiliated reinsurers no longer applied. Effective May 1, 2016, MRCW entered into a series of assumption and novation agreements whereby such business of Mortgage Guaranty Insurance Corporation and MGIC Indemnity Corporation, as had been reinsured by its affiliates MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, MGIC Residential

Reinsurance Corporation, MIC Reinsurance Corporation, and MIC Reinsurance Corporation of Wisconsin, was assigned to MRCW. In connection with the assumption and novation transactions, the assigning reinsurer transferred its reserves for unearned premiums, losses and loss adjustment expenses, together with any ceded reinsurance premium received on or after May 1, 2016. MGIC and MGIC Indemnity Corporation, as the ceding companies under the affiliated reinsurance treaties, then established and maintained the contingency reserves associated with these contracts.

Effective January 1, 2017, in order to further simplify the MGIC Group's affiliated reinsurance accounting, all of the affiliated reinsurance treaties MRCW assumed and novated effective May 1, 2016, were commuted and replaced with a single reinsurance agreement between MGIC, as cedent, and MRCW, as reinsurer. MRCW's contingency reserve as of January 1, 2017, was established as $131,515, 369, which was the balance it accumulated and reported as of December 31, 2016, prior to the commutation. At the same time, MGIC Indemnity Corporation entered into an agreement whereby it would cede coverage in excess of 25% of the indebtedness to the insured to MGIC.

As of December 31, 2016, MRCW's statutory financial statements reported total admitted assets of $560,119,413, total liabilities of $406,971,644, and policyholders' surplus of $153,147,769. Operations for 2016 produced net income of $14,716,580. MRCW was examined concurrently with MGIC as of December 31, 2016, and the results of that examination were expressed in a separate report.

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. MAC was subsequently renamed Financial Security Assurance, Inc. of Oklahoma in 1986. Financial Security Assurance, Inc. of Oklahoma was acquired by MGIC in 1995 and effective November 18, 1996, redomesticated to Wisconsin and adopted the name MGIC Assurance Corporation.

MAC was acquired by MGIC to write mortgage guaranty, surety, and credit insurance products compatible with and complementary to the residential mortgage guaranty insurance and related business activities conducted by MGIC and its affiliates. In 1997, MAC formed a

mandatory segregated account established in accordance with s. 611.24 (1), Wis. Stat., and s. Ins 3.09 (12) (g), Wis. Adm. Code, to serve as a direct writer of mortgage guaranty insurance on second mortgages and home equity lines of credit in states that do not require a mortgage guaranty insurer to be monoline. Concurrent with the formation of MAC's mandatory segregated account, MGIC also established MGIC Credit Assurance Corporation (hereinafter also MCAC) to engage in residential mortgage guaranty of junior liens in those states in which only a monoline insurer is permitted to insure mortgage guaranty risks.

MAC commenced writing business in 1997 and continued to issue new mortgage guaranty insurance policies on junior liens until December 31, 2001. Due to a lack of profitability, MAC voluntarily stopped writing new business and entered runoff effective January 1, 2002. 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 MAC's mandatory segregated account through an assumption reinsurance agreement. MAC's mandatory segregated account was terminated following this assumption of all of its liabilities and distribution of all of its assets. MGIC Assurance Corporation then entered a period of dormancy.

In 2007, MAC began writing lot loan insurance, which provides lenders with credit insurance protection against loss from defaults on mortgage loans secured by unimproved properties. Due to the attention required of management and anticipated demands on its holding company system's capital occasioned by the 2007-08 financial collapse, MAC voluntarily stopped writing this business in 2008 and entered runoff.

In 2016, MAC entered into a credit risk transfer transaction with the Federal Home Loan Mortgage Corporation and a credit insurance risk transfer transaction in the form of a quota share reinsurance agreement with Chimney Point Insurance IC, Inc., a Vermont captive insurer owned by the Federal National Mortgage Association. These transactions are intended to provide the GSEs aggregate excess of loss coverage in excess of the coverage they have on primary mortgage insurance on mortgage loans allocated to the covered pools. In both programs, MAC is one insurer or reinsurer on a panel of insurers or reinsurers, with a target participation of 5% under each program.

As of December 31, 2016, MAC's statutory financial statements reported total admitted assets of $13,432,318, total liabilities of $1,878,483 and policyholders' surplus of $11,553,837. Operations for 2016 produced a net loss of $2,994. MAC was examined concurrently with MGIC as of December 31, 2016, and the results of that examination were expressed in a separate report.

MGIC Credit Assurance Corporation

MGIC Credit Assurance Corporation was organized under the laws of Wisconsin on April 30, 1997, and commenced business on May 21, 1997. MCAC was formed by MGIC to serve as a direct writer of residential mortgage guaranty insurance on second mortgages and home equity lines of credit in a limited number of states. Concurrent with MGIC's formation of MCAC, MGIC also used MGIC Assurance Corporation to engage in residential mortgage guaranty of junior liens accounted for through a 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.

MCAC 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 OCI on September 22, 2003, MCAC assumed all of the insurance in force of MAC's mandatory segregated account through an assumption reinsurance agreement. MCAC's entire book of business is in runoff. The company currently does not plan to resume writing new insurance risks.

As of December 31, 2016, MCAC's statutory financial statements reported total admitted assets of $8,485,935, total liabilities of $325,768, and policyholders' surplus of $8,160,167. Operations for 2016 produced net income of $310,049. MCAC was examined concurrently with MGIC as of December 31, 2016, and the results of that examination were expressed in a separate report.

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's mortgage guaranty risks on loans that were originated, purchased, or serviced by mortgage lenders which participated in MRCV captive reinsurance. For the business assumed by MRCV on behalf of a participating sponsor, MRCV established 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 was established between MRCV and each respective participant. By establishing a participation agreement with MRCV, a lender that desires to engage in captive reinsurance is able to participate in the sponsored captive's profits but is not required to establish a separate insurance or reinsurance legal entity.

Mortgage lenders' interest in captive insurance was curtailed by the 2007-08 financial collapse. In 2008, MGIC voluntarily suspended most of its captive arrangements, including those conducted through MRCV, in response to market conditions and requests from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Accordingly, MRCV is in runoff.

As of December 31, 2016, MRCV's statutory financial statements reported total admitted assets of $10,612,250 including $7,043,593 of trust assets, total liabilities of $3,565,889, and policyholders' surplus of $7,046,361. Operations for 2016 produced a net income of $171,346.

