

MGIC INVESTMENT CORP
Form 10-K
February 29, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission file number 1-10816

MGIC INVESTMENT CORPORATION
(Exact name of registrant as specified in its charter)

WISCONSIN
(State or other jurisdiction of incorporation or
organization)

39-1486475
(I.R.S. Employer Identification No.)

MGIC PLAZA, 250 EAST KILBOURN AVENUE,
MILWAUKEE, WISCONSIN
(Address of principal executive offices)

53202
(Zip Code)

(414) 347-6480
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Common Stock, Par Value \$1 Per Share Common Share Purchase Rights
Name of Each Exchange on Which Registered:	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

Title of Class:	None
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

State the aggregate market value of the voting common stock held by non-affiliates of the Registrant as of June 30, 2011: Approximately \$1.2 billion*

* Solely for purposes of computing such value and without thereby admitting that such persons are affiliates of the Registrant, shares held by directors and executive officers of the Registrant are deemed to be held by affiliates of the Registrant. Shares held are those shares beneficially owned for purposes of Rule 13d-3 under the Securities Exchange Act of 1934 but excluding shares subject to stock options.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of February 15, 2012: 201,467,075

The following documents have been incorporated by reference in this Form 10-K, as indicated:

Document	Part and Item Number of Form 10-K Into Which Incorporated*
Proxy Statement for the 2012 Annual Meeting of Shareholders	Items 10 through 14 of Part III

* In each case, to the extent provided in the Items listed.

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PART I

Item 1. Business.

A. General

We are a holding company and through wholly-owned subsidiaries we are the largest private mortgage insurer in the United States, as measured by \$172.9 billion of primary insurance in force at December 31, 2011. In 2011, our net premiums written were \$1.1 billion and our new insurance written was \$14.2 billion. As of December 31, 2011, our primary risk in force was \$44.5 billion. For further information about our results of operations, see our consolidated financial statements in Item 8. As of December 31, 2011, our principal subsidiary, Mortgage Guaranty Insurance Corporation (“MGIC”), was licensed in all 50 states of the United States, the District of Columbia, Puerto Rico and Guam. During 2011, MGIC wrote new insurance in each of those jurisdictions. We have capitalized MGIC Indemnity Corporation (“MIC”) to begin writing new insurance in certain jurisdictions if MGIC no longer meets, and is unable to obtain a waiver of, the minimum capital requirements of those jurisdictions. For more information about the formation of MIC and our plans to utilize it to continue writing new insurance in those jurisdictions, see the risk factor titled “Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” in Item 1A. In addition to mortgage insurance on first mortgage loans, we, through subsidiaries other than MGIC, provide lenders with various underwriting and other services and products related to home mortgage lending.

Overview of the Private Mortgage Insurance Industry

We established the private mortgage insurance industry in 1957 to provide a private market alternative to federal government insurance programs. Private mortgage insurance covers losses from homeowner defaults on residential mortgage loans, reducing and, in some instances, eliminating the loss to the insured institution if the homeowner defaults. Private mortgage insurance plays an important role in the housing finance system by assisting consumers, especially first-time homebuyers, to affordably finance homes with less than a 20% down payment, thereby expanding homeownership opportunities. In this annual report, we refer to loans with less than 20% down payments as “low down payment” mortgages or loans. During 2008, 2009, 2010 and 2011, approximately \$193 billion, \$82 billion, \$70 billion and \$76 billion, respectively, of mortgages were insured by private mortgage insurance companies.

The Federal National Mortgage Association, commonly known as Fannie Mae, and the Federal Home Loan Mortgage Corporation, commonly known as Freddie Mac, purchase residential mortgages from mortgage lenders and investors as part of their governmental mandate to provide liquidity in the secondary mortgage market. In this annual report, we refer to Fannie Mae and Freddie Mac collectively as the “GSEs.” The GSEs cannot buy low down payment loans without certain forms of credit enhancement, one of which is private mortgage insurance. Therefore, private mortgage insurance facilitates the sale of low down payment mortgages in the secondary mortgage market to the GSEs. Private mortgage insurance also reduces the regulatory capital that depository institutions are required to hold against low down payment mortgages that they hold as assets.

The GSEs have been the major purchaser of the mortgages underlying flow new insurance written by mortgage insurers. As a result, the private mortgage insurance industry in the U.S. is defined in part by the requirements and practices of the GSEs. These requirements and practices, as well as those of the federal regulators that oversee the GSEs and lenders, impact the operating results and financial performance of companies in the mortgage insurance industry. In September 2008, the Federal Housing Finance Agency (“FHFA”) was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The financial reform legislation passed in July 2010 (the “Dodd-Frank Act” or “Dodd-Frank”) required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released on February 11, 2011 and while it does not provide any definitive timelines for GSE reform, it does recommend using a

combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. Members of the House of Representatives and the Senate have since introduced several bills intended to scale back the GSEs. As a result of the matters referred to above, it is uncertain what role the GSEs, Federal Housing Administration ("FHA") and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact on our business is uncertain. Any changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last. See the risk factor titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses" in Item 1A.

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The U.S. single-family residential mortgage market experienced long-term growth, including an increase in mortgage debt outstanding every year between 1985, when our principal subsidiary, MGIC, began operations, and 2007. The rate of growth in U.S. residential mortgage debt was particularly strong from 2001 through 2006. In 2007, this growth rate began slowing and, since 2007, U.S. residential mortgage debt has decreased. During the last several years of the period of growth and continuing through 2007, the mortgage lending industry increasingly made home loans at higher loan-to-value (“LTV”) ratios, to individuals with higher risk credit profiles and based on less documentation and verification of information regarding the borrower. Beginning in 2007, job creation slowed and the housing markets began slowing in certain areas, with declines in certain other areas. In 2008 and 2009, payroll employment in the U.S. decreased substantially and nearly all geographic areas in the U.S. experienced home price declines. Together, these conditions resulted in significant adverse developments for us and our industry. After earning an average of approximately \$580 million annually from 2004 through 2006 and \$169 million in the first half of 2007, we had aggregate net losses of \$4.4 billion for the years 2007-2011, including \$486 million for 2011. The insurer financial strength rating of MGIC was downgraded a number of times by the rating agencies from 2008 through 2012. See the risk factor titled “MGIC may not continue to meet the GSEs’ mortgage insurer eligibility requirements” in Item 1A.

The insurance laws or regulations of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the “Capital Requirements.” Although we currently meet the Capital Requirements of the jurisdictions in which we write business, we requested and received from the Office of the Commissioner of Insurance for Wisconsin (“OCI”), a waiver of its Capital Requirements in order to prepare for the likelihood that we will not meet those requirements in the future, and we will request waivers in all other jurisdictions that have Capital Requirements before they are needed. We also funded MGIC Indemnity Corporation (“MIC”), a direct subsidiary of MGIC, and obtained the required state and GSE approvals for MIC to write new business in jurisdictions where MGIC no longer met, or was not able to obtain a waiver of, the Capital Requirements. The GSEs have only approved MIC for use in certain states. The OCI or other insurance departments may modify or terminate MGIC’s existing waivers or fail to grant them or renew them when they expire. In 2011, one of our competitors ceased writing new business after the waiver of Capital Requirements it received from its domiciliary state expired. Also in 2011, another competitor, and the subsidiary it had established to write new business if it was no longer able to, ceased writing new business. Each of these competitors has been placed under the supervision of the insurance department of its respective domiciliary state and each is paying claim payments under a partial payment plan. For additional information see our risk factor titled “Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” in Item 1A.

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Beginning in late 2007, we implemented a series of changes to our underwriting guidelines that are designed to improve the risk profile of our new business. The changes primarily affect borrowers who have multiple risk factors such as a high loan-to-value ratio, a lower FICO score and limited documentation or are financing a home in a market we categorize as higher risk and the changes included the creation of “restricted markets.” Our underwriting criteria for restricted markets do not allow insurance to be written on certain loans that could be insured if the property were located in an unrestricted market. While we expect our insurance written beginning in the second quarter of 2008 will generate underwriting profits as a result of these underwriting guideline changes, the loans insured from 2006 until the effectiveness of the new guidelines continue to experience significantly higher than historical claim rates and incurred losses. For more information, see the risk factor titled “We have reported net losses for the last five years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability” in Item 1A.

From time to time, in response to market conditions, we change the types of loans that we insure and the guidelines under which we insure them. In addition, we make exceptions to our underwriting guidelines on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 4% of the loans we insured in 2010 and fewer than 5% of the loans we insured in 2011. A large percentage of the exceptions were made for loans with debt-to-income ratios slightly above our guideline. Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future. Our underwriting guidelines are available on our website at <http://www.mgic.com/guides/underwriting.html>.

In 2011, the factors that influence our incurred losses were mixed. We believe that modestly increasing payroll employment and a modestly decreasing unemployment rate, combined with a reduced number of loans in force, resulted in approximately 18% fewer new delinquent notices being reported to us in 2011 compared to 2010. However, the total level of unemployment remained materially higher than the levels of 2007 and home prices in most regions continued to decline, albeit at a slower pace. These conditions contributed to the level of loans that cured their delinquency status not improving as much as we expected at the beginning of the year. For more information, see the risk factor titled “Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves” in Item 1A.

Although loan modification programs continued to mitigate our losses in 2011, the number of completed loan modifications in 2011 was significantly less than in 2010. Recent announcements by the U.S. Treasury have extended the end date of the Home Affordable Modification Program (“HAMP”) through 2013, expanded the eligibility criteria of HAMP and increased lenders’ incentives to modify loans through principal forgiveness. Approximately 68% of the loans in our primary delinquent inventory are guaranteed by the GSEs. The GSEs have informed us that they already use expanded criteria (beyond the HAMP guidelines) for determining eligibility for loan modification and currently do not offer principal forgiveness. Therefore, we currently expect new loan modifications will continue to only modestly mitigate our losses in 2012. For more information, see the risk factor titled “Loan modifications and other similar programs may not continue to provide material benefits to us and our losses on loans that re-default can be higher than what we would have paid had the loan not been modified” in Item 1A. Finally, although our loss reserves as of December 31, 2011 continued to be significantly impacted by expected rescission activity, the impact was less than as of December 31, 2010. We expect that the reduction of our loss reserves due to rescissions will continue to decline because our recent experience indicates new notices in our default inventory have a lower likelihood of being rescinded than those already in the inventory. For more information, see the risk factor titled “Our losses could increase if rescission rates decrease faster than we are projecting or we do not prevail in proceedings challenging whether our rescissions were proper” in Item 1A.

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The mortgage insurance industry competes with governmental agencies and products designed to eliminate the need to purchase private mortgage insurance. For flow business, we and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies that sponsor government-backed mortgage insurance programs, principally the FHA and, to a lesser degree, the Veterans Administration (the “VA”). During 2011 and 2010, the FHA and VA accounted for approximately 78.6% and 83.9%, respectively, of the total low down payment residential mortgages that were subject to FHA, VA or private mortgage insurance, a substantial increase from an approximately 22.7% market share in 2007, according to statistics reported by Inside Mortgage Finance. The increase in market share of the FHA and VA, coupled with the decrease in the level of mortgage loan originations overall, has led to a decrease in our new insurance written from \$76.8 billion in 2007 to \$14.2 billion in 2011.

As noted above, the combined market share of the FHA and VA decreased in 2011 compared to 2010, a trend that has been positive for the mortgage insurance industry. This decrease may have been influenced by the different rate structures and changes to underwriting criteria implemented by several mortgage insurers, including MGIC, during 2010 and 2011, as well as changes to FHA’s pricing that became effective in October 2010. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Consolidated Operations – New Insurance Written,” in Item 7.

Dodd-Frank requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. This risk retention requirement does not apply to mortgage loans that are “Qualified Residential Mortgages” (“QRMs”) or that are insured by the FHA or another federal agency. In March 2011, federal regulators issued the proposed risk retention rule that includes a definition of QRM. The proposed definition of QRM contains many underwriting requirements, including a maximum loan-to-value ratio (“LTV”) of 80% on a home purchase transaction, a prohibition on seller contributions toward a borrower’s down payment or closing costs, and certain limits on a borrower’s debt-to-income ratio. The LTV is to be calculated without including mortgage insurance. The following table shows the percentage of our new risk written by LTV for 2011 and 2010.

	Percentage of new risk written			
	2011		2010	
LTV:				
80% and under	0	%	0	%
80.1% - 85%	6	%	7	%
85.1% - 90%	41	%	48	%
90.1% - 95%	50	%	44	%
95.1% - 97%	3	%	1	%
> 97%	0	%	0	%

The regulators requested public comments regarding an alternative QRM definition, the underwriting requirements of which would allow loans with a maximum LTV of 90%, higher debt-to-income ratios than allowed under the proposed QRM definition, and that may consider mortgage insurance in determining whether the LTV requirement is met. We estimate that approximately 22% of our new risk written in 2011 was on loans that would have met the alternative QRM definition. The regulators also requested that the public comments include information that may be used to assess whether mortgage insurance reduces the risk of default. We submitted a comment letter, including studies to the effect that mortgage insurance reduces the risk of default. The public comment period for the proposed rule expired on August 1, 2011. At this time we do not know when a final rule will be issued. Under the proposed rule, because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, lenders that originate loans that are sold to the GSEs while they are in conservatorship will not be required to retain risk associated with those loans.

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Due to the changing environment described above, as well as other factors discussed below, at this time we are facing the following particularly significant challenges:

Whether we may continue to write insurance on new residential mortgage loans due to actions our regulators or the GSEs could take upon deterioration in our capital position or based upon their projections of future deterioration in our capital position. For additional information about this challenge, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Capital” in Item 7 and our risk factors titled “Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis,” “MGIC may not continue to meet the GSEs’ mortgage insurer eligibility requirements” and “We have reported losses for the last five years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability” in Item 1A.

Whether we will prevail in legal proceedings challenging whether our rescissions were proper. For additional information about this challenge and other potentially significant challenges that we face, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Rescissions” in Item 7 and our risk factors titled “Our losses could increase if rescission rates decrease faster than we are projecting or we do not prevail in proceedings challenging whether our rescissions were proper” and “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future” in Item 1A. An adverse outcome in these matters would negatively impact our capital position. For more information regarding our capital position, refer to the first challenge listed above.

Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. A definition of QRM that significantly impacts the volume of low down payment mortgages available to be insured, or a possible restructuring or change in the charters of the GSEs, could significantly affect our business. For additional information about this challenge, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Qualified Residential Mortgages” and “— GS Reform” in Item 7 and the risk factors titled “Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses” and “The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage results in a reduction of the number of low down payment loans available to be insured or if lenders and investors select alternatives to private mortgage insurance” in Item 1A.

General Information About Our Company

We are a Wisconsin corporation organized in 1984. Our principal office is located at MGIC Plaza, 250 East Kilbourn Avenue, Milwaukee, Wisconsin 53202 (telephone number (414) 347-6480).

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As used in this annual report, “we,” “us” and “our” refer to MGIC Investment Corporation’s consolidated operations. Less than majority-owned joint ventures and investments are not consolidated with us for financial reporting purposes, are not our subsidiaries and are not included in the terms “we,” “us” and “our.” The discussion of our business in this document generally does not apply to our Australian operations, which have historically been immaterial. The results of our operations in Australia are included in the consolidated results disclosed. For information about our Australian operations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Australia” in Item 7.

Our revenues and losses may be materially affected by the risk factors applicable to us that are included in Item 1A of this annual report. These risk factors are an integral part of this annual report. These risk factors may also cause actual results to differ materially from the results contemplated by forward looking statements that we may make. Forward looking statements consist of statements which relate to matters other than historical fact. Among others, statements that include words such as we “believe,” “anticipate” or “expect,” or words of similar import, are forward looking statements. We are not undertaking any obligation to update any forward looking statements or other statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. No reader of this annual report should rely on these statements being current at any time other than the time at which this annual report was filed with the Securities and Exchange Commission.

B. Our Products and Services

Mortgage Insurance

In general, there are two principal types of private mortgage insurance: “primary” and “pool.” We are currently not issuing new commitments for pool insurance and expect that the volume of any future pool business will be insignificant to us. In our industry, a “book” is a group of loans that a mortgage insurer insures in a particular period, normally a calendar year. We refer to the insurance that has been written by MGIC as the “MGIC Book.”

Primary Insurance. Primary insurance provides mortgage default protection on individual loans and covers unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure (collectively, the “claim amount”). In addition to the loan principal, the claim amount is affected by the mortgage note rate and the time necessary to complete the foreclosure process, which can be lengthened due to foreclosure moratoriums and suspensions. For the effect of foreclosure moratoriums and suspensions on the claim amount, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Loan Modification and Other Similar Programs” in Item 7. The insurer generally pays the coverage percentage of the claim amount specified in the primary policy, but has the option to pay 100% of the claim amount and acquire title to the property. Primary insurance is generally written on first mortgage loans secured by owner occupied single-family homes, which are one-to-four family homes and condominiums. Primary insurance is also written on first liens secured by non-owner occupied single-family homes, which are referred to in the home mortgage lending industry as investor loans, and on vacation or second homes. Primary coverage can be used on any type of residential mortgage loan instrument approved by the mortgage insurer.

References in this document to amounts of insurance written or in force, risk written or in force and other historical data related to our insurance refer only to direct (before giving effect to reinsurance) primary insurance, unless otherwise indicated. References in this document to “primary insurance” include insurance written in bulk transactions that was supplemental to mortgage insurance written in connection with the origination of the loan or that reduces a lender’s credit risk to less than 51% of the value of the property. For more than the past five years, reports by private mortgage insurers to the trade association for the private mortgage insurance industry have classified mortgage insurance that is supplemental to other mortgage insurance or that reduces a lender’s credit risk to less than 51% of the

value of the property as pool insurance. The trade association classification is used by members of the private mortgage insurance industry in reports to Inside Mortgage Finance, a mortgage industry publication that computes and publishes primary market share information.