MGICA PTY Limited

MGICA PTY Limited was incorporated under the laws of Australia on April 2, 2006 to act as an intermediate holding company for the MGIC Group in that country. The Australian Prudential Regulation Authority (hereinafter also APRA) authorized the corporation as a non-operating holding company under the Insurance Act 1973 in 2007. As of December 31, 2016,

MGICA PTY Limited's unaudited financial statements under Australian Accounting Standards and International Financial Reporting Standards (IFRS) reported assets of AU$4,362,988, liabilities of AU$0, and shareholder's equity of AU$ 4,362,988. Operations for 2016 produced a net income of AU$191,345. The entity was dissolved effective March 20, 2017.

MGIC Australia PTY Limited

MGIC Australia PTY Limited (hereinafter also MGIC Australia) was incorporated under the laws of Australia on July 14, 2006, to write mortgage guaranty insurance in Australia. The corporation was issued its authorization to transact an insurance business by the Australian Prudential Regulation Authority in 2007. Business was written from 2007 to April, 2009. Due to the attention required of management, and anticipated demands on the MGIC Group's capital occasioned by the 2007-08 financial collapse, MGICA Australia PTY Limited voluntarily stopped writing this business and entered runoff. As of December 31, 2016, MGICA Australia PTY Limited's unaudited financial statements under Australian Accounting Standards and International Financial Reporting Standards (IFRS) reported assets of AU$880,355, liabilities of AU$627,787, and shareholder's equity of AU$252,568. Operations for 2016 produced a net income of AU$191,345. All of MGICA Australia's risk in force was commuted in 2016, and there was no remaining risk in force as of December 31, 2016. The entity was dissolved effective March 20, 2017.

MGIC Mortgage and Consumer Asset I, LLC

MGIC Mortgage and Consumer Asset I, LLC (hereinafter also MMCA I) is a limited liability corporation formed on March 29, 1999, under the laws of Delaware. MMCA I was formed to hold 99.02% of CMI Investors LPs and 45.5% of Credit-Based Asset Servicing & Securitization LLC (hereinafter also C-BASS). The four CMI Investors LPs are described below.

As of December 31, 2016, Mortgage Guaranty Insurance Corporation reported the fair value of its investment in MMCA I as a $75,253 nonadmitted asset and recognized $305,549 in investment income on Schedule BA of its 2016 annual statement.

CMI Investors 2 LP, CMI Investors 5 LP, CMI Investors 8 LP, and CMI Investors 9 LP

Each of the Delaware-domiciled CMI Investor LPs is owned by MMCA I (99.02%) and MGIC Mortgage and Consumer Asset II, LLC (0.98%). Each of the CMI Partnerships formerly

bought and sold interests in mortgage securities from Credit-Based Asset Servicing & Securitization LLC and others and is now in runoff. CMI Investors 2 LP was formed on November 12, 1993. CMI Investors 5 LP was formed on December 3, 1993. CMI Investors 8 LP was formed on March 22, 1994. CMI Investors 9 LP was formed on July 7, 1994.

MGIC Insurance Services Corporation

MGIC Insurance Services Corporation was incorporated under the laws of Wisconsin on February 26, 1985. The company commenced business on April 1, 1985. The company is no longer actively engaged in offering services to customers. It acted as a broker for insurance coverages offered to financial institutions, and managed surety, special hazard, and mortgage-related bonds and policies issued by Continental Casualty Company, including existing bonds and policies of WMBIC Indemnity Corporation assumed by Continental Casualty Company.

As of December 31, 2016, MGIC Insurance Services Corporation's unaudited GAAP financial statement reported total assets of $1,158,833, total liabilities of $62, and total stockholder equity of $1,158,771. Operations for 2016 produced net income of $1,929.

MGIC Investor Services Corporation

MGIC Investor Services Corporation (hereinafter also MISC) was incorporated under the laws of Wisconsin as MFC Services Corporation. The company's name was changed to the one presently used on March 1, 1985, when MISC began its principal business activities. MISC provides various services for the mortgage finance industry, including analysis of loan originations and portfolios and mortgage lead generation. MISC also provided contract underwriting services until the incorporation of MGIC Mortgage Services, LLC.

As of December 31, 2016, MISC's unaudited GAAP financial statement reported total assets of $104,655,633, total liabilities of $30,014,732, and total shareholder's equity of $74,640,901. Operations for 2016 produced a net income of $2,208,370.

MGIC Mortgage Services, LLC

MGIC Mortgage Services, LLC was incorporated under the laws of Wisconsin on November 17, 2010. This limited liability corporation performs contract underwriting services in compliance with the Secure and Fair Enforcement for Mortgage Licensing Act of 2008.

As of December 31, 2016, MGIC Mortgage Services, LLC's audited GAAP financial statement reported total assets of $9,656,000, total liabilities of $566,000, and total member's equity of $9,090,000. Operations for 2016 produced a net income of $2,566,000.

MGIC Mortgage and Consumer Asset II, LLC

MGIC Mortgage and Consumer Asset II, LLC (hereinafter MMCA II) is a limited liability corporation and a wholly owned subsidiary of MGIC Reinsurance Corporation of Wisconsin. MMCA II was incorporated on April 5, 1999, under the laws of Delaware, to own 0.98% of the CMI Investors LPs. As of December 31, 2016, the fair value of subsidiary MGIC Reinsurance Corporation of Wisconsin's investment in MMCA II was $0 and it produced no investment income for 2016.

Agreements with Affiliates

In addition to common staffing and management control, MGIC's relationship to its affiliates is affected by various written agreements and undertakings. A brief summary of these agreements follows, arranged by effective date.

Tax Sharing Agreement

Effective January 22, 1986, MGIC Investment Corporation entered into a tax-sharing agreement with 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 a number of times to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement. Under this agreement, MGIC Investment Corporation files a consolidated U.S. Federal Income Tax Return that includes 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 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 is a participant in the agreement. Under this agreement MGIC performs management and administrative services essential to the day-to-day operation of various affiliates within the MGIC Group. Services provided by MGIC to its affiliates include provision of office space and employees; administration of underwriting, risk management and claims; performance as agent for funds collection and disbursement; maintenance of investment portfolios and execution of investment transactions; maintenance of depository accounts; maintenance of books and records including financial records; and the preparation and delivery of reports, tax returns, and documents and filings, as required. MGIC's direct costs and indirect expenses incurred in providing services to the individual affiliates are allocated to the respective affiliates each quarter, which is to be determined in accordance with generally accepted accounting principles and in a manner consistent with regulatory authorities having jurisdiction over members to the agreement. In practice, expenses associated with this agreement are allocated and settled monthly.