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Primary insurance may be written on a flow basis, in which loans are insured in individual, loan-by-loan transactions, or may be written on a bulk basis, in which each loan in a portfolio of loans is individually insured in a single, bulk transaction. New insurance written on a flow basis was \$14.2 billion in 2011 compared to \$12.3 billion in 2010 and \$19.9 billion in 2009. No new insurance for bulk transactions was written in 2011, 2010 or 2009. We expect the volume of any future business written through the bulk channel will be insignificant to us. As noted in “- Bulk Transactions” below, in the fourth quarter of 2007, we stopped writing bulk insurance for mortgage loans included in home equity (or “private label”) securitizations, which are the terms the market uses to refer to securitizations sponsored by firms other than the GSEs or Ginnie Mae, such as Wall Street investment banks. We refer to portfolios of loans we insured through the bulk channel that we knew would serve as collateral in a home equity securitization as “Wall Street bulk transactions.”

The following table shows, on a direct basis, primary insurance in force (the unpaid principal balance of insured loans as reflected in our records) and primary risk in force (the coverage percentage applied to the unpaid principal balance) for the MGIC Book as of the dates indicated:

Primary Insurance and Risk In Force

	2011	2010	December 31, 2009	2008	2007
			(In millions)		
Direct Primary Insurance In Force	\$172,873	\$191,250	\$212,182	\$226,955	\$211,745
Direct Primary Risk In Force	\$44,462	\$48,979	\$54,343	\$58,981	\$55,794

For loans sold to Fannie Mae or Freddie Mac, the coverage percentage must comply with the requirements established by the particular GSE to which the loan is delivered. For other loans, the lender determines the coverage percentage we provide, from the coverage percentages that we offer.

We charge higher premium rates for higher coverage percentages. Higher coverage percentages generally result in increased severity, which is the amount paid on a claim, and lower coverage percentages generally result in decreased severity. In accordance with GAAP for the mortgage insurance industry, reserves for losses are only established for loans in default. Because, historically, relatively few defaults occur in the early years of a book of business, the higher premium revenue from higher coverage has historically been recognized before any significant higher losses resulting from that higher coverage may be incurred. See “- Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation - Claims.” Our premium pricing methodology generally targets substantially similar returns on capital regardless of the depth of coverage. However, there can be no assurance that changes in the level of premium rates adequately reflect the risks associated with changes in the coverage percentage.

The GSEs have different loan purchase programs that allow different levels of mortgage insurance coverage. Under the “charter coverage” program, on certain loans lenders may choose a mortgage insurance coverage percentage that is less than the GSEs’ “standard coverage” and only the minimum required by the GSEs’ charters, with the GSEs paying a lower price for such loans. In 2011, nearly all of our volume was on loans with GSE standard coverage.

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In general, mortgage insurance coverage cannot be terminated by the insurer. However, we may terminate or rescind coverage for, among other reasons, non-payment of premium, and in the case of fraud, certain material misrepresentations made in connection with the issuance of the insurance policy or if the loan was never eligible for coverage under our policy. See “— Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation — Loss Mitigation.” Mortgage insurance coverage is renewable at the option of the insured lender, at the renewal rate fixed when the loan was initially insured. Lenders may cancel insurance written on a flow basis at any time at their option or because of mortgage repayment, which may be accelerated because of the refinancing of mortgages. In the case of a loan purchased by Freddie Mac or Fannie Mae, a borrower meeting certain conditions may require the mortgage servicer to cancel insurance upon the borrower’s request when the principal balance of the loan is 80% or less of the home’s current value.

Under the federal Homeowners Protection Act, or HPA, a borrower has the right to stop paying premiums for private mortgage insurance on loans closed after July 28, 1999 secured by a property comprised of one dwelling unit that is the borrower’s primary residence when certain loan-to-value ratio thresholds determined by the value of the home at loan origination and other requirements are met. Generally, the loan-to-value ratios used in this annual report represent the ratio, expressed as a percentage, of the dollar amount of the first mortgage loan to the value of the property at the time the loan became insured and do not reflect subsequent housing price appreciation or depreciation. In general, under the HPA a borrower may stop making mortgage insurance payments when the loan-to-value ratio is scheduled to reach 80% (based on the loan’s amortization schedule) or actually reaches 80% if the borrower so requests and if certain requirements relating to the borrower’s payment history, and the absence of junior liens and a decline in the property’s value since origination are satisfied. In addition, a borrower’s obligation to make payments for private mortgage insurance generally terminates regardless of whether a borrower so requests when the loan-to-value ratio (based on the loan’s amortization schedule) reaches 78% of the unpaid principal balance of the mortgage and the borrower is or later becomes current in his mortgage payments. A borrower’s right to stop paying for private mortgage insurance applies only to borrower paid mortgage insurance (see below for a discussion of borrower paid versus lender paid mortgage insurance). The HPA requires that lenders give borrowers certain notices with regard to the cancellation of private mortgage insurance.

In addition, some states require that mortgage servicers periodically notify borrowers of the circumstances in which they may request a mortgage servicer to cancel private mortgage insurance and some states allow borrowers to require the mortgage servicer to cancel private mortgage insurance under certain circumstances or require the mortgage servicer to cancel private mortgage insurance automatically in certain circumstances.

Coverage tends to continue in areas experiencing economic contraction and housing price depreciation. The persistency of coverage in these areas coupled with cancellation of coverage in areas experiencing economic expansion and housing price appreciation can increase the percentage of an insurer’s portfolio comprised of loans in economically weak areas. This development can also occur during periods of heavy mortgage refinancing because refinanced loans in areas of economic expansion experiencing property value appreciation are less likely to require mortgage insurance at the time of refinancing, while refinanced loans in economically weak areas not experiencing property value appreciation are more likely to require mortgage insurance at the time of refinancing or not qualify for refinancing at all and thus remain subject to the mortgage insurance coverage.

The percentage of primary risk written with respect to loans representing refinances was 24.3% in 2011, compared to 28.0% in 2010, and 36.0% in 2009. When a borrower refinances a mortgage loan insured by us by paying it off in full with the proceeds of a new mortgage that is also insured by us, the insurance on that existing mortgage is cancelled, and insurance on the new mortgage is considered to be new primary insurance written. Therefore, continuation of our coverage from a refinanced loan to a new loan results in both a cancellation of insurance and new insurance written. When a lender and borrower modify a loan rather than replace it with a new one, or enter into a new loan pursuant to a loan modification program, our insurance continues without being cancelled, assuming that we consent to the

modification or new loan. As a result, such modifications or new loans, including those modified under the Home Affordable Refinance Program, are not included in our new insurance written.

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In addition to varying with the coverage percentage, our premium rates for insurance vary depending upon the perceived risk of a claim on the insured loan and thus take into account, among other things, the loan-to-value ratio, whether the loan is a fixed payment loan or a non-fixed payment loan (a non-fixed payment loan is referred to in the home mortgage lending industry as an adjustable rate mortgage), the mortgage term and whether the property is the borrower's primary residence. Historically, only our premium rates for A-, subprime loans and certain other loans varied based on the location of the borrower's credit score within a range of credit scores. In general, in this annual report we classify as "A-" loans that have FICO credit scores between 575 and 619 and we classify as "subprime" loans that have FICO credit scores of less than 575. However, in this annual report we classify loans without complete documentation as "reduced documentation" loans regardless of FICO credit score rather than as prime, "A-" or "subprime" loans, although as discussed in footnote 4 to the table titled "Default Statistics for the MGIC Book" in " — Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation — Defaults" below, certain "doc waiver" GSE loans are included as "full doc" loans by us in accordance with industry practice. A FICO credit score is a score based on a borrower's credit history generated by a model developed by Fair Isaac Corporation.

Premium rates cannot be changed after the issuance of coverage. Because we believe that over the long term each region of the United States is subject to similar factors affecting risk of loss on insurance written, we generally utilize a nationally based, rather than a regional or local, premium rate policy for insurance written through the flow channel. However, beginning in 2008, changes in our underwriting guidelines implemented more restrictive standards in markets and for loan characteristics that we categorize as higher risk.

The borrower's mortgage loan instrument may require the borrower to pay the mortgage insurance premium. Our industry refers to loans having this requirement as "borrower paid." If the borrower is not required to pay the premium, then the premium is paid by the lender, who may recover the premium through an increase in the note rate on the mortgage or higher origination fees. Our industry refers to loans in which the premium is paid by the lender as "lender paid." Most of our primary insurance in force and new insurance written, other than through bulk transactions, is borrower paid mortgage insurance. New insurance written through bulk transactions was generally paid for by the securitization vehicles or investors that hold the mortgages, and the mortgage note rate generally does not reflect the premium for the mortgage insurance. In February 2008, Freddie Mac and Fannie Mae informed us and the rest of our industry that they were reviewing the appropriateness of all mortgage insurers' lender-paid insurance premium rates. We are uncertain of the status of these reviews.

There are several payment plans available to the borrower, or lender, as the case may be. Under the monthly premium plan, the borrower or lender pays us a monthly premium payment to provide only one month of coverage. Under the annual premium plan, an annual premium is paid to us in advance, and we earn and recognize the premium over the next twelve months of coverage, with annual renewal premiums paid in advance thereafter and earned over the subsequent twelve months of coverage. The annual premiums can be paid with either a higher premium rate for the initial year of coverage and lower premium rates for the renewal years, or with premium rates which are equal for the initial year and subsequent renewal years. Under the single premium plan, the borrower or lender pays us a single payment covering a specified term exceeding twelve months.

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During each of the last three years, the monthly premium plan represented more than 90% of our new insurance written. The annual and single premium plans represented the remaining new insurance written.

Pool Insurance. Pool insurance is generally used as an additional “credit enhancement” for certain secondary market mortgage transactions. Pool insurance generally covers the excess of the loss on a defaulted mortgage loan which exceeds the claim payment under the primary coverage, if primary insurance is required on that mortgage loan, as well as the total loss on a defaulted mortgage loan which did not require primary insurance. Pool insurance may have a stated aggregate loss limit for a pool of loans and may also have a deductible under which no losses are paid by the insurer until losses on the pool of loans exceed the deductible.

We are currently not issuing new commitments for pool insurance and expect that the volume of any future pool business will be insignificant to us. We wrote no new pool risk in 2011 or 2010, compared to \$4 million in 2009. Our direct pool risk in force was \$1.9 billion (\$0.7 billion on pool policies with aggregate loss limits and \$1.2 billion on pool policies without aggregate loss limits) at December 31, 2011, compared to \$2.7 billion (\$1.2 billion on pool policies with aggregate loss limits and \$1.5 billion on pool policies without aggregate loss limits) at December 31, 2010 and \$3.4 billion (\$1.5 billion on pool policies with aggregate loss limits and \$1.9 billion on pool policies without aggregate loss limits) at December 31, 2009.

Bulk Transactions. In bulk transactions, the individual loans in the insured portfolio are generally insured to specified levels of coverage. The premium in a bulk transaction, which is negotiated with the securitizer or other owner of the loans, is based on the mortgage insurer’s evaluation of the overall risk of the insured loans included in the transaction and is often a composite rate applied to all of the loans in the transaction.

In the fourth quarter of 2007, we stopped writing bulk insurance for loans included in Wall Street bulk transactions. These securitizations represented approximately 41% of our new insurance written for bulk transactions during 2007, and 8% of our risk in force and 66% of our bulk risk in force, at December 31, 2011. We wrote no new business through the bulk channel after the second quarter of 2008. We expect the volume of any future business written through the bulk channel will be insignificant to us. In general, the loans insured by us in Wall Street bulk transactions consisted of loans with reduced underwriting documentation; cash out refinances that exceed the standard underwriting requirements of the GSEs; A- loans; subprime loans; and jumbo loans. A jumbo loan has an unpaid principal balance that exceeds the conforming loan limit. The conforming loan limit is the maximum unpaid principal amount of a mortgage loan that can be purchased by the GSEs. For more information about conforming loan limits, see footnote 5 to the table titled “Characteristics of Primary Risk in Force” in “— Risk in Force and Product Characteristics of Risk in Force” below. For more information about new insurance written through the bulk channel, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Consolidated Operations — Bulk Transactions” in Item 7.

Geographic Dispersion

The following tables reflect the percentage of primary risk in force in the top 10 states and top 10 core-based statistical areas for the MGIC Book at December 31, 2011:

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Dispersion of Primary Risk in Force

Top 10 States

1.	Florida	7.3	%
2.	California	7.3	
3.	Texas	7.0	
4.	Pennsylvania	4.8	
5.	Illinois	4.5	
6.	Ohio	4.4	
7.	New York	3.7	
8.	Michigan	3.7	
9.	Georgia	3.3	
10.	Wisconsin	3.0	
Total		49.0	%

Top 10 Core-Based Statistical Areas

1.	Chicago-Naperville-Joliet	3.2	%
2.	Atlanta-Sandy Springs-Marietta	2.3	
3.	Houston-Baytown-Sugarland	2.2	
4.	Washington-Arlington-Alexandria	2.0	
5.	San Juan-Caguas-Guaynabo	1.7	
6.	Philadelphia	1.7	
7.	Los Angeles-Long Beach-Glendale	1.7	
8.	New York-White Plains-Wayne	1.6	
9.	Dallas-Plano-Irving	1.5	
10.	Minneapolis-St. Paul-Bloomington	1.4	
Total		19.3	%

The percentages shown above for various core-based statistical areas can be affected by changes, from time to time, in the federal government's definition of a core-based statistical area.

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Insurance In Force by Policy Year

The following table sets forth for the MGIC Book the dispersion of our primary insurance in force as of December 31, 2011, by year(s) of policy origination since we began operations in 1985:

Primary Insurance In Force by Policy Year

Policy Year	Flow	Bulk (In millions)	Total	Percent of Total
1985-2002	\$ 6,310	\$ 1,667	\$ 7,977	4.6 %
2003	5,847	1,418	7,265	4.2
2004	7,910	1,621	9,531	5.5
2005	12,839	3,539	16,378	9.5
2006	17,025	6,088	23,113	13.4
2007	39,679	4,743	44,422	25.7
2008	26,223	271	26,494	15.3
2009	13,830	-	13,830	8.0
2010	10,937	-	10,937	6.3
2011	12,926	-	12,926	7.5
Total	\$ 153,526	\$ 19,347	\$ 172,873	100.0 %

Risk In Force and Product Characteristics of Risk in Force

At December 31, 2011 and 2010, 96% and 95%, respectively, of our risk in force was primary insurance and the remaining risk in force was pool insurance. The following table sets forth for the MGIC Book the dispersion of our primary risk in force as of December 31, 2011, by year(s) of policy origination since we began operations in 1985:

Primary Risk In Force by Policy Year

Policy Year	Flow	Bulk (In millions)	Total	Percent of Total
1985-2002	\$ 1,682	\$ 460	\$ 2,142	4.8 %
2003	1,631	436	2,067	4.7
2004	2,203	459	2,662	6.0
2005	3,499	1,075	4,574	10.3
2006	4,420	1,877	6,297	14.2
2007	10,190	1,164	11,354	25.5
2008	6,485	69	6,554	14.7
2009	2,946	-	2,946	6.6
2010	2,656	-	2,656	6.0
2011	3,210	-	3,210	7.2
Total	\$ 38,922	\$ 5,540	\$ 44,462	100.0 %

The following table reflects at the dates indicated the (1) total dollar amount of primary risk in force for the MGIC Book and (2) percentage of that primary risk in force, as determined on the basis of information available on the date of mortgage origination, by the categories indicated.

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Characteristics of Primary Risk in Force

	December 31, 2011		December 31, 2010	
Primary Risk in Force (In Millions):	\$ 44,462		\$ 48,979	
Loan-to-value ratios:(1)				
100s	26.0	%	27.1	%
95s	32.6		30.5	
90s(2)	37.4		37.5	
80s	4.0		4.9	
Total	100.0	%	100.0	%
Loan Type:				
Fixed(3)	92.2	%	91.3	%
Adjustable rate mortgages (“ARMs”)(4)	7.8		8.7	
Total	100.0	%	100.0	%
Original Insured Loan Amount:(5)				
Conforming loan limit and below	95.0	%	94.8	%
Non-conforming	5.0		5.2	
Total	100.0	%	100.0	%
Mortgage Term:				
15-years and under	1.5	%	1.3	%
Over 15 years	98.5		98.7	
Total	100.0	%	100.0	%
Property Type:				
Single-family(6)	89.5	%	89.3	%
Condominium	9.5		9.7	
Other(7)	1.0		1.0	
Total	100.0	%	100.0	%
Occupancy Status:				
Primary residence	94.5	%	94.0	%
Second home	3.0		3.2	
Non-owner occupied	2.5		2.8	
Total	100.0	%	100.0	%
Documentation:				
Reduced documentation(8)	8.7	%	9.8	%
Full documentation	91.3		90.2	
Total	100.0	%	100.0	%
FICO Score:(9)				
Prime (FICO 620 and above)	91.5	%	91.3	%
A Minus (FICO 575 – 619)	6.6		6.8	
Subprime (FICO below 575)	1.9		1.9	
Total	100.0	%	100.0	%

(1) Loan-to-value ratio represents the ratio (expressed as a percentage) of the dollar amount of the first mortgage loan to the value of the property at the time the loan became insured and does not reflect subsequent housing price appreciation or depreciation. Subordinate mortgages may also be present. For purposes of the table, loan-to-value ratios are classified as in excess of 95% (“100s”, a classification that includes 97% to 103% loan-to-value ratio

loans); in excess of 90% loan-to-value ratio and up to 95% loan-to-value ratio (“95s”); in excess of 80% loan-to-value ratio and up to 90% loan-to-value ratio (“90s”); and equal to or less than 80% loan-to-value ratio (“80s”).

(2) We include in our classification of 90s, loans where the borrower makes a down payment of 10% and finances the associated mortgage insurance premium payment as part of the mortgage loan. At each of December 31, 2011 and 2010, 0.9% and 1.3%, respectively, of the primary risk in force consisted of these types of loans.

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- (3) Includes fixed rate mortgages with temporary buydowns (where in effect the applicable interest rate is typically reduced by one or two percentage points during the first two years of the loan), ARMs in which the initial interest rate is fixed for at least five years and balloon payment mortgages (a loan with a maturity, typically five to seven years, that is shorter than the loan's amortization period).
- (4) Includes ARMs where payments adjust fully with interest rate adjustments. Also includes pay option ARMs and other ARMs with negative amortization features, which collectively at December 31, 2011 and 2010, represented 2.7% and 3.1%, respectively, of primary risk in force. As indicated in note (3), does not include ARMs in which the initial interest rate is fixed for at least five years. As of December 31, 2011 and 2010, ARMs with loan-to-value ratios in excess of 90% represented 1.7% and 1.9%, respectively, of primary risk in force.
- (5) Loans within the conforming loan limit have an original principal balance that does not exceed the maximum original principal balance of loans that the GSEs are eligible to purchase. The conforming loan limit is subject to annual adjustment and was \$417,000 for 2007 and early 2008; this amount was temporarily increased to up to \$729,500 in the most costly communities in early 2008 and remained at such level through September 30, 2011. The limit was decreased to \$625,500 in high cost communities for loans originated after September 30, 2011. Non-conforming loans are loans with an original principal balance above the conforming loan limit.
- (6) Includes townhouse-style attached housing with fee simple ownership.
- (7) Includes cooperatives and manufactured homes deemed to be real estate.
- (8) Reduced documentation loans, many of which are commonly referred to as "Alt-A" loans, are originated under programs in which there is a reduced level of verification or disclosure compared to traditional mortgage loan underwriting, including programs in which the borrower's income and/or assets are disclosed in the loan application but there is no verification of those disclosures and programs in which there is no disclosure of income or assets in the loan application. At December 31, 2011 and 2010, reduced documentation loans represented 5.0% and 5.5%, respectively, of risk in force written through the flow channel and 34.8% and 37.4%, respectively, of risk in force written through the bulk channel. In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." Based in part on information provided by the GSEs, we estimate full documentation loans of this type were approximately 4% of 2007 new insurance written. Information for other periods is not available. We understand these AU systems grant such doc waivers for loans they judge to have higher credit quality. We also understand that the GSEs terminated their "doc waiver" programs in the second half of 2008.
- (9) Represents the FICO score at loan origination. The weighted average FICO score at loan origination for new insurance written in 2011 and 2010 was 759. The FICO credit score for a loan with multiple borrowers is the lowest of the borrowers' "decision FICO scores." A borrower's "decision FICO score" is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used.

Other Products and Services

Risk Sharing Arrangements. We have participated in risk sharing arrangements with the GSEs and captive mortgage reinsurance arrangements with subsidiaries of certain mortgage lenders that reinsure a portion of the risk on loans originated or serviced by the lenders which have MGIC primary insurance.

In response to requests or subpoenas, we provided information regarding captive mortgage reinsurance arrangements to the New York Department of Insurance (now known as the New York Department of Financial Services), the Minnesota Department of Commerce and the Department of Housing and Urban Development, commonly referred to as HUD. In January 2012, we received correspondence from the Consumer Financial Protection Bureau (“CFPB”) indicating that the CFPB had opened an investigation into captive mortgage reinsurance premium ceding practices by private mortgage insurers. In that correspondence, the CFPB also requested certain information regarding captive mortgage reinsurance transactions in which we participated. Seven mortgage insurers, including MGIC, were involved in litigation alleging that “inflated” captive reinsurance premiums were paid in violation of RESPA. MGIC's settlement of this class action litigation against it became final in October 2003. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. On December 11, 2011, seven mortgage insurers (including MGIC) and a large mortgage lender (which was the named plaintiffs’ lender) were named as defendants in a complaint, alleged to be a class action. On December 30, 2011, a similar complaint was filed by different plaintiffs against the same seven mortgage insurers and another large lender. The complaints in both cases alleged various causes of action related to the captive mortgage reinsurance arrangements of these two mortgage lenders, including that the defendants violated RESPA by paying excessive premiums to the lenders’ captive reinsurer in relation to the risk assumed by that captive. MGIC denies any wrongdoing and intends to vigorously defend itself against the allegations in the lawsuits. There can be no assurance that we will not be subject to further litigation under RESPA or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us. For more information, see our risk factor titled “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future” in Item 1A.

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In addition to the risk-sharing arrangements discussed above, we periodically participate in risk sharing arrangements with persons unrelated to our customers. When we reinsure a portion of our risk through such a reinsurer, we make an upfront payment or cede a portion of our premiums in return for a reinsurer agreeing to indemnify us for its share of losses incurred. Although reinsuring against possible loan losses does not discharge us from liability to a policyholder, it can reduce the amount of capital we are required to retain against potential future losses for rating agency and insurance regulatory purposes.

For further information about risk sharing arrangements, see “Management’s Discussion and Analysis—Results of Consolidated Operations—Risk Sharing Arrangements” in Item 7 and Note 11, “Reinsurance,” to our consolidated financial statements in Item 8.

Contract Underwriting and Related Services. We perform contract underwriting services for lenders in which we judge whether the data relating to the borrower and the loan contained in the lender’s mortgage loan application file comply with the lender’s loan underwriting guidelines. We also provide an interface to submit data to the automated underwriting systems of the GSEs, which independently judge the data. These services are provided for loans that require private mortgage insurance as well as for loans that do not require private mortgage insurance. The complaint in the RESPA litigation that we settled in 2003 and that is described in our risk factor titled “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future” in Item 1A, alleged, among other things, that the pricing of contract underwriting provided by us violated RESPA.

Under our contract underwriting agreements, we may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such obligations. The cost of remedies provided by us to customers for failing to meet these standards has not been material to our financial position or results of operations for the years ended December 31, 2011, 2010 and 2009. Claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years, including for 2006 and 2007, involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans for which we provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. Beginning in the second half of 2009, we experienced an increase in claims for contract underwriting remedies, which continued throughout 2011. Hence, there can be no assurance that contract underwriting remedies will not be material in the future.

In February 2008, Freddie Mac and Fannie Mae informed us and the rest of our industry that they were reviewing all mortgage insurers’ business justifications for activities, such as contract underwriting services, that have the potential for creating non-insurance related contingent liabilities. We are uncertain of the status of these reviews.

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Other. We provide various mortgage services for the mortgage finance industry, such as portfolio retention and secondary marketing of mortgage-related assets.

Customers

Originators of residential mortgage loans such as savings institutions, commercial banks, mortgage brokers, credit unions, mortgage bankers and other lenders have historically determined the placement of mortgage insurance written on a flow basis and as a result are our customers. To obtain primary insurance from us written on a flow basis, a mortgage lender must first apply for and receive a mortgage guaranty master policy from us. Our top 10 customers, none of whom represented more than 10% of our consolidated revenues, generated 26.7% of our new insurance written on a flow basis in 2011, compared to 27.2% in 2010 and 39.3% in 2009. In the fourth quarter of 2009, Countrywide and an affiliate (“Countrywide”) commenced litigation against us as a result of its dissatisfaction with our rescission practices shortly after it ceased doing business with us. See the risk factor titled “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future,” in Item 1A as well as Item 3, “Legal Proceedings,” for more information about this litigation and the arbitration case we filed against Countrywide regarding rescissions. Countrywide and its Bank of America affiliates accounted for approximately 8% of our new insurance written in the first three quarters of 2009. Another customer with whom we still do business accounted for approximately 9% of our flow new insurance written in 2011 compared to approximately 11% in 2010.

Sales and Marketing and Competition

Sales and Marketing. We sell our insurance products through our own employees, located throughout all regions of the United States and in Puerto Rico.

Competition. Our competition includes other mortgage insurers, governmental agencies and products designed to eliminate the need to purchase private mortgage insurance. As noted above in “Overview of the Private Mortgage Insurance Industry,” for flow business, we and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies, principally the FHA and, to a lesser degree, the VA. These agencies sponsor government-backed mortgage insurance programs, which during 2011 and 2010 accounted for approximately 78.6% and 83.9%, respectively, of the total low down payment residential mortgages which were subject to governmental or private mortgage insurance, a substantial increase from approximately 22.7% in 2007, according to statistics reported by Inside Mortgage Finance. We believe that the FHA’s market share increased, in part, because mortgage insurers have tightened their underwriting guidelines (which has led to increased utilization of the FHA’s programs) and because of increases in the amount of loan level delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). Furthermore, the FHA’s loan limits were raised to be more on par with those of the GSEs in high cost markets.

As noted above, the combined market share of the FHA and VA decreased in 2011 compared to 2010, a trend that has been positive for the mortgage insurance industry. This decrease may have been influenced by the different rate structures implemented by several mortgage insurers, including MGIC, during 2010 as well as changes to FHA’s pricing that became effective in October 2010. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Consolidated Operations – New Insurance Written,” in Item 7.

In addition to competition from the FHA and the VA, we and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states, including California and New York. From time to time, other state legislatures and agencies consider expanding the authority of their state governments to insure residential mortgages.

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Private mortgage insurers are also subject to competition from the GSEs to the extent that they are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry. For a number of years, the GSEs have had programs under which, on certain loans, lenders could choose a mortgage insurance coverage percentage that was only the minimum required by their charters, with the GSEs paying a lower price for these loans (“charter coverage”). The GSEs have also had programs under which on certain loans they would accept a level of mortgage insurance above the requirements of their charters but below their standard coverage without any decrease in the purchase price they would pay for these loans (“reduced coverage”). Freddie Mac eliminated its reduced coverage program in 2009. Effective January 1, 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage and, in the second quarter of 2010, Fannie Mae eliminated its reduced coverage program. In 2011 nearly all of our volume was on loans with GSE standard coverage. We charge higher premium rates for higher coverage percentages. To the extent lenders selling loans to the GSEs in the future choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects. See the risk factor titled “Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses” in Item 1A for a discussion of how potential changes in the GSEs’ business practices could affect us.

The capital markets and their participants have historically competed with mortgage insurers by offering alternative products and services and may further develop as competitors to private mortgage insurers in ways we cannot predict. Competition from such alternative products and services was substantial prior to 2007 but declined materially in late 2007 and their presence was insignificant in 2008 through 2011.

Prior to 2008, we and other mortgage insurers also competed with transactions structured to avoid mortgage insurance on low down payment mortgage loans. These transactions include self-insuring, and “80-10-10” and similar loans (generally referred to as “piggyback loans”), which are loans comprised of both a first and a second mortgage (for example, an 80% loan-to-value ratio first mortgage and a 10% loan-to-value ratio second mortgage), with the loan-to-value ratio of the first mortgage below what investors require for mortgage insurance, compared to a loan in which the first mortgage covers the entire borrowed amount (which in the preceding example would be a 90% loan-to-value ratio mortgage). Competition from piggyback structures was substantial prior to 2007 but declined materially later in 2007, and declined further in 2008 and remained low in 2009 through 2011.

The private mortgage insurance industry is highly competitive. We believe that we currently compete with other private mortgage insurers based on underwriting guidelines, pricing, issuer financial strength ratings, customer relationships, name recognition, reputation, the ancillary products and services provided to lenders (including contract underwriting services), the strength of management teams and field organizations, the depths of databases covering insured loans and the effective use of technology and innovation in the delivery and servicing of insurance products. Our relationships with our customers could be adversely affected by a variety of factors, including rescission of coverage on loans that affects the customer and our decision to discontinue ceding new business under excess of loss captive reinsurance programs. In the fourth quarter of 2009, Countrywide commenced litigation against us as a result of its dissatisfaction with our rescission practices shortly after it ceased doing business with us. See the risk factor titled “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future” in Item 1A as well as Item 3, “Legal Proceedings,” for more information about this litigation and the arbitration case we filed against Countrywide regarding rescissions. Information about some of the other factors that can affect a mortgage insurer’s relationship with its customers can be found in our risk factor titled “Competition or changes in our relationships with our customers could reduce our revenues or increase our losses” in Item 1A.

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The U.S. private mortgage insurance industry currently consists of six active mortgage insurers and their affiliates. The newest mortgage insurer began to write new business in 2010 and has reported that JPMorgan Chase, one of our customers, is an investor. The names of these mortgage insurers can be found in “Competition or changes in our relationships with our customers could reduce our revenues or increase our losses” in Item 1A. At December 31, 2011, we had the largest book of direct primary insurance in force. According to Inside Mortgage Finance, through 2010, we had been the largest private mortgage insurer (as measured by new insurance written) for more than ten years. It appears that in 2011, we had the third largest market share (as measured by new insurance written), with our market share decreasing to approximately 20.4% from 22.0% in 2010 and 26.0% in 2009. During the third quarter, two of our competitors stopped writing new business and, based on public disclosures, these competitors approximated slightly more than 20% of the private mortgage insurance industry volume in the first half of 2011. For more information regarding these competitors see our risk factor titled “Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.” Most of the market share of these two former competitors has gone to other mortgage insurers and not to us because, among other reasons, some competitors have materially lower premiums than we do on single premium policies, one of these competitors also uses a risk weighted pricing model that typically results in lower premiums than we charge on certain loans and one of these competitors has effectively delegated underwriting to the GSEs. We continuously monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted as long as they meet our return hurdles. In the first quarter of 2012, we made changes to streamline our underwriting guidelines and lowered our premium rates on loans with credit scores of 760 or higher. Loans with credit scores of 760 or higher represented approximately 55% of our new insurance written in 2011. If the lower premium rates had been in place during 2011, our average premium rate on new business would have decreased from approximately 61 basis points to approximately 57 basis points, all other things being equal. While a decrease in premium rates on a significant portion of our new insurance written will reduce revenue, it is possible that our new insurance written will increase in the future as a result of the lower premium rates and it is unclear what the net effect of the changes will be on our future premiums.

The mortgage insurance industry historically viewed a financial strength rating of Aa3/AA- as critical to writing new business. At the time that this annual report was finalized, the financial strength of MGIC, our principal mortgage insurance subsidiary, was rated B1 by Moody’s Investors Service (the outlook for this rating is negative) and B by Standard & Poor’s Rating Services (the outlook for this rating is negative). In January 2010, at our request, Fitch Ratings withdrew its ratings of MGIC. MGIC could be further downgraded by either or both of these rating agencies. As a result of MGIC’s financial strength rating being below Aa3/AA-, it is operating with each GSE as an eligible insurer under a remediation plan. For further information about the importance of MGIC’s ratings, see our risk factor titled “MGIC may not continue to meet the GSEs’ mortgage insurer eligibility requirements” in Item 1A. In assigning financial strength ratings, in addition to considering the adequacy of the mortgage insurer’s capital to withstand very high claim scenarios under assumptions determined by the rating agency, we believe rating agencies review a mortgage insurer’s historical and projected operating performance, franchise risk, business outlook, competitive position, management, corporate strategy, and other factors. The rating agency issuing the financial strength rating can withdraw or change its rating at any time.

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Risk Management

We believe that mortgage credit risk is materially affected by:

The borrower's credit strength, including the borrower's credit history, debt-to-income ratios and cash reserves, and the willingness of a borrower with sufficient resources to make mortgage payments to do so when the mortgage balance exceeds the value of the home;

The loan product, which encompasses the loan-to-value ratio, the type of loan instrument, including whether the instrument provides for fixed or variable payments and the amortization schedule, the type of property and the purpose of the loan;

• origination practices of lenders and the percentage of coverage on insured loans;

• the size of loans insured; and

The condition of the economy, including housing values and employment, in the area in which the property is located.

We believe that, excluding other factors, claim incidence increases:

• for loans to borrowers with lower FICO credit scores compared to loans to borrowers with higher FICO credit scores;

• for loans with less than full underwriting documentation compared to loans with full underwriting documentation;

• during periods of economic contraction and housing price depreciation, including when these conditions may not be nationwide, compared to periods of economic expansion and housing price appreciation;

• for loans with higher loan-to-value ratios compared to loans with lower loan-to-value ratios;

• for ARMs when the reset interest rate significantly exceeds the interest rate of loan origination;

• for loans that permit the deferral of principal amortization compared to loans that require principal amortization with each monthly payment;

• for loans in which the original loan amount exceeds the conforming loan limit compared to loans below that limit; and

• for cash out refinance loans compared to rate and term refinance loans.

Other types of loan characteristics relating to the individual loan or borrower may also affect the risk potential for a loan. The presence of a number of higher-risk characteristics in a loan materially increases the likelihood of a claim on such a loan unless there are other characteristics to lower the risk.

We charge higher premium rates to reflect the increased risk of claim incidence that we perceive is associated with a loan, although not all higher risk characteristics are reflected in the premium rate. There can be no assurance that our premium rates adequately reflect the increased risk, particularly in a period of economic recession, high unemployment, slowing home price appreciation or housing price declines. For additional information, see our risk factors in Item 1A, including the one titled "The premiums we charge may not be adequate to compensate us for our liabilities for losses and as a result any inadequacy could materially affect our financial condition and results of

operations.”

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Beginning in late 2007, we implemented a series of changes to our underwriting guidelines that were designed to improve the risk profile of our new business. The changes primarily affect borrowers who have multiple risk factors such as a high loan-to-value ratio, a lower FICO score and limited documentation or are financing a home in a market we categorize as higher risk and the changes included the creation of “restricted markets.” Our underwriting criteria for restricted markets do not allow insurance to be written on certain loans that could be insured if the property were located in an unrestricted market. Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future. For information about changes to our underwriting guidelines, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Consolidated Operations — New insurance written” in Item 7.