Indemnity Agreement

Effective September 1, 2000, an Indemnity Agreement was established between MGIC and MGIC Indemnity Corporation to facilitate the withdrawal of MIC from the state of New York. The agreement pertains solely to MIC's liabilities in the state of New York for Old MGIC's runoff mortgage guaranty insurance policies written prior to February 28, 1985, including primary insurance issued under master policies on individual mortgage loans and pool insurance issued under mortgage trust supplemental or pool policies. Pursuant to the agreement, MGIC agrees to pay any Old MGIC insured located in New York all of Old MGIC's obligations at any time in the event that Old MGIC has failed to pay any amount due to the insured under Old MGIC's outstanding policies. Each Old MGIC insured shall have privity with, direct right of action against,

and the right to file claims directly with MGIC to pay Old MGIC's obligations after Old MGIC has failed to pay. Under the agreement, MGIC issued an endorsement as required by applicable law to advise insureds of MGIC's indemnity agreement for Old MGIC business, and MGIC issued an undertaking to governmental agencies in New York for payment of taxes and other liabilities of MIC to such agencies. Under the agreement, MGIC is entitled to recover from MIC the amount paid by MGIC in payment of Old MGIC obligations as a result of this agreement. The agreement will remain in effect for so long as any of Old MGIC's policies remain outstanding and in force.

Guarantee Agreement

MGIC entered into a letter agreement for the benefit of the Australian Prudential Regulation Authority effective May 7, 2007, in connection with the APRA's licensing of MGIC Australia to write mortgage guaranty insurance in Australia. Under this letter agreement MGIC had guaranteed to maintain MGIC Australia's capital at a sufficient level for MGIC Australia to pay its obligations. MGIC was limited to an aggregate contribution of $300 million in each 36-month period, the first of which commenced on May 1, 2007. MGIC did not make any capital contributions to MGIC Australia under this agreement. MGIC has ensured under separate undertakings, dated May 7, 2007, that MGIC Australia sets a target adequacy multiple of its Minimum Capital Requirement (MRC) governed by laws of New South Wales, Australia, and that if MGIC Australia's capital base drops below 1.2 times MCR it will ensure that MGIC Australia's capital is increased to not less than 1.35 times MCR within three months. In 2015, MGIC settled all of its remaining risk in force in Australia and the letter agreement was withdrawn.

Shared Resources Agreement

In preparation for the reactivation business plan for MGIC Indemnity Corporation, discussed earlier in this report, Mortgage Guaranty Insurance Corporation and MIC entered into a shared resources agreement on March 11, 2010. In the event that MIC begins writing direct mortgage guaranty insurance business, the date on which MIC issues its first policy will be the effective date of this agreement. On the aforementioned date the servicing agreement with MGIC, discussed earlier in this section of the report, will be terminated with respect to MIC and be replaced by this shared resources agreement. The purpose of this agreement is for MGIC to continue to provide MIC with management and administrative services in connection with MIC

writing new mortgage guaranty insurance business. Management and administrative services to be provided by MGIC to MIC are essentially the same ones outlined in the servicing agreement. In consideration of the services provided to MIC under this agreement, MIC shall pay to MGIC, on a monthly basis, 20% of the premiums written by MIC during the calendar month, which is subject to an adjustment for estimated actual cost performed at the end of each calendar year.

V. REINSURANCE

Mortgage Guaranty Insurance Corporation's active reinsurance portfolio encompasses four major components, an external quota share program; an affiliated assumption treaty; an affiliated ceding treaty; and a runoff captive program. MGIC also has one inactive component to its reinsurance portfolio that relate to the assumption of liability and risks from MGIC Indemnity Corporation on business it wrote on or before February 28, 1985. Due to the immateriality, the reinsurance contract that forms the inactive components of the reinsurance program is not summarized in this report. The company's reinsurance contracts contained proper insolvency provisions. A description of the company's reinsurance contracts that comprise the active components of the reinsurance portfolio are summarized as follows:

Affiliated Ceding Contracts

Type:	Variable Rate Quota Share
Reinsurer:	MGIC Reinsurance Corporation of Wisconsin
Scope:	All policies written or assumed by the company
Retention:	25% of the original unpaid principal balance of each mortgage loan insured under policies written or assumed by the Reinsured
Coverage:	Reinsurer participates on each policy at a rate related to the amount of coverage in excess of 25% of the original unpaid principal balance of each mortgage loan insured under policies written or assumed by the Reinsured. The cede rate is the net value of the amount of coverage provided as a percentage less 25%, divided by the amount of coverage provided, expressed as a percentage. For example, a policy providing 30% of coverage will have a cede rate of 16.67% [(30%-25%)/30%], and a pool policy providing 100% of coverage will have a cede rate of 75% [(100%-25%/100%]. In the event of termination, unless otherwise agreed by the parties, the liability of the Reinsurer and Reinsured with respect to risk reinsured hereunder prior to the effective date of such termination shall continue on a runoff basis until the expiration, cancellation, or termination of each certificate or coverage document reinsured prior to termination.
Premium:	A percentage of company's premium written equal to the cede rate of coverage, less the ceding commission
Commissions:	20% of reinsurance premiums paid by the company
Effective date:	January 1, 2017 at 12:01 a.m.

Termination:	Either party may terminate by providing 30 days' advance written notice, which termination shall be effective on the last day of the calendar quarter next following the calendar quarter during which such notice is given. Either party may terminate by providing 30 days' advance written notice in the event that the other party should at any time become insolvent, suffer any impairment of capital, go into or be placed in liquidation or rehabilitation, or has a receiver appointed.
Other:	The parties shall establish and maintain, in proportion to the particular risk or premium retained or assumed, all such reserves as may be required with respect to contingency reserves, claims, loss and loss adjustment expenses, unearned premium reserves, and the Reinsurer's Share under the GSEs Private Mortgage Insurer Eligibility Requirements (hereinafter also PMIERs).

Nonaffiliated Ceding Contracts

1. Type: Quota Share

Reinsurers:	Partner Reinsurance Europe SE	33.0%
	Everest Reinsurance Company	24.0%
	Transatlantic Reinsurance Company	18.0%
	Renaissance Reinsurance Ltd.	11.5%
	Markel Global Reinsurance Company	9.0%
	Third Point Reinsurance Company Ltd.	4.5%
	Total	100.0%

Scope:	Approximately $30 billion of risk in force at July 1, 2015, that met certain eligibility criteria, plus new business written from July 1, 2015, through December 31, 2016, that meets certain eligibility criteria
Retention:	70% of losses, loss adjustment expenses, extra contractual obligations, and excess limits liability under policies and certificates of insurance within the scope of this contract and 100% of any ex gratia payments In addition, for each accident year, the company shall retain 100% of losses, including loss adjustment expenses, extra contractual obligations, and excess limits liability, in excess of a 300% accident year loss ratio for that accident year.
Coverage:	30% of losses, including loss adjustment expenses, extra contractual obligations, and excess limits liability, under policies and certificates of insurance within the scope of this contract If the aggregate loss ratio on covered policies and certificates of insurance exceeds 200% (the "Loss Limit"), then the Reinsurers' obligation with respect to losses shall be suspended until such time as the aggregate loss ratio falls below the Loss Limit (the "Suspension Period"), except that all losses incurred under covered policies and certificates of insurance for any accident

	year in excess of a 300% accident year loss ratio shall be excluded from the computation of the Loss Limit. The company shall continue to remit reinsurance premium to the Reinsurers during any Suspension Period. Upon the aggregate loss ratio falling below the Loss Limit prior to termination of the contract, the Reinsurers shall incur all losses incurred under the covered policies and certificates of insurance that fall below the Loss Limit, including all losses incurred prior to or during any Suspension Period, subject to the Loss Limit and the 300% accident year loss ratio cap.
Premium:	30% of earned premium received on covered policies and certificates of insurance
Commissions:	20% of ceded earned premium received
Effective date:	July 1, 2015
Termination:	This contract shall apply to all earned premium received on, and to all losses incurred under, covered policies until 11:59 p.m. (Central Standard Time) on December 31, 2024. The company may, subject to certain restrictions related to being current on payments due the Reinsurers and meeting the GSEs' Private Mortgage Insurer Eligibility Requirements, terminate this contract effective 11:59 p.m.(Central Standard Time) on December 31, 2018, with a termination fee of $14,625,000. The company may terminate this contract on a cut-off basis and without penalty with 30 days' written notice in the event that the company is unable to realize full financial statement credit, full credit under applicable regulatory requirements, or at least 90% of the full credit amount for reinsurance ceded under the GSEs' Private Mortgage Insurer Eligibility Requirements. Any Reinsurer may terminate with 30 days' written notice under circumstances of a change in control; if the company novates, transfers, or assigns the subject of this contract to an entity with which there was no corporate affiliation on the effective date; or upon the occurrence of certain events suggestive of financial distress.

2. Type: Quota Share

Reinsurers:		
	Everest Reinsurance Company	21.5%
	Markel Global Reinsurance Company	12.0%
	Partner Reinsurance Company of the U.S.	12.0%
	AXIS Reinsurance Company	10.0%
	Renaissance Reinsurance Ltd.	11.5%
	Transatlantic Reinsurance Company	9.0%
	General Reinsurance Corporation	9.0%
	Aspen Insurance UK Limited	5.0%
	Third Point Reinsurance Company Ltd.	4.5%
	Hamilton Re, Ltd.	3.0%
	Greenlight Reinsurance Limited	2.5%
	Total	100.0%

Scope:	All certificates of insurance that meet certain eligibility criteria, including the primary mortgage guaranty master policies related to any such certificates, issued on or after January 1, 2017 through 11:59 p.m. on December 29, 2017
Retention:	70% of losses, loss adjustment expenses, extra contractual obligations, and excess limits liability under policies and certificates of insurance within the scope of this contract and 100% of any ex gratia payments In addition, for each accident year, the company shall retain 100% of losses, including loss adjustment expenses, extra contractual obligations, and excess limits liability, in excess of a 300% accident year loss ratio for that accident year.
Coverage:	30% of losses, including loss adjustment expenses, extra contractual obligations, and excess limits liability, under policies and certificates of insurance within the scope of this contract If the aggregate loss ratio on covered policies and certificates of insurance exceeds 200% (the “Loss Limit”), then the Reinsurers’ obligation with respect to losses shall be suspended until such time as the aggregate loss ratio falls below the Loss Limit (the “Suspension Period”), except that all losses incurred under covered policies and certificates of insurance for any accident year in excess of a 300% accident year loss ratio shall be excluded from the computation of the Loss Limit. The company shall continue to remit reinsurance premium to the Reinsurers during any Suspension Period. Upon the aggregate loss ratio falling below the Loss Limit prior to termination of the contract, the Reinsurers shall incur all losses incurred under the covered policies and certificates of insurance that fall below the Loss Limit, including all losses incurred prior to or during any Suspension Period, subject to the Loss Limit and the 300% accident year loss ratio cap.
Premium:	30% of earned premium received on covered policies and certificates of insurance
Commissions:	20% of ceded earned premium received
Effective date:	January 1, 2017
Termination:	This contract shall apply to all earned premium received on, and to all losses incurred under, covered policies until 11:59 p.m. (Central Standard Time) on December 31, 2028. The company may, subject to certain restrictions related to being current on payments due the Reinsurers and meeting the GSEs’ Private Mortgage Insurer Eligibility Requirements, terminate this contract effective 11:59 p.m.(Central Standard Time) on December 31, 2021 with a termination fee of $2,000,000. The company may terminate this contract on a cut-off basis and without penalty with 30 days’ written notice in the event that the company is unable to realize full financial statement credit, full

credit under applicable regulatory requirements, or at least 90% of the full credit amount for reinsurance ceded under the GSEs' Private Mortgage Insurer Eligibility Requirements.

Any Reinsurer may terminate with 30 days' written notice under circumstances of a change in control; if the company novates, transfers, or assigns the subject of this contract to an entity with which there was no corporate affiliation on the effective date; or upon the occurrence of certain events suggestive of financial distress.

Affiliated Assuming Contracts

1. Type: Variable Rate Quota Share

Reinsured: MGIC Indemnity Corporation

Scope: Policies in force prior to the effective date specified in Exhibit A of the contract. These are all of the policies under which new business was acquired from August 2012 to August 2013.

Retention: 25% of the unpaid principal balance of each mortgage loan insured under policies written by the Reinsured

Coverage: The company participates on each policy at a rate related to the amount of coverage in excess of 25% of the original unpaid principal balance of each mortgage loan insured under policies written or assumed by the Reinsured. The cede rate is the net value of the amount of coverage provided as a percentage less 25%, divided by the amount of coverage provided, expressed as a percentage. For example, a policy providing 30% of coverage will have a cede rate of 16.67% [(30%-25%)/30%], and a pool policy providing 100% of coverage will have a cede rate of 75% [(100%-25%/100%]. Currently, coverage on all covered policies is 5% of the unpaid principal balance of each mortgage loan insured under policies written by the Reinsured.

In the event of termination, unless otherwise agreed by the parties, the liability of the Reinsurer and Reinsured with respect to risk reinsured hereunder prior to the effective date of such termination shall continue on a runoff basis until the expiration, cancellation, or termination of each certificate or coverage document reinsured prior to termination.

Premium: A percentage of company's premium written equal to the cede rate of coverage, less the ceding commission. Currently, the cede rate is 16.67% on all covered policies.