Delegated Underwriting and GSE Automated Underwriting Approvals. Delegated underwriting is a program under which approved lenders are allowed to commit us to insure loans originated through the flow channel. Until January 2007, lenders were able to commit us to insure loans utilizing only their own underwriting guidelines and underwriting evaluation. In addition, from 2000 through January 2007, loans approved by the automated underwriting services of the GSEs were automatically approved for MGIC mortgage insurance. As a result, during this period, a substantial majority of the loans insured by us through the flow channel were approved as a result of loan approvals by the automated underwriting services of the GSEs or through delegated underwriting programs, including those utilizing lenders’ proprietary underwriting services. Beginning in 2007, loans that did not meet our underwriting guidelines would not automatically be insured by us even though the loans were approved by the underwriting services described above. As a result, our delegated underwriting program began requiring lenders to commit us to insure only loans that complied with our underwriting guidelines.

Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation

Exposure to Catastrophic Loss. The private mortgage insurance industry has from time to time experienced catastrophic losses similar to the losses currently being experienced. For background information about the current cycle of such losses, refer to “General – Overview of Private Mortgage Insurance Industry” above. Prior to the current cycle of such losses, the last time that private mortgage insurers experienced substantial losses was in the mid-to-late 1980s. From the 1970s until 1981, rising home prices in the United States generally led to profitable insurance underwriting results for the industry and caused private mortgage insurers to emphasize market share. To maximize market share, until the mid-1980s, private mortgage insurers employed liberal underwriting practices, and charged premium rates which, in retrospect, generally did not adequately reflect the risk assumed, particularly on pool insurance. These industry practices compounded the losses which resulted from changing economic and market conditions which occurred during the early and mid-1980s, including (1) severe regional recessions and attendant declines in property values in the nation’s energy producing states; (2) the lenders’ development of new mortgage products to defer the impact on home buyers of double digit mortgage interest rates; and (3) changes in federal income tax incentives which initially encouraged the growth of investment in non-owner occupied properties.

Defaults. The claim cycle on private mortgage insurance begins with the insurer’s receipt of notification of a default on an insured loan from the lender. We define a default as an insured loan with a mortgage payment that is 45 days or more past due. Lenders are required to notify us of defaults within 130 days after the initial default, although most lenders do so earlier. The incidence of default is affected by a variety of factors, including the level of borrower income growth, unemployment, divorce and illness, the level of interest rates, rates of housing price appreciation or depreciation and general borrower creditworthiness. Defaults that are not cured result in a claim to us. See “- Claims.” Defaults may be cured by the borrower bringing current the delinquent loan payments or by a sale of the property and the satisfaction of all amounts due under the mortgage. In addition, when a policy is rescinded or a claim is denied we remove the default from our default inventory.

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The following table shows the number of primary and pool loans insured in the MGIC Book, including loans insured in bulk transactions and A- and subprime loans, the related number of loans in default and the percentage of loans in default, or default rate, as of December 31, 2007-2011:

Default Statistics for the MGIC Book

	2011		2010		December 31, 2009		2008	2007
PRIMARY INSURANCE								
Insured loans in force	1,090,086		1,228,315		1,360,456		1,472,757	1,437,432
Loans in default(1)	175,639		214,724		250,440		182,188	107,120
Default rate – all loans	16.11	%	17.48	%	18.41	%	12.37	7.45
Flow loans in default	134,101		162,621		185,828		122,693	61,352
Default rate – flow loans	13.79	%	14.94	%	15.46	%	9.51	4.99
Bulk loans in force	117,573		139,446		158,089		182,268	208,903
Bulk loans in default(2)	41,538		52,103		64,612		59,495	45,768
Default rate – bulk loans	35.33	%	37.36	%	40.87	%	32.64	21.91
Prime loans in default(3)	112,403		134,787		150,642		95,672	49,333
Default rate – prime loans	12.20	%	13.11	%	13.29	%	7.90	4.33
A-minus loans in default(3)	25,989		31,566		37,711		31,907	22,863
Default rate – A-minus loans	35.10	%	36.69	%	40.66	%	30.19	19.20
Subprime loans in default(3)	9,326		11,132		13,687		13,300	12,915
Default rate – subprime loans	43.60	%	45.66	%	50.72	%	43.30	34.08
Reduced documentation loans delinquent(4)	27,921		37,239		48,400		41,309	22,009
Default rate – reduced doc loans	37.96	%	41.66	%	45.26	%	32.88	15.48
POOL INSURANCE								
Insured loans in force	374,228		468,361		526,559		603,332	757,114
Loans in default	32,971		43,329		44,231		33,884	25,224
Percentage of loans in default (default rate)	8.81	%	9.25	%	8.40	%	5.62	3.33

General Notes: (a) For the information presented for 2011 and 2010, the FICO credit score for a loan with multiple borrowers is the lowest of the borrowers' "decision FICO scores." For the information presented prior to 2010, the FICO score for a loan with multiple borrowers was the income weighted average of the "decision FICO scores" for each borrower. A borrower's "decision FICO score" is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used. This change made our reporting consistent with the FICO credit scores that we use for underwriting purposes. (b) Servicers continue to pay our premiums for nearly all of the loans in our default inventory, but in some cases, servicers stop paying our premiums. In those cases, even though the loans continue to be included in our default inventory, the applicable loans are removed from our insured loans in force. Loans where servicers have stopped paying premiums include 9,598 defaults with a risk of \$486 million as of December 31, 2011. (c) During the 4th quarter of 2011 we conducted a review of our single life of loan policies and concluded that approximately 21,000 of these policies were no longer in force, and as a result we canceled these policies with insurance in force of approximately \$2.3 billion and risk in force of approximately \$0.5 billion. It may be possible that some of these policies will be reinstated based on information subsequently provided by our customers.

(1) At December 31, 2011, 2010, 2009, 2008 and 2007, 30,250, 36,066, 45,907, 45,482 and 39,704 loans in default, respectively, related to Wall Street bulk transactions and at December 31, 2011, 2010, 2009, 2008 and 2007, 12,610, 20,898, 16,389, 13,275 and 5,055 loans in default, respectively, were in our claims received inventory.

(2) Among other things, the default rate for bulk loans is influenced by our decision to stop writing the portion of our bulk business that we refer to as “Wall Street bulk transactions.” This decision increases the default rate because it results in a greater percentage of the bulk business consisting of vintages that traditionally have higher default rates.

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(3) We define prime loans as those having FICO credit scores of 620 or greater, A-minus loans as those having FICO credit scores of 575-619, and subprime credit loans as those having FICO credit scores of less than 575, all as reported to MGIC at the time a commitment to insure is issued. Most A-minus and subprime credit loans were written through the bulk channel. In this annual report we classify loans without complete documentation as “reduced documentation” loans regardless of FICO credit score rather than as prime, “A-” or “subprime” loans; in the table above, such loans appear only in the reduced documentation category and they do not appear in any of the other categories.

(4) In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under “doc waiver” programs that do not require verification of borrower income are classified by us as “full documentation.” Based in part on information provided by the GSEs, we estimate full documentation loans of this type were approximately 4% of 2007 new insurance written. Information for other periods is not available. We understand these AU systems grant such doc waivers for loans they judge to have higher credit quality. We also understand that the GSEs terminated their “doc waiver” programs in the second half of 2008.

Different areas of the United States may experience different default rates due to varying localized economic conditions from year to year. The following table shows the percentage of primary loans we insured that were in default as of December 31, 2011, 2010 and 2009 for the 15 states for which we paid the most losses during 2011:

State Default Rates

	December 31,					
	2011		2010		2009	
California	20.71	%	27.30	%	34.22	%
Florida	39.51		41.00		42.61	
Arizona	21.91		30.81		33.55	
Michigan	14.43		17.48		19.25	
Nevada	35.08		41.07		42.01	
Georgia	17.72		20.85		22.38	
Texas	10.00		11.31		12.11	
Illinois	22.37		21.96		21.70	
Ohio	12.91		13.67		13.97	
Washington	15.08		15.73		14.44	
Virginia	12.36		15.07		16.90	
Minnesota	13.01		15.38		18.12	
Colorado	10.37		13.62		14.58	
Maryland	21.63		22.15		23.91	
Wisconsin	10.47		11.17		11.35	
All other states	13.68		13.90		14.01	

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The primary default inventory in those same states as of December 31, 2011, 2010 and 2009 appears in the table below.

Primary Default Inventory by State

	December 31,		
	2011	2010	2009
California	9,542	14,070	19,661
Florida	27,533	32,788	38,924
Arizona	3,809	6,781	8,791
Michigan	7,269	10,278	12,759
Nevada	3,001	4,729	5,803
Georgia	6,744	9,117	10,905
Texas	8,961	11,602	13,668
Illinois	11,420	12,548	13,722
Ohio	8,357	9,850	11,071
Washington	3,467	3,888	3,768
Virginia	2,647	3,627	4,464
Minnesota	2,778	3,672	4,674
Colorado	2,003	2,917	3,451
Maryland	3,869	4,264	4,940
Wisconsin	3,945	4,519	4,923
All other states	70,294	80,074	88,916
	175,639	214,724	250,440

Claims. Claims result from defaults that are not cured. Whether a claim results from an uncured default depends, in large part, on the borrower's equity in the home at the time of default, the borrower's or the lender's ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage and the willingness and ability of the borrower and lender to enter into a loan modification that provides for a cure of the default. Various factors affect the frequency and amount of claims, including local housing prices and employment levels, and interest rates. If a default goes to claim, any premium collected from the time of default to time of the claim payment is returned to the servicer along with the claim payment. This results in a reduction to premiums written and earned.

Under the terms of our master policy, the lender is required to file a claim for primary insurance with us within 60 days after it has acquired title to the underlying property (typically through foreclosure). Depending on the applicable state foreclosure law, generally at least twelve months pass from the date of default to payment of a claim on an uncured default. The rate at which claims are received and paid has slowed in recent years due to various state and lender foreclosure moratoriums and suspensions, servicing delays including as a result of attempts to modify loans, fraud investigations by us, our pursuit of mitigation opportunities and a lack of capacity in the court systems.

Within 60 days after a claim has been filed and all documents required to be submitted to us have been delivered, we have the option of either (1) paying the coverage percentage specified for that loan, with the insured retaining title to the underlying property and receiving all proceeds from the eventual sale of the property (we have elected this option for the vast majority of claim payments in the recent past), or (2) paying 100% of the claim amount in exchange for the lender's conveyance of good and marketable title to the property to us. After we receive title to properties, we sell them for our own account.

Claim activity is not evenly spread throughout the coverage period of a book of primary business. For prime loans, relatively few claims are typically received during the first two years following issuance of coverage on a loan. This is

typically followed by a period of rising claims which, based on industry experience, has historically reached its highest level in the third and fourth years after the year of loan origination. Thereafter, the number of claims typically received has historically declined at a gradual rate, although the rate of decline can be affected by conditions in the economy, including slowing home price appreciation or housing price depreciation. Due in part to the subprime component of loans insured in Wall Street bulk transactions, the peak claim period for bulk loans has generally occurred earlier than for flow loans. Moreover, when a loan is refinanced, because the new loan replaces, and is a continuation of, an earlier loan, the pattern of claims frequency for that new loan may be different from the historical pattern of other loans. Persistency, the condition of the economy, including unemployment, and other factors can affect the pattern of claim activity. For example, a weak economy can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. We are currently seeing such performance as it relates to delinquencies from our older books and all of our books are being affected by the condition of the economy and housing price depreciation. As of December 31, 2011, 22% of our primary insurance in force was written subsequent to December 31, 2008, 37% was written subsequent to December 31, 2007, and 63% was written subsequent to December 31, 2006. See “Our Products and Services - Mortgage Insurance - Insurance In Force by Policy Year” above.

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Another important factor affecting MGIC Book losses is the amount of the average claim paid, which is generally referred to as claim severity. The main determinants of claim severity are the amount of the mortgage loan, the coverage percentage on the loan and local market conditions. The primary average claim paid on the MGIC Book was \$49,887 for 2011, compared to \$50,173 for 2010, \$52,627 for 2009, \$52,239 for 2008, and \$37,165 in 2007. The increase in the average claim paid in 2008 through 2011 compared to 2007 was primarily a result of higher loan exposures on paid claims. The decrease in average claim paid in 2010 and 2011 compared to 2009 was primarily a result of flow claims being a higher percentage of claims paid in 2010 and 2011 compared to 2009; flow claims have lower average loan amounts and coverage percentages than bulk loans.

Information about net claims we paid during 2011, 2010 and 2009 appears in the table below.

Net paid claims (In millions)

	2011	2010	2009
Prime (FICO 620 & >)	\$ 1,772	\$ 1,400	\$ 831
A-Minus (FICO 575-619)	283	265	231
Subprime (FICO < 575)	70	77	95
Reduced doc (All FICOs)(1)	429	451	388
Pool	480	177	99
Other	6	3	5
Direct losses paid	\$ 3,040	\$ 2,373	\$ 1,649
Reinsurance	(140)	(126)	(41)
Net losses paid	\$ 2,900	\$ 2,247	\$ 1,608
LAE	60	71	60
Net losses and LAE before terminations	\$ 2,960	\$ 2,318	\$ 1,668
Reinsurance terminations	(39)	(38)	(119)
Net losses and LAE paid	\$ 2,921	\$ 2,280	\$ 1,549

(1) In this annual report we classify loans without complete documentation as “reduced documentation” loans regardless of FICO credit score rather than as prime, “A-” or “subprime” loans; in the table above, such loans appear only in the reduced documentation category and they do not appear in any of the other categories.

Primary claims paid for the top 15 states (based on 2011 paid claims) and all other states for the years ended December 31, 2011, 2010 and 2009 appear in the table below.

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Primary paid claims by state (In millions)

	2011	2010	2009
California	\$ 357	\$ 288	\$ 253
Florida	303	340	195
Arizona	203	156	110
Michigan	138	130	111
Nevada	134	95	75
Georgia	130	97	62
Texas	108	87	51
Illinois	101	91	59
Ohio	76	68	54
Washington	74	41	21
Virginia	66	57	48
Minnesota	65	56	52
Colorado	54	38	27
Maryland	51	50	25
Wisconsin	46	36	24
All other states	648	563	378
Total	\$ 2,554	\$ 2,193	\$ 1,545
Other (Pool, LAE, Reinsurance)	367	87	4
Net losses and LAE paid	\$ 2,921	\$ 2,280	\$ 1,549

From time to time, proposals to give bankruptcy judges the authority to reduce mortgage balances in bankruptcy cases have been made. Such reductions are sometimes referred to as bankruptcy cramdowns. A bankruptcy cramdown is not an event that entitles an insured party to make a claim under our insurance policy. If a borrower ultimately satisfies his or her mortgage after a bankruptcy cramdown, then our insurance policies provide that we would not be required to pay any claim. Under our insurance policies, however, if a borrower re-defaults on a mortgage after a bankruptcy cramdown, the claim we would be required to pay would be based upon the original, unreduced loan balance. We are not aware of any bankruptcy cramdown proposals that would change these provisions of our insurance policies. Unless a lender has obtained our prior approval, if a borrower's mortgage loan balance is reduced outside the bankruptcy context, including in association with a loan modification, and if the borrower re-defaults after such a reduction, then under the terms of our policy the amount we would be responsible to cover would be calculated net of the reduction.

Loss Mitigation. Before paying a claim, we can review the loan file to determine whether we are required, under the applicable insurance policy, to pay the claim or whether we are entitled to reduce the amount of the claim. For example, all of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligation to mitigate our loss by performing reasonable loss mitigation efforts or diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We also do not cover losses resulting from property damage that has not been repaired. We are currently reviewing the loan files for the majority of the claims submitted to us.

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Because we can review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, policy rescissions and claim denials, which we collectively refer to as "rescissions" and variations of this term, were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of policies have materially mitigated our paid losses. For further information about our recent rescission rates, See "Management's Discussion and Analysis of Financial Condition and

Results of Operations—Results of Consolidated Operations — Losses – Losses Incurred” in Item 7. We continue to expect that the percentage of claims that will be resolved through rescissions will continue to decline. For further information, see our risk factor titled “Our losses could increase if rescission rates decrease faster than we are projecting or we do not prevail in proceedings challenging whether our rescissions were proper” in Item 1A.

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When we rescind coverage, we return all premiums previously paid to us under the policy and are relieved of our obligation to pay a claim under the policy, although if the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. For the majority of our rescissions that are not subject to a settlement agreement, the period in which a dispute may be brought has not ended. We consider a rescission resolved for financial reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under Accounting Standards Codification (“ASC”) 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see the risk factor titled, “Our losses could increase if rescission rates decrease faster than we are projecting or we do not prevail in proceedings challenging whether our rescissions were proper” in Item 1A as well as Item 3, “Legal Proceedings.”

In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. We continue to discuss with other lender-customers their objections to material rescissions and have reached settlement terms with several of our significant lender-customers. Any definitive agreement with these customers would be subject to GSE approval. One GSE has approved one of our settlement agreements, but this agreement remains subject to the approval of the other GSE. We believe that it is probable (within the meaning of ASC 450-20) that this agreement will be approved by the other GSE. As a result, we considered the terms of the agreement when establishing our loss reserves at December 31, 2011. This agreement did not have a significant impact on our established loss reserves. Neither GSE has approved our other settlement agreements and the terms of these other agreements were not considered when establishing our loss reserves at December 31, 2011. There can be no assurances that both GSEs will approve any settlement agreements and the GSEs may approve some of our settlement agreements and reject others based on the specific terms of those agreements.

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Our rescissions involve inaccurate information or fraud committed, regarding a borrower's income, debts or intention to occupy the property, a faulty appraisal, negligence in the origination of the loan, a failure to provide us with documentation we request under our policy (we use this documentation to investigate whether a claim must be paid) or a failure to service a loan in an acceptable manner.