Commissions: 20% of reinsurance premiums paid by the company

Effective date: December 31, 2016, at 11:59 p.m.

Termination: Either party may terminate by providing 30 days' advance written notice, which termination shall be effective on the last day of the calendar quarter next following the calendar quarter during which such notice is given.

	Either party may terminate by providing 30 days' advance written notice in the event that the other party should at any time become insolvent, suffer any impairment of capital, go into or be placed in liquidation or rehabilitation, or has a receiver appointed.
Other:	The parties shall establish and maintain, in proportion to the particular risk or premium retained or assumed, all such reserves as may be required with respect to contingency reserves, claims, loss and loss adjustment expenses, unearned premium reserves, and the Reinsurer's Share under the GSEs Private Mortgage Insurer Eligibility Requirements.

Runoff Captive Reinsurance

MGIC's captive reinsurance program consists of MGIC business cessions to reinsurers that are affiliated with mortgage lending institutions. Under a captive reinsurance arrangement, a portion of the mortgage guaranty insurance risk written by a primary mortgage insurer that pertains to loans originated or serviced by a particular mortgage lender or financial institution is transferred to a reinsurance company (a "captive reinsurer") that is owned or controlled by the loan originator or service institution. The lender establishes a captive reinsurer and undertakes reinsurance assumptions through its captive so as to participate in the profits that can potentially be realized from providing mortgage guaranty insurance on mortgage loans that are originated or serviced by the lender.

MGIC's first captive reinsurance agreement was executed in December, 1996. Mortgage lenders' interest in captive insurance was curtailed by the 2007-08 financial collapse. In 2008, MGIC voluntarily suspended most of its captive arrangements, including those conducted through MRCV, in response to market conditions and requests from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. On March 19, 2013, MGIC agreed to a consent order with the U.S. Consumer Financial Protection Bureau, which was confirmed by a decision of the United States District Court for the Southern District of Florida on April 5, 2013, whereby, among other matters, MGIC agreed not to enter into any new captive mortgage guaranty reinsurance arrangements for a period of ten years. Comparable consent orders were also confirmed by the same court on the same date for competitors Genworth Mortgage Insurance Corporation, United Guaranty Corporation (on behalf of its insurance subsidiaries), and Radian Guaranty Inc. The following schedule summarizes the

change in the scale of the company's captive reinsurance program as of December 31, 2016, in comparison to from December 31, 2011, the date as of which the company was last examined.

	2016	2011
Number of captive treaties	20	44
Premiums ceded	$7,987,000	$44,311,000

(1) As of December 31, 2016, there were 20 entities (excluding sponsored captive participants) that had 53 executed captive treaties with MGIC, all of which were in runoff.
(2) As of December 31, 2011, there were 44 entities (excluding sponsored captive participants) that had 60 executed captive treaties with MGIC, of which 49 were active and 11 were in runoff.

The typical captive reinsurance arrangement is between MGIC and a captive insurance subsidiary of a single lending institution or a group of lending institutions. The MGIC business subject to a captive reinsurance cession consists solely of business that is derived from MGIC's guaranty of mortgages originated or serviced by the participating lending institution. There is no pooling of risk among captive reinsurance agreements. Prior to 2009, risk was transferred from MGIC to the captive reinsurer on an annual aggregate excess of loss basis or on a quota share basis; however, beginning in 2009, only quota share reinsurance structures were offered. Under typical excess of loss agreements, the first layer of exposure is retained by MGIC, an excess layer of risk is ceded to the captive, and any remaining exposure is retained by MGIC. Contracts vary depending on whether the premium is transferred on a written or earned basis and on whether or not contingency reserves are ceded. Calendar year attachment points are determined based on the business produced. The majority of reinsurance coverage has a term of 120 months.

The captive reinsurers are generally not considered authorized reinsurers, and they often use collateral funding arrangements so that the reinsurance transaction may qualify for the recognition of ceded reinsurance credits by the company. Each of the MGIC captive reinsurance agreements provide for a trust or letter of credit to be established by the reinsurer. The entire ceded premium is paid into the trust. The majority of the agreements are aggregate excess of loss, whether in force or in runoff, whereby the reinsurer is required to fund the trust in an amount equal to 10% of the coverage in force under the reinsurance, with the funding requirement remaining applicable even if the assumed risk does not remain in-force. Amounts by which policyholder reserves (the market value of the trust less loss, loss adjustment expense, and

unearned premium reserves) are in excess of 102% of the greater of the contingency reserve, or 20% of the remaining ceded coverage, or in the case of runoff, 100% of the remaining coverage, may be disbursed to the reinsurer under certain conditions and time restrictions.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2016, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the minimum policyholders position calculation.

Mortgage Guaranty Insurance Corporation
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$3,872,821,163	$148,805,468	$3,724,015,695
Stocks:			
Common stocks	272,723,569	1,137,654	271,585,915
Real estate:			
Occupied by the company	15,377,261		15,377,261
Properties held for sale	11,637,231		11,637,231
Cash, cash equivalents, and short-term investments	143,209,975		143,209,975
Other invested assets	75,253	75,253	
Investment income due and accrued	39,117,988		39,117,988
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	49,999,633		49,999,633
Reinsurance:			
Amounts recoverable from reinsurers	25,184,514		25,184,514
Current federal and foreign income tax recoverable and interest thereon	16,067,192	16,067,192	
Net deferred tax asset	486,309,826	297,801,739	188,508,087
Electronic data processing equipment and software	5,582,380		5,582,380
Furniture and equipment, including health care delivery assets	21,839,584	21,839,584	
Receivable from parent, subsidiaries, and affiliates	1,158,509		1,158,509
Write-ins for other than invested assets:			
Other assets nonadmitted	57,643,952	57,643,952	
Cash surrender value of split dollar life plan	284,326	_	284,326
Total Assets	$5,019,032,356	$543,370,842	$4,475,661,514

Mortgage Guaranty Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Losses		$1,133,600,589
Reinsurance payable on paid loss and loss adjustment expenses		(1,991)
Loss adjustment expenses		25,150,760
Other expenses (excluding taxes, licenses, and fees)		50,943,814
Taxes, licenses, and fees (excluding federal and foreign income taxes)		5,285,373
Current federal and foreign income taxes		24,856,751
Borrowed money and interest thereon		155,254,932
Unearned premiums		242,844,274
Ceded reinsurance premiums payable (net of ceding commissions)		44,554,432
Amounts withheld or retained by company for account of others		5,887,879
Remittances and items not allocated		3,981,075
Payable to parent, subsidiaries, and affiliates		3,424,807
Write-ins for liabilities:		
Contingency reserve		1,181,486,239
Accrual for premium refunds		87,769,000
Checks pending escheatment		3,107,548
Liability for pension benefits		2,786,845
Total Liabilities		2,970,932,327
Common capital stock	5,000,000	
Gross paid in and contributed surplus	1,966,463,909	
Unassigned funds (surplus)	(279,152,781)	
Less treasury stock, at cost:		
Common	187,581,941	
Surplus as Regards Policyholders		1,504,729,187
Total Liabilities and Surplus		$4,475,661,514