The provisions of our policies provide several remedies related to inaccurate information provided, or fraud committed, in connection with the origination of a loan. For example, provisions in our policies allow us to rescind coverage if a material misrepresentation is made and if the lender or related parties such as the originator and the mortgage loan broker were aware of such misrepresentation. Other provisions in our policies allow us to rescind coverage if the loan was never eligible for coverage under our policy. In many cases, information discovered to be inaccurate (whether as a result of fraud or inadvertence) causes a loan to fail the eligibility criteria applicable to that loan once the correct information is considered. Ultimately, our ability to discover inaccurate information provided, or fraud committed, in connection with the origination of a loan requires a thorough investigation of the facts surrounding the origination of the loan and the discovery of sufficient evidence regarding the inaccurate information or fraud. These types of investigations are very fact-intensive and difficult and often depend on factors outside our control, including whether the borrower cooperates with our investigation.

If an investigation uncovers evidence that leads us to decide we are entitled to rescind coverage, we send a letter to the lender informing them of the investigation's findings. Although we are not required to do so by our policies, in most cases we allow a period of sixty days to rebut our findings. If a satisfactory rebuttal to our investigation findings is not provided, we rescind coverage and the claim is removed from our default inventory. At this point in the process, we consider the rescission to be resolved. While it is not unusual for lenders to first respond to a findings letter after we have already rescinded coverage, and in certain cases lenders who previously responded to findings letters bring new facts to our attention after we have rescinded coverage, the number of rescission reversals due to such circumstances has been immaterial.

In the second half of 2011, Countrywide materially increased the percentage of loans for which it is rebutting the assertions that we make prior to rescinding a loan. When we receive a rebuttal prior to a rescission, we do not rescind coverage until after we respond to the rebuttal. Therefore, in addition to our substantial pipeline of claims investigations, we have a substantial pipeline of pre-rescission rebuttals that, based on our historical experience with such rebuttals, we expect will eventually result in rescissions. We continue to expect that the percentage of claims that will be resolved through rescissions will continue to decline after resolution of the rebuttal pipeline.

One of the loss mitigation techniques available to us is obtaining a deficiency judgment against the borrower and attempting to recover some or all of the paid claim from the borrower. Various factors, including state laws that limit or eliminate our ability to pursue deficiency judgments and borrowers' financial conditions, have limited our recoveries in recent years to less than one-half of 1% of our paid claims.

Loss Reserves and Premium Deficiency Reserve

A significant period of time typically elapses between the time when a borrower defaults on a mortgage payment, which is the event triggering a potential future claim payment by us, the reporting of the default to us, the acquisition of the property by the lender (typically through foreclosure) and the eventual payment of the claim related to the uncured default or a rescission. To recognize the liability for unpaid losses related to outstanding reported defaults, or default inventory, we establish loss reserves, representing the estimated percentage of defaults which will ultimately result in a claim, which is known as the claim rate, and the estimated severity of the claims which will arise from the defaults included in the default inventory. Our loss reserve estimates are established based upon historical experience, including rescission activity. In accordance with GAAP for the mortgage insurance industry, we generally do not establish loss reserves for future claims on insured loans that are not currently in default.

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We also establish reserves to provide for the estimated costs of settling claims, general expenses of administering the claims settlement process, legal fees and other fees (“loss adjustment expenses”), and for losses and loss adjustment expenses from defaults that have occurred, but which have not yet been reported to us.

Our reserving process bases our estimates of future events on our past experience. However, estimation of loss reserves is inherently judgmental and conditions that have affected the development of the loss reserves in the past may not necessarily affect development patterns in the future, in either a similar manner or degree. For further information, see our risk factors in Item 1A, including the ones titled “Because we establish loss reserves only upon a loan default rather than based on estimates of our ultimate losses, losses may have a disproportionate adverse effect on our earnings in certain periods,” “Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves” and “Our losses could increase if rescission rates decrease faster than we are projecting or we do not prevail in proceedings challenging whether our rescissions were proper.”

After our reserves are initially established, we perform premium deficiency tests using best estimate assumptions as of the testing date. We establish a premium deficiency reserve, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premiums and already established reserves. In the fourth quarter of 2007, we recorded a premium deficiency reserve of \$1,211 million relating to Wall Street bulk transactions remaining in our insurance in force. As of December 31, 2011, this premium deficiency reserve was \$135 million.

For further information about loss reserves and the premium deficiency reserve, see “Management’s Discussion and Analysis—Results of Consolidated Operations—Losses” in Item 7 and Note 9, “Loss reserves,” and Note 10, “Premium deficiency reserve,” to our consolidated financial statements in Item 8.

C. Investment Portfolio

Policy and Strategy

At December 31, 2011, the fair value of our investment portfolio and cash and cash equivalents was approximately \$6.8 billion. As of December 31, 2011, approximately \$487 million of our portfolio was held at the parent company level and the remainder of our portfolio was held by our subsidiaries, primarily MGIC. The portion of our portfolio that is held at the parent company level is held in fixed income securities, 97% of which are rated “A” or better by at least one of the nationally recognized statistical rating organizations. The portfolio is invested primarily in corporate, government, and taxable municipal securities.

Approximately 52% of our investment portfolio is managed by Wellington Management Company, LLP, although we maintain overall control of investment policy and strategy. We maintain direct management of the remainder of our investment portfolio. Unless otherwise indicated, the remainder of the discussion of our investment portfolio refers to our investment portfolio only and not to cash and cash equivalents.

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Our current policies emphasize preservation of capital, as well as total return. Therefore, our investment portfolio consists almost entirely of high-quality, investment grade, fixed-income securities. During 2011 we elected to realize \$142.7 in net realized gains given the favorable market conditions. We then reinvested the funds taking into account our anticipated future claim payment obligations. We also continue to reduce the proportion of our investment portfolio in tax exempt municipal securities while increasing the proportion of taxable securities. For statutory purposes, investments are generally held at amortized cost, therefore the realized gains increased our statutory policyholder's position or statutory capital. We plan to realize additional gains in 2012. Our investment policies in effect at December 31, 2011 limit investments in the securities of a single issuer, other than the U.S. government, and generally limit the purchase of fixed income securities to those that are rated investment grade by at least one rating agency. At that date, the maximum aggregate book value of the holdings of a single obligor was:

U.S. government securities	No limit
Pre-refunded municipals escrowed in Treasury securities	No limit, subject to liquidity considerations
U.S. government agencies (in total)(1)	15% of portfolio market value
Securities rated "AA" or "AAA"	3% of portfolio market value
Securities rated "Baa" or "A"	2% of portfolio market value

- (1) As used with respect to our investment portfolio, U.S. government agencies include GSEs (which, in the sector table below are included as part of U.S. Treasuries) and Federal Home Loan Banks.

At December 31, 2011, approximately 90% of our total fixed income investment portfolio was invested in securities rated "A" or better, with 37% rated "AAA" and 26% rated "AA," in each case by at least one nationally recognized securities rating organization. For information related to the portion of our investment portfolio that is insured by financial guarantors, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition" in Item 7.

Our investment policies and strategies are subject to change depending upon regulatory, economic and market conditions and our existing or anticipated financial condition and operating requirements, including our tax position.

Investment Operations

At December 31, 2011, tax exempt municipal securities represented 22%, and taxable municipal securities represented 13%, of the fair value of our total investment portfolio and derivative financial instruments in our investment portfolio were immaterial. During 2011 we continued to shift our portfolio to a higher concentration of taxable securities, as reflected in the table below. Securities due within one year, within one to five years, within five to ten years, and after ten years, represented 21%, 33%, 16% and 30%, respectively, of the total fair value of our investment in debt securities. Auction rate and mortgage-backed securities represented 3% and 12%, respectively, of the total fair value of our investment in debt securities. Our pre-tax yield for 2011, excluding cash and cash equivalents, was 2.8%, compared to a pre-tax yield of 3.0% in 2010 and 4.0% in 2009. Our pre-tax yield for 2011, including cash and cash equivalents, was 2.4%, compared to a pre-tax yield of 2.6% in 2010 and 3.6% in 2008.

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Our ten largest holdings at December 31, 2011 appear in the table below:

	Fair Value (In thousands)
1. General Electric Capital Corp.	\$ 67,842
2. Illinois State – (Issuer 452151)	57,636
3. Illinois State – (Issuer 452152)	54,094
4. Credit Suisse Group New York	44,052
5. Berkshire Hathaway Financial	43,214
6. New York NY	43,141
7. Penn State Higher Educ Assist	40,270
8. New York NY City Transitional	38,657
9. North Texas Twy Authority	37,961
10. Anheuser-Busch Inbev	36,159
	\$ 463,026

Note: This table excludes securities issued by U.S. government, U.S. government agencies, GSEs and the Federal Home Loan Banks.

The sectors of our investment portfolio at December 31, 2011 appear in the table below:

	Percentage of Portfolio's Fair Value	
1. Corporate	29	%
2. Tax-Exempt Municipals	22	
3. Asset Backed (see note below)	15	
4. Taxable Municipals	13	
5. U.S. Treasuries (incl FDIC-guaranteed)	12	
6. Student Loans	3	
7. Foreign	3	
8. Escrowed / Prerefunded Municipals	3	
	100.0	%

Note: GNMA pass through certificates represent approximately one-half of the asset backed securities.

For further information concerning investment operations, see Note 6, "Investments," to our consolidated financial statements in Item 8.

D. Regulation

Direct Regulation

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory

authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. In addition, we are uncertain whether the CFPB, established by the Dodd-Frank Act to regulate the offering and provision of consumer financial products or services under federal law, will issue any rules or regulations that affect our business apart from any action it may take as a result of its investigation of captive mortgage reinsurance. Such rules and regulations could have a material adverse effect on us.

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In general, regulation of our subsidiaries' business relates to:

- licenses to transact business;
- policy forms;
- premium rates;
- insurable loans;
- annual and other reports on financial condition;
- the basis upon which assets and liabilities must be stated;
- requirements regarding contingency reserves equal to 50% of premiums earned;
- minimum capital levels and adequacy ratios;
- reinsurance requirements;
- limitations on the types of investment instruments which may be held in an investment portfolio;
- the size of risks and limits on coverage of individual risks which may be insured;
- deposits of securities;
- limits on dividends payable; and
- claims handling.

Most states also regulate transactions between insurance companies and their parents or affiliates and have restrictions on transactions that have the effect of inducing lenders to place business with the insurer. For a description of limits on dividends payable to us from MGIC, see "Management's Discussion and Analysis—Liquidity and Capital Resources" in Item 7 and Note 16, "Dividend restrictions," to our consolidated financial statements in Item 8.

Mortgage insurance premium rates are also subject to state regulation to protect policyholders against the adverse effects of excessive, inadequate or unfairly discriminatory rates and to encourage competition in the insurance marketplace. Any increase in premium rates must be justified, generally on the basis of the insurer's loss experience, expenses and future trend analysis. The general mortgage default experience may also be considered. Premium rates are subject to review and challenge by state regulators. See our risk factor "Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis" in Item 1A and "Management's Discussion and Analysis — Liquidity and Capital Resources - Capital" in Item 7 for information about regulations governing our capital adequacy, information about our current capital and our expectations regarding our future capital position.

We are required to establish statutory accounting contingency loss reserves in an amount equal to 50% of net earned premiums. These amounts cannot be withdrawn for a period of 10 years, except as permitted by insurance regulations. With regulatory approval a mortgage guaranty insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net premiums earned in a calendar year. For further information, see Note 17, "Statutory capital," to our consolidated financial statements in Item 8.

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Mortgage insurers are generally single-line companies, restricted to writing residential mortgage insurance business only. Although we, as an insurance holding company, are prohibited from engaging in certain transactions with MGIC, MIC or our other insurance subsidiaries without submission to and, in some instances, prior approval of applicable insurance departments, we are not subject to insurance company regulation on our non-insurance businesses.

Wisconsin's insurance regulations generally provide that no person may acquire control of us unless the transaction in which control is acquired has been approved by the Office of the Commissioner of Insurance of Wisconsin. The regulations provide for a rebuttable presumption of control when a person owns or has the right to vote more than 10% of the voting securities. In addition, the insurance regulations of other states in which MGIC and/or MIC are licensed insurers require notification to the state's insurance department a specified time before a person acquires control of us. If regulators in these states disapprove the change of control, our licenses to conduct business in the disapproving states could be terminated. For further information about regulatory proceedings applicable to us and our industry, see "We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future" in Item 1A.

As the most significant purchasers and sellers of conventional mortgage loans and beneficiaries of private mortgage insurance, Freddie Mac and Fannie Mae impose requirements on private mortgage insurers in order for them to be eligible to insure loans sold to the GSEs. These requirements are subject to change from time to time. Currently, both MGIC and MIC are approved mortgage insurers for both Freddie Mac and Fannie Mae but their longer term eligibility could be negatively affected as discussed, under "Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis" and "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements" in Item 1A.

In September 2008, the FHFA was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The appointment of FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry's inability, due to capital constraints, to write sufficient business to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. Such changes may allow the GSEs to reduce or eliminate the level of private mortgage insurance coverage that they use as credit enhancement, which could have a material adverse effect on our revenue, results of operations or financial condition. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released on February 11, 2011 and while it does not provide any definitive timelines for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. Members of the House of Representatives and the Senate have since introduced several bills intended to scale back the GSEs. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact on our business is uncertain. Any changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last. For additional information about the potential impact that any such changes in the GSE's roles may have on us, see the risk factor titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses" in Item 1A.

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The GSEs have approved the terms of our master policy. Any new master policy, or material changes to our existing master policy, would be subject to approval by the GSEs.

Indirect Regulation

We are also indirectly, but significantly, impacted by regulations affecting purchasers of mortgage loans, such as Freddie Mac and Fannie Mae, and regulations affecting governmental insurers, such as the FHA and the VA, and lenders. See “Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses” in Item 1A for a discussion of how potential changes in the GSEs’ business practices could affect us. Private mortgage insurers, including MGIC, are highly dependent upon federal housing legislation and other laws and regulations to the extent they affect the demand for private mortgage insurance and the housing market generally. From time to time, those laws and regulations have been amended to affect competition from government agencies. Proposals are discussed from time to time by Congress and certain federal agencies to reform or modify the FHA and the Government National Mortgage Association, which securitizes mortgages insured by the FHA.

Subject to certain exceptions, in general, RESPA prohibits any person from giving or receiving any “thing of value” pursuant to an agreement or understanding to refer settlement services. See “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future.” in Item 1A.

The Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation have uniform guidelines on real estate lending by insured lending institutions under their supervision. The guidelines specify that a residential mortgage loan originated with a loan-to-value ratio of 90% or greater should have appropriate credit enhancement in the form of mortgage insurance or readily marketable collateral, although no depth of coverage percentage is specified in the guidelines.

Lenders are subject to various laws, including the Home Mortgage Disclosure Act, the Community Reinvestment Act and the Fair Housing Act, and Fannie Mae and Freddie Mac are subject to various laws, including laws relating to government sponsored enterprises, which may impose obligations or create incentives for increased lending to low and moderate income persons, or in targeted areas.

There can be no assurance that other federal laws and regulations affecting these institutions and entities will not change, or that new legislation or regulations will not be adopted which will adversely affect the private mortgage insurance industry. In this regard, see the risk factor titled “Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses” in Item 1A.

E. Employees

At December 31, 2011, we had approximately 920 full- and part-time employees, of whom approximately 24% were assigned to our field offices. The number of employees given above does not include “on-call” employees. The number of “on-call” employees can vary substantially, primarily as a result of changes in demand for contract underwriting services. In recent years, the number of “on-call” employees has ranged from fewer than 70 to more than 220.

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F. Website Access

We make available, free of charge, through our Internet website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file these materials with the Securities and Exchange Commission. The address of our website is <http://mtg.mgic.com>, and such reports and amendments are accessible through the “Investor Information” and “Stockholder Information” links at such address.

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Item 1A. Risk Factors.

Forward Looking Statements and Risk Factors

As used below, “we,” “our” and “us” refer to MGIC Investment Corporation’s consolidated operations or to MGIC Investment Corporation, as the context requires, and “MGIC” refers to Mortgage Guaranty Insurance Corporation.

Our actual results could be affected by the risk factors below. These risk factors are an integral part of this annual report. These risk factors may also cause actual results to differ materially from the results contemplated by forward looking statements that we may make. Forward looking statements consist of statements which relate to matters other than historical fact, including matters that inherently refer to future events. Among others, statements that include words such as “believe,” “anticipate,” “will” or “expect,” or words of similar import, are forward looking statements. We are not undertaking any obligation to update any forward looking statements or other statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. No reader of this annual report should rely on these statements being current at any time other than the time at which this annual report was filed with the Securities and Exchange Commission.

Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.

The insurance laws or regulations of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the “Capital Requirements.” While formulations of minimum capital may vary in certain jurisdictions, the most common measure applied allows for a maximum permitted risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires us to maintain a minimum policyholder position (“MPP”). The “policyholder position” of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums.

In December 2011, our holding company, MGIC Investment Corporation, contributed \$200 million to increase the statutory capital of MGIC. (As of December 31, 2011, there was \$487 million of cash and investments at our holding company). At December 31, 2011, MGIC’s risk-to-capital ratio was 20.3 to 1 and its policyholder position exceeded the MPP by \$185 million. We currently expect MGIC’s risk-to-capital to exceed 25 to 1 in the second half of 2012. At December 31, 2011, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 22.2 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements.

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The National Association of Insurance Commissioners (“NAIC”) adopted Statement of Statutory Accounting Principles No. 101 (“SSAP No. 101”) effective January 1, 2012. As MGIC approaches a risk-to-capital ratio of 25 to 1, under SSAP No. 101, the benefit to statutory capital allowed for deferred tax assets will be eliminated. Effectively, MGIC’s risk-to-capital ratio, computed while excluding any deferred tax assets from the capital base, must be under 25 to 1 in order to include such deferred tax assets in the amount of available statutory capital. Any exclusion of these assets would negatively impact our statutory capital for purposes of calculating compliance with the Capital Requirements. At December 31, 2011, deferred tax assets of \$142 million were included in MGIC’s statutory capital. For more information about factors that could negatively impact our compliance with Capital Requirements, which depending on the severity of adverse outcomes could result in material non-compliance with Capital Requirements, see “— We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future,” “— We have reported net losses for the last five years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability” and “— The settlement agreement we reached with the Internal Revenue Service, relating to significant proposed adjustments to our taxable income for 2000 through 2007, may not be finalized.” As discussed below, in accordance with Accounting Standards Codification (“ASC”) 450-20, we have not accrued an estimated loss in our financial statements to reflect possible adverse developments in litigation or other dispute resolution proceedings. An accrual, if one was required and depending on the amount, could result in material non-compliance with Capital Requirements.

Although we currently meet the Capital Requirements of the jurisdictions in which we write business, in December 2009, the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”) issued an order waiving, until December 31, 2011, its Capital Requirements. On January 23, 2012, the OCI issued an order (the “New Order”) waiving, until December 31, 2013, its Capital Requirements. In place of the Capital Requirements, the New Order provides, as did the prior order, that MGIC can write new business as long as it maintains regulatory capital that the OCI determines is reasonably in excess of a level that would constitute a financially hazardous condition. Pursuant to the New Order, MGIC contributed \$200 million to MGIC Indemnity Corporation (“MIC”), a direct subsidiary of MGIC, in January 2012, as part of the plan discussed below to write new mortgage insurance in MIC in certain jurisdictions.

The New Order requires MGIC Investment Corporation, beginning January 1, 2012 and continuing through the earlier of December 31, 2013 and the termination of the New Order (the “Covered Period”), to make cash equity contributions to MGIC as may be necessary so that its “Liquid Assets” are at least \$1 billion (this portion of the New Order is referred to as the “Keepwell Provision”). “Liquid Assets,” which include those of MGIC as well as those held in certain of our subsidiaries, excluding MIC and its reinsurance affiliates, are the sum of (i) the aggregate cash and cash equivalents, (ii) fair market value of investments and (iii) assets held in trusts supporting the obligations of captive mortgage reinsurers to MGIC. As of December 31, 2011, “Liquid Assets” were approximately \$6.4 billion. Although we do not expect that MGIC’s Liquid Assets will fall below \$1 billion during the Covered Period, we do expect the amount of Liquid Assets to continue to decline materially after December 31, 2011 and through the end of the Covered Period as MGIC’s claim payments and other uses of cash continue to exceed cash generated from operations. For more information about factors that could negatively impact MGIC’s Liquid Assets, see “— We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future,” “— We have reported net losses for the last five years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability” and “— The settlement agreement we reached with the Internal Revenue Service, relating to significant proposed adjustments to our taxable income for 2000 through 2007, may not be finalized.”

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MGIC previously applied for waivers in all jurisdictions besides Wisconsin that have Capital Requirements and received waivers from some of them. Most of the waivers that MGIC received expired December 31, 2011. We expect to reapply for waivers in all other jurisdictions that have Capital Requirements, and whose laws allow waivers (“Waiver Jurisdictions”), before they are needed. Some jurisdictions denied our original request for a waiver and others may deny future requests. The OCI and insurance departments of other jurisdictions, in their sole discretion, may modify, terminate or extend their waivers. Any modification or extension of the Keepwell Provision requires our written consent. If the OCI or another insurance department modifies or terminates its waiver, or if it fails to grant a waiver or renew its waiver after expiration, depending on the circumstances, MGIC could be prevented from writing new business anywhere, in the case of the waiver from the OCI, or in the particular jurisdiction, in the case of the other waivers, if MGIC does not comply with the Capital Requirements unless MGIC obtained additional capital to enable it to comply with the Capital Requirements. New insurance written in the jurisdictions that have Capital Requirements represented approximately 50% of new insurance written in each of 2010 and 2011. If we were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the Capital Requirements or obtained a necessary waiver to allow it to once again write new business.

We cannot assure you that all Waiver Jurisdictions will grant a waiver of their Capital Requirements, the OCI or any other jurisdiction that has granted a waiver of its Capital Requirements will not modify or revoke the waiver, or will renew the waiver when it expires, or that MGIC could obtain the additional capital necessary to comply with the Capital Requirements. Depending on the circumstances, the amount of additional capital we might need could be substantial. See “— Your ownership in our company may be diluted by additional capital that we raise or if the holders of our outstanding convertible debt convert that debt into shares of our common stock.”

We have implemented a plan to write new mortgage insurance in MIC in selected jurisdictions in order to address our expectation that in the future MGIC will not meet the Capital Requirements discussed above and may not be able to obtain appropriate waivers of these requirements in all jurisdictions in which Capital Requirements are present. As of December 31, 2011, MIC had statutory capital of \$234 million (which does not include the \$200 million contribution that was made in January 2012, in accordance with the New Order). MIC has received the necessary approvals, including from the OCI, to write business in all of the jurisdictions in which MGIC would be prohibited from continuing to write new business in the event of MGIC’s failure to meet Capital Requirements and obtain waivers of those requirements. Depending on the level of losses that MGIC experiences in the future, however, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific Capital Requirements, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC is not eligible to insure loans purchased or guaranteed by Fannie Mae or Freddie Mac. If this were to occur, we would need to seek the GSEs’ approval to allow MIC to write business in those jurisdictions. MIC has obtained the appropriate licenses to write business in all jurisdictions.

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In October 2009, we, MGIC and MIC entered into an agreement with Fannie Mae under which MGIC agreed to contribute \$200 million to MIC (which MGIC did in 2009) and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011. On January 23, 2012, we, MGIC and MIC, entered into a new agreement with Fannie Mae (the “Fannie Mae Extension”) under which we agreed to contribute \$200 million to increase the statutory capital of MGIC (our \$200 million contribution in December 2011 met this requirement), MGIC agreed to contribute \$200 million to MIC on or before January 31, 2012, which MGIC did, and Fannie Mae extended its approval of MIC as an eligible mortgage insurer through December 31, 2013. Under the Fannie Mae Extension, MIC will be eligible to write mortgage insurance only in those jurisdictions (other than Wisconsin) in which MGIC cannot write new insurance due to MGIC’s failure to meet Capital Requirements and if MGIC fails to obtain relief from those requirements or a specific waiver of them. The Fannie Mae Extension, including certain conditions and restrictions to its continued effectiveness, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission (the “SEC”) on January 24, 2012. Such conditions include the continued effectiveness of the OCI’s New Order and the continued applicability of the Keepwell Provisions in the New Order. As noted above, we cannot assure you that the OCI will not modify or revoke the New Order, or that it will renew it when it expires.

On February 11, 2010, Freddie Mac notified MGIC that it may utilize MIC to write new business in jurisdictions in which MGIC does not meet Capital Requirements and does not obtain appropriate waivers of those requirements. Freddie Mac’s approval, scheduled to expire December 31, 2012, contained various conditions to MIC’s eligibility, including that MIC could not be capitalized with more than the \$200 million contribution made in 2009, without prior approval from Freddie Mac. On January 23, 2012, Freddie Mac agreed to modify its approval in order to allow the \$200 million contribution from MGIC to MIC that is provided for in the New Order and the Fannie Mae Extension (the “Freddie Mac Approval”).

Under the Freddie Mac Approval, MIC may write business only in those jurisdictions where MGIC does not meet the Capital Requirements and does not obtain appropriate waivers of those requirements. Freddie Mac anticipates that MGIC will obtain waivers of the minimum capital requirements of most jurisdictions that have such requirements. Therefore, as of the date of the Freddie Mac Approval, approval of MIC as an eligible mortgage insurer is only given for New York, Kansas, Kentucky, Idaho and Puerto Rico. The Freddie Mac Approval, including certain conditions and restrictions to its continued effectiveness, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the SEC on January 24, 2012. Such conditions include requirements that MGIC contribute \$200 million to MIC on or before January 31, 2012, which MGIC did; MIC provide MGIC access to the capital of MIC in an amount necessary for MGIC to maintain sufficient liquidity to satisfy its obligations under insurance policies issued by MGIC; while MIC is writing new business under the Freddie Mac approval, MIC may not exceed a risk-to-capital ratio of 20:1; MGIC and MIC comply with all terms and conditions of the New Order and the New Order remain effective. As noted above, we cannot assure you that the OCI will not modify or revoke the New Order, or that it will renew it when it expires. As noted above, Freddie Mac has approved MIC as a Limited Insurer only through December 31, 2012 and Freddie Mac may modify the terms and conditions of its approval at any time without notice and may withdraw its approval of MIC as an eligible insurer at any time in its sole discretion. Unless Freddie Mac extends the term of its approval of MIC, whether MIC will continue as an eligible mortgage insurer after December 31, 2012 will be determined by Freddie Mac’s mortgage insurer eligibility requirements then in effect. For more information, see “— MGIC may not continue to meet the GSEs’ mortgage insurer eligibility requirements.”

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In 2011, one of our competitors, Republic Mortgage Insurance Company (“RMIC”), ceased writing new insurance commitments after the waiver of Capital Requirements that it received from its domiciliary state expired. In early 2012, RMIC was placed under the supervision of the insurance department of its domiciliary state and that insurance department issued a partial claim payment plan, under which RMIC’s claim payments will be made at 50% for an initial period not to exceed one year, with the remaining amount deferred. In 2011, another competitor, PMI Mortgage Insurance Co. (“PMI”) and the subsidiary it established to write new business if PMI was no longer able to do so, ceased issuing new mortgage insurance commitments when PMI was placed under the supervision of the insurance department of its domiciliary state. Later that year, the insurance department took possession and control of PMI and issued a partial claim payment plan, under which PMI’s claim payments will be made at 50%, with the remaining amount deferred. (PMI’s parent company subsequently filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code.)

A failure to meet the Capital Requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force, even in scenarios in which it fails to meet Capital Requirements, we cannot assure you that the events that led to MGIC failing to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC’s claims paying resources and claim obligations are based on various assumptions. These assumptions include our anticipated rescission activity; the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received; future housing values and future unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about when anticipated claims will be received, housing values and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims that will be rescinded and the outcome of any legal proceedings related to rescissions that we make, including those with Countrywide. (For more information about the Countrywide legal proceedings, see “— We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future.”)

The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage results in a reduction of the number of low down payment loans available to be insured or if lenders and investors select alternatives to private mortgage insurance.

The financial reform legislation that was passed in July 2010 (the “Dodd-Frank Act” or “Dodd-Frank”) requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. This risk retention requirement does not apply to mortgage loans that are Qualified Residential Mortgages (“QRMs”) or that are insured by the FHA or another federal agency. In March 2011, federal regulators issued the proposed risk retention rule that includes a definition of QRM. The proposed definition of QRM contains many underwriting requirements, including a maximum loan-to-value ratio (“LTV”) of 80% on a home purchase transaction, a prohibition on seller contributions toward a borrower’s down payment or closing costs, and certain limits on a borrower’s debt-to-income ratio. The LTV is to be calculated without including mortgage insurance. The following table shows the percentage of our new risk written by LTV for 2011 and 2010.

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	Percentage of new risk written			
	2011		2010	
LTV:				
80% and under	0	%	0	%
80.1% - 85%	6	%	7	%
85.1% - 90%	41	%	48	%
90.1% - 95%	50	%	44	%
95.1% - 97%	3	%	1	%
> 97%	0	%	0	%

The regulators requested public comments regarding an alternative QRM definition, the underwriting requirements of which would allow loans with a maximum LTV of 90%, higher debt-to-income ratios than allowed under the proposed QRM definition, and that may consider mortgage insurance in determining whether the LTV requirement is met. We estimate that approximately 22% of our new risk written in 2011 was on loans that would have met the alternative QRM definition.

The regulators also requested that the public comments include information that may be used to assess whether mortgage insurance reduces the risk of default. We submitted a comment letter, including studies to the effect that mortgage insurance reduces the risk of default.

The public comment period for the proposed rule expired on August 1, 2011. At this time we do not know when a final rule will be issued. Under the proposed rule, because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, lenders that originate loans that are sold to the GSEs while they are in conservatorship will not be required to retain risk associated with those loans.

Depending on, among other things, (a) the final definition of QRM and its requirements for LTV, seller contribution and debt-to-income ratio, (b) to what extent, if any, the presence of mortgage insurance would allow for a higher LTV in the definition of QRM, and (c) whether lenders choose mortgage insurance for non-QRM loans, the amount of new insurance that we write may be materially adversely affected. See also “— If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could decline, which would reduce our revenues.”

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Alternatives to private mortgage insurance include:

- lenders using government mortgage insurance programs, including those of the Federal Housing Administration, or FHA, and the Veterans Administration,
 - lenders and other investors holding mortgages in portfolio and self-insuring,
- investors using credit enhancements other than private mortgage insurance, using other credit enhancements in conjunction with reduced levels of private mortgage insurance coverage, or accepting credit risk without credit enhancement, and
- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10%, 15% or 20% loan-to-value ratio (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% loan-to-value ratio that has private mortgage insurance.

The FHA substantially increased its market share beginning in 2008. We believe that the FHA's market share increased, in part, because private mortgage insurers tightened their underwriting guidelines (which led to increased utilization of the FHA's programs) and because of increases in the amount of loan level delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). In addition, federal legislation and programs provided the FHA with greater flexibility in establishing new products and increased the FHA's competitive position against private mortgage insurers. However, the FHA's current premium pricing, when compared to our current credit-tiered premium pricing (and considering the effects of GSE pricing changes), may allow us to be more competitive with the FHA than in the recent past for loans with high FICO credit scores. We cannot predict, however, the FHA's share of new insurance written in the future due to, among other factors, different loan eligibility terms between the FHA and the GSEs; potential increases in guarantee fees charged by the GSEs, including those that are scheduled to occur in April 2012; changes to the FHA's annual premiums that are expected to be phased in over the next two years; and the total profitability that may be realized by mortgage lenders from securitizing loans through Ginnie Mae when compared to securitizing loans through Fannie Mae or Freddie Mac.

Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses.

The majority of our insurance written is for loans sold to Fannie Mae and Freddie Mac. The business practices of the GSEs affect the entire relationship between them, lenders and mortgage insurers and include:

- the level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters (which may be changed by federal legislation), when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,
- the amount of loan level delivery fees (which result in higher costs to borrowers) that the GSEs assess on loans that require mortgage insurance,
- whether the GSEs influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,

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- the underwriting standards that determine what loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,
- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law,
- the programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs,
- the terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase, and
- the extent to which the GSEs intervene in mortgage insurers' rescission practices or rescission settlement practices with lenders. For additional information, see "— Our losses could increase if rescission rates decrease faster than we are projecting or we do not prevail in proceedings challenging whether our rescissions were proper."

In September 2008, the Federal Housing Finance Agency ("FHFA") was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The appointment of FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry's inability, due to capital constraints, to write sufficient business to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released on February 11, 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. Members of the House of Representatives and the Senate have since introduced several bills intended to scale back the GSEs. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact on our business is uncertain. Any changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

The GSEs have different loan purchase programs that allow different levels of mortgage insurance coverage. Under the "charter coverage" program, on certain loans lenders may choose a mortgage insurance coverage percentage that is less than the GSEs' "standard coverage" and only the minimum required by the GSEs' charters, with the GSEs paying a lower price for such loans. In 2011, nearly all of our volume was on loans with GSE standard coverage. We charge higher premium rates for higher coverage percentages. To the extent lenders selling loans to GSEs in the future choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

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MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements.

The majority of our insurance written is for loans sold to Fannie Mae and Freddie Mac, each of which has mortgage insurer eligibility requirements to maintain the highest level of eligibility, including a financial strength rating of Aa3/AA-. Because MGIC does not meet such financial strength rating requirements of Fannie Mae and Freddie Mac (its financial strength rating from Moody's is B1, with a negative outlook, and from Standard & Poor's is B, with a negative outlook), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan. We believe that the GSEs view remediation plans as a continuing process of interaction with a mortgage insurer and MGIC will continue to operate under a remediation plan for the foreseeable future. There can be no assurance that MGIC will be able to continue to operate as an eligible mortgage insurer under a remediation plan. In particular, the GSEs are currently in discussions with mortgage insurers regarding their standard mortgage insurer eligibility requirements and may make changes to them in the near future that may make them more stringent than the current requirements. The GSEs may include the eligibility requirements, as finally adopted, as part of our current remediation plan. If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

We have reported net losses for the last five years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability.

For the years ended December 31, 2011, 2010, 2009, 2008 and 2007, we had a net loss of \$0.5 billion, \$0.4 billion, \$1.3 billion, \$0.5 billion and \$1.7 billion, respectively. We currently expect to continue to report annual net losses, the size of which will depend primarily on the amount of our incurred and paid losses from our existing business, which could increase due to developments in ongoing legal proceedings related to rescissions and the disagreement with Freddie Mac regarding the interpretation of a pool policy (see "— We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future"), and to a lesser extent on the amount and profitability of our new business. Our incurred and paid losses are dependent on factors that make prediction of their amounts difficult and any forecasts are subject to significant volatility. Although we currently expect to return to profitability on an annual basis, we cannot assure you when, or if, this will occur. Conditions that could delay our return to profitability include low housing values, high unemployment rates, low cure rates, changes to our current rescission practices and unfavorable resolution of ongoing legal proceedings. In this regard, see "— Our losses could increase if rescission rates decrease faster than we are projecting or we do not prevail in proceedings challenging whether our rescissions were proper" and "— We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future." The net losses we have experienced have eroded, and any future net losses will erode, our shareholders' equity and could result in equity being negative.

Our losses could increase if rescission rates decrease faster than we are projecting or we do not prevail in proceedings challenging whether our rescissions were proper.