Mortgage Guaranty Insurance Corporation
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$808,393,766
Deductions:		
Losses incurred	$191,032,973	
Loss adjustment expenses incurred	18,715,436	
Other underwriting expenses incurred	135,383,404	
Write-ins for underwriting deductions:		
Contingency reserve contribution	469,866,343	
Contingency reserve transfer due to Assumption and Novation Agreement	20,524,915	
Total underwriting deductions		835,523,071
Net underwriting gain (loss)		(27,129,305)
Investment Income		
Net investment income earned	101,885,379	
Net realized capital gains (losses)	(2,450,605)	
Net investment gain (loss)		99,434,774
Other Income		
Net gain (loss) from agents' or premium balances charged off	143	
Write-ins for miscellaneous income:		
Other revenue	465,531	
Total other income		465,674
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		72,771,143
Dividends to policyholders		0
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		72,771,143
Federal and foreign income taxes incurred		4,430,986
Net Income		$ 68,340,157

Mortgage Guaranty Insurance Corporation
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$823,573,304
Net investment income			138,280,263
Miscellaneous income			465,674
Total			962,319,241
Benefit and loss related payments		$586,290,844	
Commissions, expenses paid, and aggregate write-ins for deductions		144,159,755	
Federal and foreign income taxes paid (recovered)		1,273,521	
Total deductions			731,724,120
Net cash from operations			230,595,121
Proceeds from investments sold, matured, or repaid:			
Bonds	$469,825,769		
Stocks	44,761,848		
Real estate	30,427,742		
Net gains (losses) on cash, cash equivalents, and short-term investments	6,637		
Total investment proceeds		545,021,996	
Cost of investments acquired (long-term only):			
Bonds	884,996,461		
Stocks	8,090,000		
Real estate	29,915,794		
Total investments acquired		923,002,255	
Net cash from investments			(377,980,259)
Cash from financing and miscellaneous sources:			
Capital and paid in surplus less treasury stock		(27,975,126)	
Borrowed funds		155,000,000	
Other cash provided (applied)		(11,539,974)	
Net cash from financing and miscellaneous sources			115,484,900
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(31,900,238)
Cash, cash equivalents, and short-term investments:			
Beginning of year			175,110,213
End of year			$143,209,975

Mortgage Guaranty Insurance Corporation
Minimum Policyholders Position Calculation
December 31, 2016

Surplus as regards policyholders		$1,504,729,187	
Deferred risk premium maintained in unearned premium reserve		1,108	
Contingency reserve		1,357,530,113	
Loss reserves on specified loans		4,288,743	
Less: Subsidiary's minimum policyholders position		185,607,213	
Total policyholders position			$2,680,941,938
Net minimum policyholders position:			
Individual loans:			
Loan-to-value more than 75%	$1,176,966,519		
Loan-to-value more than 50-75%	3,385,331		
Loan-to-value less than 50%	10		
Total individual loans		1,180,351,860	
Group loans:			
Equity 20-50%, or equity plus prior insurance or a deductible 25-55%	6,447,876		
Equity more than 50%, or equity plus prior insurance or a deductible more than 55%	273,727		
Total group loans		6,721,603	
Deduction of individual or group loans for which the insurer has established a loss and LAE reserve greater than or equal to the minimum policyholders position for said loan		(72,220,671)	
Total minimum policyholders position			1,114,852,792*
Excess of total policyholders position over minimum policyholders position			$1,566,089,146

* 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.

Under the Stipulation and Order in the Matter of Case No. 14-C40387 by Wisconsin's Office of the Commissioner of Insurance dated February 25, 2015, the company is entitled to credit for the share of loss for which JPMorgan Chase Bank, N.A., Chase Home Finance LLC, and Bank of America, N.A. have agreed to compensate the company. The reduction in collective risk exposure for all members of the MGIC Group for the settlement with JPMorgan Chase Bank, N.A., Chase Home Finance LLC and Bank of America, N.A. is limited to a maximum of $870,000,000. The reduction of the direct total minimum policyholders position for all members of the MGIC Group for the settlement with JPMorgan Chase Bank, N.A.,Chase Home Finance LLC and Bank of America, N.A. is limited to a maximum of $27,000,000. As of December 31, 2016, the company's direct minimum policyholders' position was reduced by $1,952,000 under the Stipulation and Order in the Matter of Case No. 14-C40387.

Mortgage Guaranty Insurance Corporation
Analysis of Surplus
For the Five-Year Period Ending December 31, 2016

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

	2016	2015	2014	2013	2012
Surplus, beginning of year	$1,573,889,849	$1,517,678,331	$1,520,640,166	$ 689,104,866	$1,568,782,130
Net income	68,340,157	(77,862,725)	(7,783,228)	(6,971,073)	(808,525,864)
Change in net unrealized capital gains/losses	20,635,558	87,194,646	18,186,588	(31,905,151)	(59,497,576)
Change in net unrealized foreign exchange capital gains/losses	5,509,647	(3,750,876)	(2,681,542)	(60,029)	
Change in net deferred income tax	29,007,585	42,516,252	3,847,165	(30,963,235)	281,367,796
Change in non-admitted assets	(154,363,128)	16,730,362	33,261,672	98,737,630	(368,672,764)
Change in provision for reinsurance				307,319	651,144
Surplus adjustments: Paid in	(27,975,126)			796,000,000	75,000,000
Write-ins for gains and (losses) in surplus:					
Adoption of SSAP 92 & SSAP 102 pension adjustment				(66,888,203)	
SSAP 92 & SSAP 102 net funded status adjustments	(10,315,355)	(8,616,141)	(47,792,490)	73,278,042	
Surplus, end of year	$1,504,729,187	$1,573,889,849	$1,517,678,331	$1,502,640,166	$ 689,104,866

Mortgage Guaranty Insurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2016

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2016	2015	2014	2013	2012
#1	Gross Premium to Surplus	73%	69%	66%	63%	153%
#2	Net Premium to Surplus	56	58	50	52	131
#3	Change in Net Premiums Written	(7)	19	(4)	(12)	(6)
#4	Surplus Aid to Surplus	0	0	1	0	0
#5	Two-Year Overall Operating Ratio	89	95	101*	160*	180*
#6	Investment Yield	2.6*	2.0*	1.4*	1.6*	1.8*
#7	Gross Change in Surplus	(4)	4	0	121*	(56)*
#8	Change in Adjusted Surplus	(3)	4	0	5	(61)*
#9	Liabilities to Liquid Assets	79	74	83	82	107*
#10	Agents' Balances to Surplus	3	3	4	4	10
#11	One-Year Reserve Development to Surplus	(8)	(6)	(4)	(2)	36*

#12	Two-Year Reserve Development to Surplus	(11)	(8)	11	53*	29*
#13	Estimated Current Reserve Deficiency to Surplus	38*	42*	33*	51*	108*

Ratio No. 5, “Two-Year Overall Operating Ratio,” measures the company’s profitability over the previous two-year period and was exceptional from 2012 to 2014. The exceptional ratios were the result of significant losses and loss adjustment expenses incurred during this period as a result of historically high levels of mortgage foreclosures and declining home prices in the U.S., which affected both the number and severity of mortgage guaranty claims. While conditions for mortgage guaranty insurers began to materially improve in 2013, there was and continues to be a sizable backlog in foreclosures.

Ratio No. 6, “Investment Yield,” measures the amount of the company’s net investment income as a percentage of the average amount of cash and invested assets and was considered exceptional in each of the years under examination. The exceptional ratios are primarily a result of the need for the company to maintain a relatively high degree of liquidity during the period under examination, together with a conservative investment approach and the prolonged low interest rate environment in the United States during the period under examination. The company’s investments in common stocks during the period under examination were limited to ownership in subsidiaries.

Ratio No. 7, “Gross Change in Surplus,” was exceptional in 2012 and 2013. In 2012, the company incurred significant underwriting losses due to historically high levels of mortgage foreclosures and declining home prices in the U.S. From 2007 until 2013, both the number and size of mortgage guaranty claims increased significantly. While direct writers of mortgage guaranty insurance began to experience better results in 2013, there was and continues to be a sizable backlog in foreclosures. 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 in 2020. On the same date, Mortgage Guaranty Insurance Corporation received $800 million from MGIC Investment Corporation, consisting of a

$796 million contribution to paid-in surplus and an additional $4 million of other funds. Receipt of these amounts was the driving factor in the exceptional result for this ratio for 2013.

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, and was considered exceptional in 2012. This exceptional result was primarily due to the company incurring significantly large losses and loss adjustment expenses in that year.

Ratio No. 9, “Liabilities to Liquid Assets,” measures the company’s ability to meet the financial demands that may be placed upon it and was considered exceptional in 2012. The exceptional result for that year is primarily attributable to significant reserve strengthening and increased claim obligations.

Ratio No. 11, “One-Year Reserve Development to Surplus,” measures a company’s one-year loss reserve development as a percent of the prior years’ policyholders’ surplus and was considered exceptional in 2012. The exceptional result for 2012 is attributable to a large loss settlement during 2012 and proposed settlements, the value of which was more than what was previously reserved as of December 31, 2011.

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 2012 and 2013. The exceptional results for 2012 and 2013 are attributable to a large loss settlement during 2012, the value of which was more than what was previously reserved.

Ratio No. 13, “Estimated Current Reserve Deficiency to Policyholders’ Surplus,” provides an estimate of the adequacy of an insurer’s stated reserves as a percentage of surplus, based on current net premiums earned and an average ratio of developed reserves to earned premiums for the previous two years. The results of this ratio were considered exceptional from 2012 to 2015 inclusive due to the significant losses and loss adjustment expenses paid by the company during much of 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 each of the company’s Actuarial Opinions as of

December 31, 2012, 2013, 2014, 2015, and 2016, the company's independent actuary asserts that the results for this ratio are not meaningful because the earned premium and the losses in each of those years are not comparable on a calendar year basis because a significant portion of the earned premium in each of those years reflects more recent policy years that have a lower propensity for losses. These assertions would seem to be borne out by the results for Ratio No. 11, "One –Year Reserve Development to Surplus", and Ratio No. 12, "Two-Year Reserve Development to Surplus", for the period under examination, which have generally evidenced favorable reserve developments after 2013.

Growth of Mortgage Guaranty Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2016	$4,475,661,514	$2,970,932,327	$1,504,729,187	$ 68,340,157
2015	4,274,846,978	2,700,957,129	1,573,889,849	(77,862,725)
2014	4,162,463,705	2,644,785,374	1,517,678,331	(7,783,228)
2013	4,406,235,074	2,885,594,908	1,520,640,166	(6,971,073)
2012	4,355,038,466	3,665,933,600	689,104,866	(808,525,864)
2011	5,528,912,276	3,960,130,146	1,568,782,130	(397,086,634)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2016	$1,093,781,389	$843,974,501	$808,393,766	25.9%	74.1%	100.0%
2015	1,081,531,564	905,462,727	801,454,669	36.8%	64.0%	100.8%
2014	1,003,822,284	758,065,427	731,537,659	59.2%	47.6%	106.8%
2013	963,965,525	793,454,311	812,938,979	91.1%	19.7%	110.8%
2012	1,051,435,315	904,154,139	904,049,659	202.5%	16.7%	219.2%
2011	1,135,275,688	957,696,283	986,344,716	152.6%	16.1%	168.7%

From 2007 until 2013, the United States suffered from historically high levels of mortgage foreclosures and declining home prices, which affected both the number and severity of mortgage guaranty claims. Officially, the worst economic decline in the United States since the Great Depression began in December, 2007, and ended in June, 2009; and while the expansion that followed has been the longest on record, the recovery has been very slow and subdued. This has been reflected in tepid wage gains and an historically low level of labor force participation. Pent-up demand for housing, together with an exceptionally low inventory of housing units for sale, a very constrained supply of new construction (particularly for starter

homes), and an unprecedented period of exceptionally low interest rates, have led to a sharp rebound in housing prices. During the period under examination, assets and liabilities decreased by 19% and 25%, respectively, as the company continued to reduce its claims inventory. Policyholders' surplus decreased by 4%, since the company's parent, MGIC Investment Corporation, was able to raise substantial additional capital and thereby contribute to the company sufficient surplus to offset the losses and loss adjustment expenses incurred due to the enormous volume and severity of claims during the period under examination.

Gross premium written has declined by 3.7% from 2011 to 2016, as the company and its competitors in the private mortgage guaranty insurance industry face continuing competitive pressure from the Federal Housing Administration, which is a public sector alternative to private mortgage insurance. The overall cost of securing and maintaining a guaranty from the FHA is typically much higher than for borrower paid private mortgage insurance paid on a monthly basis until the borrower achieves a 22% equity position. However, the fact that the upfront mortgage insurance fee of 1.75% of the base loan amount can be rolled into the mortgage loan is easier on a borrower's cash flow in the immediate run at the time of closing.