Historically, rescissions of policies for which claims have been submitted to us were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of policies have materially mitigated our paid losses. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately \$1.2 billion and in 2011, rescissions mitigated our paid losses by approximately \$0.6 billion (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, 17% to 20% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009. In the second half of 2011, Countrywide materially increased the percentage of loans for which it is rebutting the assertions that we make prior to rescinding a loan. When we receive a rebuttal prior to a rescission, we do not rescind coverage until after we respond to the rebuttal. Therefore, in addition to our substantial pipeline of claims investigations, we have a

substantial pipeline of pre-rescission rebuttals that, based on our historical experience with such rebuttals, we expect will eventually result in rescissions. We continue to expect that the percentage of claims that will be resolved through rescissions will continue to decline after resolution of the rebuttal pipeline. See the table labeled “Ever-To-Date Rescission Rates on Primary Claims Received” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Losses-Losses incurred,” in Item 7.

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Our loss reserving methodology incorporates the effects we expect rescission activity to have on the losses we expect to pay on our delinquent inventory. A variance between ultimate actual rescission rates and these estimates, as a result of the outcome of claims investigations, litigation, settlements or other factors, could materially affect our losses. See “—Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves.” We estimate rescissions mitigated our incurred losses by approximately \$2.5 billion in 2009 and \$0.2 billion in 2010. In 2011, we estimate that rescissions had no significant impact on our losses incurred. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. At December 31, 2011, we had 175,639 loans in our primary delinquency inventory; a significant portion of these loans will cure their delinquency or be rescinded and will not involve paid claims.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. For the majority of our rescissions that are not subject to a settlement agreement, the period in which a dispute may be brought has not ended. We consider a rescission resolved for financial reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. For more information about these legal proceedings, see “— We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future.”

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In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. We continue to discuss with other lender-customers their objections to material rescissions and have reached settlement terms with several of our significant lender-customers. Any definitive agreement with these customers would be subject to GSE approval. One GSE has approved one of our settlement agreements, but this agreement remains subject to the approval of the other GSE. We believe that it is probable (within the meaning of ASC 450-20) that this agreement will be approved by the other GSE. As a result, we considered the terms of the agreement when establishing our loss reserves at December 31, 2011. This agreement did not have a significant impact on our established loss reserves. Neither GSE has approved our other settlement agreements and the terms of these other agreements were not considered when establishing our loss reserves at December 31, 2011. There can be no assurances that both GSEs will approve any settlement agreements and the GSEs may approve some of our settlement agreements and reject others based on the specific terms of those agreements.

We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. Mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in December 2004, following denial of class certification in June 2004. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. On December 11, 2011, seven mortgage insurers (including MGIC) and a large mortgage lender (which was the named plaintiffs' lender) were named as defendants in a complaint, alleged to be a class action, filed in U.S. District Court for the Central District of California. On December 30, 2011, a similar complaint was filed in the U.S. District Court for the Eastern District of Pennsylvania by different plaintiffs against the same seven mortgage insurers and another large lender. The complaints in both cases alleged various causes of action related to the captive mortgage reinsurance arrangements of these two mortgage lenders, including that the defendants violated RESPA by paying excessive premiums to the lenders' captive reinsurer in relation to the risk assumed by that captive. The named plaintiffs' loans were not insured by MGIC. MGIC denies any wrongdoing and intends to vigorously defend itself against the allegations in the lawsuits. There can be no assurance that we will not be subject to further litigation under RESPA (or FCRA) or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us.

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In June 2005, in response to a letter from the New York Insurance Department (now known as the New York Department of Financial Services), we provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the New York Insurance Department requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the New York Insurance Department that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the "MN Department"), which regulates insurance, we provided the MN Department with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the MN Department, and beginning in March 2008, the MN Department has sought additional information as well as answers to questions regarding captive mortgage reinsurance on several occasions, including as recently as May 2011.

In addition, beginning in June 2008, and as recently as December 2011, we received various subpoenas from the U.S. Department of Housing and Urban Development ("HUD"), seeking information about captive mortgage reinsurance similar to that requested by the MN Department, but not limited in scope to the state of Minnesota. In January 2012, we received correspondence from the Consumer Financial Protection Bureau ("CFPB") indicating that the CFPB had opened an investigation into captive mortgage reinsurance premium ceding practices by private mortgage insurers. In that correspondence, the CFPB also requested certain information regarding captive mortgage reinsurance transactions in which we participated. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

Various regulators, including the CFPB, state insurance commissioners and state attorneys general may bring actions seeking various forms of relief, including civil penalties and injunctions against violations of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While we believe our captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the eventual scope, duration or outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. In addition, we are uncertain whether the CFPB, established by the Dodd-Frank Act to regulate the offering and provision of consumer financial products or services under federal law, will issue any rules or regulations that affect our business apart from any action it may take as a result of its investigation of captive mortgage reinsurance. Such rules and regulations could have a material adverse effect on us.

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In September 2010, a housing discrimination complaint was filed against MGIC with HUD alleging that MGIC violated the Fair Housing Act and discriminated against the complainant on the basis of her sex and familial status when MGIC underwrote her loan for mortgage insurance. In May 2011, HUD commenced an administrative action against MGIC and two of its employees, seeking, among other relief, aggregate fines of \$48,000. The HUD complainant elected to have charges in the administrative action proceed in federal court and in July 2011, the U.S. Department of Justice (“DOJ”) filed a civil complaint in the U.S. District Court for the Western District of Pennsylvania against MGIC and these employees on behalf of the complainant. The complaint seeks redress for the alleged housing discrimination, including compensatory and punitive damages for the alleged victims and a civil penalty payable to the United States. MGIC denies that any unlawful discrimination occurred and disputes many of the allegations in the complaint.

In October 2010, a separate purported class action lawsuit was filed against MGIC by the HUD complainant in the same District Court in which the DOJ action is pending alleging that MGIC discriminated against her on the basis of her sex and familial status when MGIC underwrote her loan for mortgage insurance. In May 2011, the District Court granted MGIC’s motion to dismiss with respect to all claims except certain Fair Housing Act claims.

MGIC intends to vigorously defend itself against the allegations in both the class action lawsuit and the DOJ lawsuit. Based on the facts known at this time, we do not foresee the ultimate resolution of these legal proceedings having a material adverse effect on us.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees’ Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the “Complaint”) in June 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS (a former minority-owned, unconsolidated, joint venture investment), including its liquidity. The Complaint also named two officers of C-BASS with respect to the Complaints’ allegations regarding C-BASS. Our motion to dismiss the Complaint was granted in February 2010. In March 2010, plaintiffs filed a motion for leave to file an amended complaint. Attached to this motion was a proposed Amended Complaint (the “Amended Complaint”). The Amended Complaint alleged that we and two of our officers named in the Amended Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about C-BASS, including its liquidity, and by failing to properly account for our investment in C-BASS. The Amended Complaint also named two officers of C-BASS with respect to the Amended Complaint’s allegations regarding C-BASS. The purported class period covered by the Amended Complaint began on February 6, 2007 and ended on August 13, 2007. The Amended Complaint sought damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported violations of federal securities laws. In December 2010, the plaintiffs’ motion to file an amended complaint was denied and the Complaint was dismissed with prejudice. In January 2011, the plaintiffs appealed the February 2010 and December 2010 decisions to the United States Court of Appeals for the Seventh Circuit; during oral argument before the Appeals Court regarding the case on January 12, 2012, the plaintiffs confirmed the appeal was limited to issues regarding C-BASS. In June 2011, the plaintiffs filed a motion with the District Court for relief from that court’s judgment of dismissal on the ground of newly discovered evidence consisting of transcripts the plaintiffs obtained of testimony taken by the Securities and Exchange Commission in its now-terminated investigation regarding C-BASS. We are opposing this motion and the matter is awaiting decision by the District Court. We are unable to predict the outcome of these consolidated cases or estimate our associated expenses or possible losses. Other lawsuits alleging violations of the securities laws could be brought against us.

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We understand several law firms have, among other things, issued press releases to the effect that they are investigating us, including whether the fiduciaries of our 401(k) plan breached their fiduciary duties regarding the plan's investment in or holding of our common stock or whether we breached other legal or fiduciary obligations to our shareholders. We intend to defend vigorously any proceedings that may result from these investigations.

With limited exceptions, our bylaws provide that our officers and 401(k) plan fiduciaries are entitled to indemnification from us for claims against them.

In December 2009, Countrywide filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco against MGIC. This complaint alleges that MGIC has denied, and continues to deny, valid mortgage insurance claims submitted by Countrywide and says it seeks declaratory relief regarding the proper interpretation of the insurance policies at issue. In October 2011, the United States District Court for the Northern District of California, to which the case had been removed, entered an order staying the litigation in favor of the arbitration proceeding we commenced against Countrywide in February 2010.

In the arbitration proceeding, we are seeking a determination that MGIC is entitled to rescind coverage on the loans involved in the proceeding. From January 1, 2008 through December 31, 2011, rescissions of Countrywide-related loans mitigated our paid losses on the order of \$435 million. This amount is the amount we estimate we would have paid had the loans not been rescinded. On a per loan basis, the average amount that we would have paid had the loans not been rescinded was approximately \$72,100. Various materials exchanged by MGIC and Countrywide bring into the dispute loans we did not previously consider to be Countrywide-related and loans on which MGIC rescinded coverage subsequent to those specified at the time MGIC began the proceeding (including loans insured through the bulk channel), and set forth Countrywide's contention that, in addition to the claim amounts under policies it alleges MGIC has improperly rescinded, Countrywide is entitled to other damages of almost \$700 million as well as exemplary damages. Countrywide and MGIC have each selected 12 loans for which a three-member arbitration panel will determine coverage. While the panel's determination will not be binding on the other loans at issue, the panel will identify the issues for these 24 "bellwether" loans and strive to set forth findings of fact and conclusions of law in such a way as to aid the parties to apply them to the other loans at issue. The hearing before the panel on the bellwether loans was scheduled to begin in September 2012, but we and Countrywide have agreed that the parties will take steps to delay the hearing at least 60 days.

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We intend to defend MGIC against any further proceedings arising from Countrywide's complaint and to advocate MGIC's position in the arbitration, vigorously. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, we have not accrued any reserves that would reflect an adverse outcome in this proceeding. An accrual for an adverse outcome in this (or any other) proceeding would be a reduction to our capital. In this regard, see "— Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."

At December 31, 2011, 38,127 loans in our primary delinquency inventory were Countrywide-related loans (approximately 22% of our primary delinquency inventory). Of these 38,127 loans, we expect a significant portion will cure their delinquency or be rescinded and will not involve paid claims. From January 1, 2008 through December 31, 2011, of the claims on Countrywide-related loans that were resolved (a claim is resolved when it is paid or rescinded; claims that are submitted but which are under review are not resolved until one of these two outcomes occurs), approximately 78% were paid and the remaining 22% were rescinded.

The flow policies at issue with Countrywide are in the same form as the flow policies that we use with all of our customers, and the bulk policies at issue vary from one another, but are generally similar to those used in the majority of our Wall Street bulk transactions. Because our rescission practices with Countrywide do not differ from our practices with other servicers with which we have not entered into settlement agreements, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. From January 1, 2008 through December 31, 2011, we estimate that total rescissions mitigated our incurred losses by approximately \$3.1 billion, which included approximately \$2.6 billion of mitigation on paid losses, excluding \$0.6 billion that would have been applied to a deductible. At December 31, 2011, we estimate that our total loss reserves were benefited from rescissions by approximately \$0.7 billion.

In addition to the rescissions at issue with Countrywide, we have a substantial pipeline of claims investigations and pre-rescission rebuttals (including those involving loans related to Countrywide) that we expect will eventually result in future rescissions. For additional information about rescissions as well as rescission settlement agreements, see "— Our losses could increase if rescission rates decrease faster than we are projecting or we do not prevail in proceedings challenging whether our rescissions were proper."

MGIC and Freddie Mac disagree on the amount of the aggregate loss limit under certain pool insurance policies insuring Freddie Mac that share a single aggregate loss limit. We believe the initial aggregate loss limit for a particular pool of loans insured under a policy decreases to correspond to the termination of coverage for that pool under that policy while Freddie Mac believes the initial aggregate loss limit remains in effect until the last of the policies that provided coverage for any of the pools terminates. The aggregate loss limit is approximately \$535 million higher under Freddie Mac's interpretation than under our interpretation. We account for losses under our interpretation although it is reasonably possible that were the matter to be decided by a third party our interpretation would not prevail. The differing interpretations had no effect on our results until the second quarter of 2011. For 2011, our incurred losses would have been \$192 million higher in the aggregate had they been recorded based on Freddie Mac's interpretation, and our capital and Capital Requirements would have been negatively impacted. See our risk factor titled, "Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis." We expect the incurred losses that would have been recorded under Freddie Mac's interpretation will continue to increase in future quarters. We have discussed the disagreement with Freddie Mac in an effort to resolve it and expect that these discussions will continue. A specimen of the policies at issue is filed as Exhibit 99.6 to this annual report.

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A non-insurance subsidiary of our holding company is a shareholder of the corporation that operates the Mortgage Electronic Registration System (“MERS”). Our subsidiary, as a shareholder of MERS, along with MERS and its other shareholders, are defendants in three lawsuits asserting various causes of action arising from allegedly improper recording and foreclosure activities by MERS. One of these lawsuits was dismissed by the court in which it was filed and is on appeal. In addition, our subsidiary as a shareholder of MERS, was a defendant in two other lawsuits that were dismissed by the courts in which they were filed, but those dismissals were not appealed. The damages sought in all of these actions are substantial.

In addition to the matters described above, we are involved in other legal proceedings in the ordinary course of business. In our opinion, based on the facts known at this time, the ultimate resolution of these ordinary course legal proceedings will not have a material adverse effect on our financial position or results of operations.

The settlement agreement we reached with the Internal Revenue Service, relating to significant proposed adjustments to our taxable income for 2000 through 2007, may not be finalized.

The Internal Revenue Service (“IRS”) completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and issued assessments for unpaid taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits (“REMICs”). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. The IRS assessment related to the REMIC issue is \$190.7 million in taxes and penalties. There would also be applicable interest, which may be substantial. Additional state income taxes along with any applicable interest may become due when a final resolution is reached and could also be substantial. We appealed these assessments within the IRS and, in 2007, we made a payment of \$65.2 million with the United States Department of the Treasury related to this assessment. In August 2010, we reached a tentative settlement agreement with the IRS. Because net operating losses that we incurred in 2009 were carried back to taxable years that were included in the settlement agreement, it was subject to review by the Joint Committee on Taxation of Congress. Following that review, the IRS indicated that it is reconsidering the terms of the settlement. We are attempting to address the IRS’ concerns, but there is a risk that we may not be able to settle the proposed adjustments with the IRS or, alternatively, that the terms of any final settlement will be more costly to us than the currently proposed settlement. In the event that we are unable to reach any settlement of the proposed adjustments, we would be required to litigate their validity in order to avoid a full concession to the IRS. Any such litigation could be lengthy and costly in terms of legal fees and related expenses. We adjusted our tax provision and liabilities for the effects of the tentative settlement agreement in 2010. The IRS’ reconsideration of the terms of the settlement agreement did not change our belief that the previously recorded items are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows and statutory capital. In this regard, see “— Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.”

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Because we establish loss reserves only upon a loan default rather than based on estimates of our ultimate losses on risk in force, losses may have a disproportionate adverse effect on our earnings in certain periods.

In accordance with generally accepted accounting principles in the United States, commonly referred to as GAAP, we establish loss reserves only for loans in default. Reserves are established for reported insurance losses and loss adjustment expenses based on when notices of default on insured mortgage loans are received. Reserves are also established for estimated losses incurred on notices of default that have not yet been reported to us by the servicers (this is often referred to as “IBNR”). We establish reserves using estimated claim rates and claim amounts in estimating the ultimate loss. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our financial statements, except in the case where a premium deficiency exists. As a result, future losses may have a material impact on future results as such losses emerge.

Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves.

We establish reserves using estimated claim rates and claim amounts in estimating the ultimate loss on delinquent loans. The estimated claim rates and claim amounts represent our best estimates of what we will actually pay on the loans in default as of the reserve date and incorporate anticipated mitigation from rescissions. We rescind policies and deny claims in cases where we believe our policy allows us to do so. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse development from ongoing dispute resolution proceedings, including those with Countrywide, or from ongoing disagreements over the interpretation of our policy, including those with Freddie Mac related to the computation of the aggregate loss limit under a pool insurance policy. For more information regarding our legal proceedings with Countrywide and the Freddie Mac disagreement, see “— We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future.”

The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. Current conditions in the housing and mortgage industries make the assumptions that we use to establish loss reserves more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers’ income and thus their ability to make mortgage payments, a further drop in housing values that could result in, among other things, greater losses on loans that have pool insurance, and mitigation from rescissions being materially less than assumed. Changes to our estimates could result in material impact to our results of operations, even in a stable economic environment, and there can be no assurance that actual claims paid by us will not be substantially different than our loss reserves.

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Loan modification and other similar programs may not continue to provide material benefits to us and our losses on loans that re-default can be higher than what we would have paid had the loan not been modified.

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation and the GSEs, and several lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2010 and 2011, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately \$3.2 billion and \$1.8 billion, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate will be. For internal reporting purposes, we assume approximately 50% of those modifications will ultimately re-default, and those re-defaults may result in future claim payments. Because modifications cure the defaults with respect to the previously defaulted loans, our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already occurred. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments; less than 5% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program (“HAMP”). Some of HAMP’s eligibility criteria relate to the borrower’s current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. We believe that it could take several months from the time a borrower has made all of the payments during HAMP’s three month “trial modification” period for the loan to be reported to us as a cured delinquency.