Net premium written and net premium earned declined by 11.9% and 18%, respectively, due mainly to the company's greater use of non-affiliated reinsurance, which helps the company to meet the GSEs' Private Mortgage Insurer Eligibility Requirements. The PMIERs, which must be revised every two years to be kept completely up-to-date, do not coincide with the 5 to 12 year duration of most forms of insurance coverage issued by the company. Accordingly, the company and its competitors in the mortgage guaranty insurance industry must maintain very conservative capital and surplus positions, in part due to the highly unpredictable nature of PMIERs.

MGIC's loss and loss adjustment expense ratio has improved dramatically since 2013 owing to the economic and housing market recovery experienced in the United States since that time. There have been notable decreases in the default inventory and in new default notices. Cure rates on newer default notices have improved as well. During this same period, the expense ratio has increased substantially, driven by increases in the contingency reserve. Wisconsin law provides that changes in the contingency reserve run through the income

statement rather than as direct adjustments to surplus. In this respect, Wisconsin law differs from the provisions of the NAIC's Statement of Statutory Accounting Principles No. 58, paragraph 22. The same factor had much to do with the net losses reported by the company in 2014 and 2015.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2016, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. This comment and recommendation contained in the last examination report and action taken by the company is as follows:

1. Premium Receivable Allowance—It is recommended that the company disclose in the Annual Statement, Notes to Financial Statements, No. 1.B. "Use of Estimates", a description and calculated estimate of its premium receivable allowance and that the uncollected premiums and agents' balances in course of collection balance is reported net of this estimate.

   Action—Compliance.

Summary of Current Examination Results

The current examination resulted in no adverse or material findings.

VIII. CONCLUSION

Mortgage Guaranty Insurance Corporation is a direct wholly owned subsidiary of MGIC Investment Corporation, its ultimate controlling person. The MGIC Group established the modern private mortgage guaranty industry when the insurer now known as MGIC Indemnity Corporation commenced the sale of such insurance in 1957. Private mortgage insurance is a critical component of the residential mortgage finance system in the United States that helps families and individuals achieve homeownership by making low down payment mortgages possible. Business is actively conducted in all U.S. States, the District of Columbia, Puerto Rico, and Guam.

As of December 31, 2016, the company reported assets of $4,475,661,514, liabilities of $2,970,932,327, and policyholders' surplus of $1,504,729,187. Operations for 2016 produced a net income of $68,340,157. Policyholders' surplus has decreased from $1,568,782,130 as of year-end 2011 to $1,504,729,187 as of year-end 2016. This represents a decrease of 4.1% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2011, when policyholders' surplus was last verified by examination, to December 31, 2016:

Policyholders' surplus, December 31, 2011	$1,568,782,130
Paid-in surplus adjustments	843,024,874
Net income	(832,802,733)
Change in non-admitted assets	(374,306,228)
Change in net deferred income tax	325,775,563
Adoption of SSAP 92 and SSAP 102 pension adjustments	(66,888,203)
Change in net unrealized capital gains/(losses)	34,614,065
SSAP 92 and SSAP 102 net funded status adjustments	6,554,056
Change in net unrealized foreign exchange capital gains/(losses)	(982,800)
Change in provision for reinsurance	958,463
Policyholders' Surplus, December 31, 2016	$1,504,729,187

From 2007 until 2013, the United States suffered from historically high levels of mortgage foreclosures and declining home prices, which affected both the number and severity of mortgage guaranty claims. Officially, the worst economic decline in the United States since the Great Depression began in December, 2007, and ended in June, 2009; and while the expansion

that followed has been the longest on record, the recovery has been very slow and subdued. This has been reflected in tepid wage gains and an historically low level of labor force participation. Pent-up demand for housing, together with an exceptionally low inventory of housing units for sale, a very constrained supply of new construction (particularly for starter homes), and an unprecedented period of exceptionally low interest rates, have led to a sharp rebound in housing prices. During the period under examination, assets and liabilities decreased by 19% and 25%, respectively, as the company continued to reduce its claims inventory. Policyholders' surplus decreased by 4%, since the company's parent, MGIC Investment Corporation, was able to raise substantial additional capital and thereby contribute to the company sufficient surplus to offset the losses and loss adjustment expenses incurred due to the enormous volume and severity of claims during the period under examination.

Gross premium written has declined by 3.7% from 2011 to 2016, as the company and its competitors in the private mortgage guaranty insurance industry face continuing competitive pressure from the Federal Housing Administration, which is a public sector alternative to private mortgage insurance. The overall cost of securing and maintaining a guaranty from the FHA is typically much higher than for borrower-paid private mortgage insurance paid on a monthly basis until the borrower achieves a 22% equity position. However, the fact that the FHA's upfront mortgage insurance fee of 1.75% of the base loan amount can be rolled into the mortgage loan is easier on a borrower's cash flow in the immediate run at the time of closing.

Net premium written and net premium earned declined by 11.9% and 18%, respectively, due mainly to the company's greater use of non-affiliated reinsurance, which helps the company to meet the GSEs' Private Mortgage Insurer Eligibility Requirements. The PMIERs, which must be revised every two years to be kept completely up-to-date, do not coincide with the 5 to 12 year duration of most forms of insurance coverage issued by the company. Accordingly, the company and its competitors in the mortgage guaranty insurance industry must maintain very conservative capital and surplus positions, in part due to the highly unpredictable nature of PMIERs.

MGIC's loss and loss adjustment expense ratio has improved dramatically since 2013 owing to the economic and housing market recovery experienced in the United States since

that time. There have been notable decreases in the default inventory and in new default notices. Cure rates on newer default notices have improved as well. During this same period, the expense ratio has increased substantially, driven by increases in the contingency reserve. Wisconsin law provides that changes in the contingency reserve run through the income statement rather than as direct adjustments to surplus. In this respect, Wisconsin law differs from the provisions of the NAIC's Statement of Statutory Accounting Principles No. 58, paragraph 22. The same factor had much to do with the net losses reported by the company in 2014 and 2015.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

X. ACKNOWLEDGMENT

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

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

Name	Title
Jerry C. DeArmond	Insurance Financial Examiner – Advanced, Loss Reserve Specialist
Tom M. Janke	Insurance Financial Examiner – Journey
Adrian A. Jaramillo	Insurance Financial Examiner
John E. Litweiler	Insurance Financial Examiner – Advanced, Exam Planning & Quality Control Specialist
Eleanor Lu	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Vickie O. Ostien	Insurance Financial Examiner – Journey
Yi Xu	Insurance Financial Examiner

Respectfully submitted,

Ana J. Careaga
Examiner-in-Charge