We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP. We are aware of approximately 12,290 loans in our primary delinquent inventory at December 31, 2011 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through December 31, 2011 approximately 37,100 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In 2011 approximately 18% of our primary cures were the result of a modification, with HAMP accounting for approximately 70% of those modifications. By comparison, in 2010, approximately 27% of our primary cures were the result of a modification, with HAMP accounting for approximately 60% of those modifications. We believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly over time. Recent announcements by the U.S. Treasury have extended the end date of the HAMP program through 2013, expanded the eligibility criteria of HAMP and increased lenders’ incentives to modify loans through principal forgiveness. Approximately 68% of the loans in our primary delinquent inventory are guaranteed by the GSEs. The GSEs have informed us that they already use expanded criteria (beyond the HAMP guidelines) for determining eligibility for loan modification and currently do not offer principal forgiveness. Therefore, we currently expect new loan modifications will continue to only modestly mitigate our losses in 2012.

In 2009, the GSEs began offering the Home Affordable Refinance Program (“HARP”). HARP allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow the HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. To incent lenders to allow more current borrowers to refinance their loans, in October 2011, the GSEs and their regulator, FHFA, announced an expansion of HARP. The expansion includes, among other changes, releasing certain representations in certain circumstances benefitting the GSEs. We have agreed to allow these additional HARP refinances, including releasing the insured in certain circumstances from certain rescission rights we would have under our policy. While an expansion of HARP may result in fewer delinquent loans and claims in the future, our ability to rescind coverage will be limited in certain

circumstances. We are unable to predict what net impact these changes may have on our incurred or paid losses.

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The effect on us of loan modifications depends on how many modified loans subsequently re-default, which in turn can be affected by changes in housing values. Re-defaults can result in losses for us that could be greater than we would have paid had the loan not been modified. At this point, we cannot predict with a high degree of confidence what the ultimate re-default rate will be. In addition, because we do not have information in our database for all of the parameters used to determine which loans are eligible for modification programs, our estimates of the number of loans qualifying for modification programs are inherently uncertain. If legislation is enacted to permit a portion of a borrower's mortgage loan balance to be reduced in bankruptcy and if the borrower re-defaults after such reduction, then the amount we would be responsible to cover would be calculated after adding back the reduction. Unless a lender has obtained our prior approval, if a borrower's mortgage loan balance is reduced outside the bankruptcy context, including in association with a loan modification, and if the borrower re-defaults after such reduction, then under the terms of our policy the amount we would be responsible to cover would be calculated net of the reduction.

Eligibility under certain loan modification programs can also adversely affect us by creating an incentive for borrowers who are able to make their mortgage payments to become delinquent in an attempt to obtain the benefits of a modification. New notices of delinquency increase our incurred losses.

If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could decline, which would reduce our revenues.

The factors that affect the volume of low down payment mortgage originations include:

- restrictions on mortgage credit due to more stringent underwriting standards, liquidity issues and risk-retention requirements associated with non-QRM loans affecting lenders,
- the level of home mortgage interest rates and the deductibility of mortgage interest for income tax purposes,
 - the health of the domestic economy as well as conditions in regional and local economies,

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- housing affordability,
- population trends, including the rate of household formation,
- the rate of home price appreciation, which in times of heavy refinancing can affect whether refinance loans have loan-to-value ratios that require private mortgage insurance, and
- government housing policy encouraging loans to first-time homebuyers.

As noted above, the Dodd-Frank Act established the CFPB to regulate the offering and provision of consumer financial products or services under federal law. We are uncertain whether this Bureau will issue any rules or regulations that affect our business or the volume of low down payment home mortgage originations. Such rules and regulations could have a material adverse effect on our financial position or results of operations.

A decline in the volume of low down payment home mortgage originations could decrease demand for mortgage insurance, decrease our new insurance written and reduce our revenues. Such a decline could be caused by, among other things, the definition of “qualified residential mortgages” by regulators implementing the Dodd-Frank Act. See “— The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage results in a reduction of the number of low down payment loans available to be insured or if lenders and investors select alternatives to private mortgage insurance.”

Competition or changes in our relationships with our customers could reduce our revenues or increase our losses.

In recent years, the level of competition within the private mortgage insurance industry has been intense as many large mortgage lenders reduced the number of private mortgage insurers with whom they do business. At the same time, consolidation among mortgage lenders has increased the share of the mortgage lending market held by large lenders. During 2010 and 2011, approximately 11% and 9%, respectively, of our new insurance written was for loans for which one lender was the original insured, although revenue from such loans was significantly less than 10% of our revenues during each of those periods. Our private mortgage insurance competitors include:

- Genworth Mortgage Insurance Corporation,
- United Guaranty Residential Insurance Company,
- Radian Guaranty Inc.,
- CMG Mortgage Insurance Company, and
- Essent Guaranty, Inc.

As noted above, PMI Mortgage Insurance Company and Republic Mortgage Insurance Company ceased writing business in 2011. Based on public disclosures, these competitors approximated slightly more than 20% of the private mortgage insurance industry volume in the first half of 2011. Most of the market share of these two former competitors has gone to other mortgage insurers and not to us because, among other reasons, some competitors have materially lower premiums than we do on single premium policies, one of these competitors also uses a risk weighted pricing model that typically results in lower premiums than we charge on certain loans and one of these competitors has effectively delegated underwriting to the GSEs. We continuously monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted as long as they meet our return hurdles. In the first quarter of 2012, we made changes to streamline our underwriting guidelines and lowered our premium rates

on loans with credit scores of 760 or higher. Loans with credit scores of 760 or higher represented approximately 55% of our new insurance written in 2011. If the lower premium rates had been in place during 2011, our average premium rate on new business would have decreased from approximately 61 basis points to approximately 57 basis points, all other things being equal. While a decrease in premium rates on a significant portion of our new insurance written will reduce revenue, it is possible that our new insurance written will increase in the future as a result of the lower premium rates and it is unclear what the net effect of the changes will be on our future premiums.

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Until recently, the mortgage insurance industry had not had new entrants in many years. In 2010, Essent Guaranty, Inc. began writing new mortgage insurance. Essent has publicly reported that one of its investors is JPMorgan Chase which is one of our customers. The perceived increase in credit quality of loans that are being insured today combined with the deterioration of the financial strength ratings of the existing mortgage insurance companies could encourage new entrants. The FHA, which in recent years was not viewed by us as a significant competitor, substantially increased its market share beginning in 2008.

Our relationships with our customers could be adversely affected by a variety of factors, including tightening of and adherence to our underwriting guidelines, which have resulted in our declining to insure some of the loans originated by our customers and rescission of loans that affect the customer. We have ongoing discussions with lenders who are significant customers regarding their objections to our rescissions. In the fourth quarter of 2009, Countrywide commenced litigation against us as a result of its dissatisfaction with our rescission practices shortly after Countrywide ceased doing business with us. See “— We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future” for more information about this litigation and the arbitration case we filed against Countrywide regarding rescissions.

We believe some lenders assess a mortgage insurer’s financial strength rating as an important element of the process through which they select mortgage insurers. As a result of MGIC’s less than investment grade financial strength rating, MGIC may be competitively disadvantaged with these lenders. MGIC’s financial strength rating from Moody’s is B1, with a negative outlook, and from Standard & Poor’s is B with a negative outlook. It is possible that MGIC’s financial strength ratings could decline from these levels.

Downturns in the domestic economy or declines in the value of borrowers’ homes from their value at the time their loans closed may result in more homeowners defaulting and our losses increasing.

Losses result from events that reduce a borrower’s ability to continue to make mortgage payments, such as unemployment, and whether the home of a borrower who defaults on his mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. In general, favorable economic conditions reduce the likelihood that borrowers will lack sufficient income to pay their mortgages and also favorably affect the value of homes, thereby reducing and in some cases even eliminating a loss from a mortgage default. A deterioration in economic conditions, including an increase in unemployment, generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values, which in turn can influence the willingness of borrowers with sufficient resources to make mortgage payments to do so when the mortgage balance exceeds the value of the home. Housing values may decline even absent a deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers’ perceptions of the potential for future appreciation, restrictions on and the cost of mortgage credit due to more stringent underwriting standards, liquidity issues and risk-retention requirements associated with non-QRM loans affecting lenders, higher interest rates generally or changes to the deductibility of mortgage interest for income tax purposes, or other factors. The residential mortgage market in the United States has for some time experienced a variety of poor or worsening economic conditions, including a material nationwide decline in housing values, with declines continuing in 2011 in a number of geographic areas. Home values may continue to deteriorate and unemployment levels may remain elevated or increase.

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The mix of business we write also affects the likelihood of losses occurring.

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of December 31, 2011, approximately 25.9% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 8.5% had FICO credit scores below 620, and 10.2% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material portion of these loans were written in 2005 — 2007 or the first quarter of 2008. In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under “doc waiver” programs that do not require verification of borrower income are classified by us as “full documentation.” For additional information about such loans, see footnote 4 to the table titled “Default Statistics for the MGIC Book” in “ — Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation — Defaults” Item 1.B. above.

From time to time, in response to market conditions, we change the types of loans that we insure and the guidelines under which we insure them. In addition, we make exceptions to our underwriting guidelines on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 4% of the loans we insured in 2010 and fewer than 5% of the loans we insured in 2011. A large percentage of the exceptions were made for loans with debt-to-income ratios slightly above our guideline. Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future. As noted above in “ — Competition or changes in our relationships with our customers could reduce our revenues or increase our losses,” in the first quarter of 2012, we made changes to streamline our underwriting guidelines and lowered our premium rates on loans with credit scores of 760 or higher. Our underwriting guidelines are available on our website at <http://www.mgic.com/guides/underwriting.html>.

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As of December 31, 2011, approximately 2.6% of our primary risk in force written through the flow channel, and 33.0% of our primary risk in force written through the bulk channel, consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing (“ARMs”). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. We believe that when the reset interest rate significantly exceeds the interest rate at loan origination, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. Moreover, even if interest rates remain unchanged, claims on ARMs with a “teaser rate” (an initial interest rate that does not fully reflect the index which determines subsequent rates) may also be substantially higher because of the increase in the mortgage payment that will occur when the fully indexed rate becomes effective. In addition, we have insured “interest-only” loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

Although we attempt to incorporate these higher expected claim rates into our underwriting and pricing models, there can be no assurance that the premiums earned and the associated investment income will be adequate to compensate for actual losses even under our current underwriting guidelines. We do, however, believe that given the various changes in our underwriting guidelines that were effective beginning in the first quarter of 2008, our insurance written beginning in the second quarter of 2008 will generate underwriting profits.

The premiums we charge may not be adequate to compensate us for our liabilities for losses and as a result any inadequacy could materially affect our financial condition and results of operations.

We set premiums at the time a policy is issued based on our expectations regarding likely performance over the long-term. Our premiums are subject to approval by state regulatory agencies, which can delay or limit our ability to increase our premiums. Generally, we cannot cancel the mortgage insurance coverage or adjust renewal premiums during the life of a mortgage insurance policy. As a result, higher than anticipated claims generally cannot be offset by premium increases on policies in force or mitigated by our non-renewal or cancellation of insurance coverage. The premiums we charge, and the associated investment income, may not be adequate to compensate us for the risks and costs associated with the insurance coverage provided to customers. An increase in the number or size of claims, compared to what we anticipate, could adversely affect our results of operations or financial condition.

In January 2008, we announced that we had decided to stop writing the portion of our bulk business that insures loans which are included in Wall Street securitizations because the performance of loans included in such securitizations deteriorated materially in the fourth quarter of 2007 and this deterioration was materially worse than we experienced for loans insured through the flow channel or loans insured through the remainder of our bulk channel. As of December 31, 2007 we established a premium deficiency reserve of approximately \$1.2 billion. As of December 31, 2011, the premium deficiency reserve was \$134.8 million, which reflects the present value of expected future losses and expenses that exceeds the present value of expected future premium and already established loss reserves on these bulk transactions.

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We continue to experience material losses, especially on the 2006 and 2007 books. The ultimate amount of these losses will depend in part on general economic conditions, including unemployment, and the direction of home prices, which in turn will be influenced by general economic conditions and other factors. Because we cannot predict future home prices or general economic conditions with confidence, there is significant uncertainty surrounding what our ultimate losses will be on our 2006 and 2007 books. Our current expectation, however, is that these books will continue to generate material incurred and paid losses for a number of years. There can be no assurance that an additional premium deficiency reserve on Wall Street Bulk or on other portions of our insurance portfolio will not be required.

It is uncertain what effect foreclosure moratoriums and issues arising from the investigation of servicers' foreclosure procedures will have on us.

Various government entities and private parties have from time to time enacted foreclosure (or equivalent) moratoriums and suspensions (which we collectively refer to as moratoriums). Recently, various government agencies have been investigating large mortgage servicers and other parties to determine whether they acted improperly in foreclosure proceedings. We do not know what effect improprieties that may have occurred in a particular foreclosure have on the validity of that foreclosure, once it was completed and the property transferred to the lender. Under our policy, in general, completion of a foreclosure is a condition precedent to the filing of a claim.

Past moratoriums, which were imposed to afford time to determine whether loans could be modified, did not stop the accrual of interest or affect other expenses on a loan, and we cannot predict whether any future moratorium would do so. Therefore, unless a loan is cured during a moratorium, at the expiration of a moratorium, additional interest and expenses may be due to the lender from the borrower. For certain moratoriums (e.g., those imposed in order to afford time to modify loans), our paid claim amount may include some additional interest and expenses. For moratoriums or delays resulting from investigations into servicers and other parties' actions in foreclosure proceedings, our willingness to pay additional interest and expenses may be different, subject to the terms of our mortgage insurance policies. The various moratoriums and delays may temporarily delay our receipt of claims and may increase the length of time a loan remains in our delinquent loan inventory.

In early January 2011, the highest court in Massachusetts, a state in which foreclosures are accomplished by private sale rather than judicial action, held the foreclosure laws of that state required a person seeking to foreclose a mortgage to be the holder of the mortgage at the time notice of foreclosure was published. The servicers who had foreclosed in this case did not provide sufficient evidence that they were the holders of the mortgages and therefore they lacked authority to foreclose. Some courts in other jurisdictions have considered similar issues and reached similar conclusions, but other courts have reached different conclusions. These decisions have not had a direct impact on our claims processes or rescissions.

We are susceptible to disruptions in the servicing of mortgage loans that we insure.

We depend on reliable, consistent third-party servicing of the loans that we insure. Over the last several years, the mortgage loan servicing industry has experienced consolidation. The resulting reduction in the number of servicers could lead to disruptions in the servicing of mortgage loans covered by our insurance policies. In addition, current housing market trends have led to significant increases in the number of delinquent mortgage loans requiring servicing. These increases have strained the resources of servicers, reducing their ability to undertake mitigation efforts that could help limit our losses, and have resulted in an increasing amount of delinquent loan servicing being transferred to specialty servicers. The transfer of servicing can cause a disruption in the servicing of delinquent loans. Future housing market conditions could lead to additional increases in delinquencies. Managing a substantially higher volume of non-performing loans could lead to increased disruptions in the servicing of mortgages. Investigations into whether servicers have acted improperly in foreclosure proceedings may further strain the resources of servicers.

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If interest rates decline, house prices appreciate or mortgage insurance cancellation requirements change, the length of time that our policies remain in force could decline and result in declines in our revenue.

In each year, most of our premiums are from insurance that has been written in prior years. As a result, the length of time insurance remains in force, which is also generally referred to as persistency, is a significant determinant of our revenues. The factors affecting the length of time our insurance remains in force include:

- the level of current mortgage interest rates compared to the mortgage coupon rates on the insurance in force, which affects the vulnerability of the insurance in force to refinancings, and
- mortgage insurance cancellation policies of mortgage investors along with the current value of the homes underlying the mortgages in the insurance in force.

Our persistency rate was 82.9% at December 31, 2011, compared to 84.4% at December 31, 2010. During the 1990s, our year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003. Future premiums on our insurance in force represent a material portion of our claims paying resources.

Your ownership in our company may be diluted by additional capital that we raise or if the holders of our outstanding convertible debt convert that debt into shares of our common stock.

As noted above under “—Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis,” we may be required to raise additional equity capital. Any such future sales would dilute your ownership interest in our company. In addition, the market price of our common stock could decline as a result of sales of a large number of shares or similar securities in the market or the perception that such sales could occur.

We have \$389.5 million principal amount of 9% Convertible Junior Subordinated Debentures outstanding. The principal amount of the debentures is currently convertible, at the holder’s option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per \$1,000 principal amount of debentures. This represents an initial conversion price of approximately \$13.50 per share. We have the right, and may elect, to defer interest payable under the debentures in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also converted into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We also have \$345 million principal amount of 5% Convertible Senior Notes outstanding. The Senior Notes are convertible, at the holder’s option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per \$1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately \$13.44 per share. We do not have the right to defer interest on these Senior Notes.

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Our debt obligations materially exceed our holding company cash and investments

As noted above, our holding company contributed \$200 million to its insurance operations in December 2011 to support these operations. After the contribution, at December 31, 2011, we had \$487 million in cash and investments at our holding company and our holding company's debt obligations were \$906 million in par value, consisting of \$171 million of Senior Notes due in November 2015, \$345 million of Convertible Senior Notes due in 2017, and \$390 million of Convertible Junior Debentures due in 2063. Annual interest cost on the debt, as of December 31, 2011, was \$61 million. Our holding company has no material sources of cash inflows other than investment income. Any additional contributions would further decrease our holding company cash and investments. See Note 8 – "Debt" to our consolidated financial statements in Item 8 for additional information about the holding company's debt obligations, including restrictive covenants in our Senior Notes and our right to defer interest on our Convertible Junior Debentures.

We could be adversely affected if personal information on consumers that we maintain is improperly disclosed.

As part of our business, we maintain large amounts of personal information on consumers. While we believe we have appropriate information security policies and systems to prevent unauthorized disclosure, there can be no assurance that unauthorized disclosure, either through the actions of third parties or employees, will not occur. Unauthorized disclosure could adversely affect our reputation and expose us to material claims for damages.

The implementation of the Basel II capital accord, or other changes to our customers' capital requirements, may discourage the use of mortgage insurance.

In 1988, the Basel Committee on Banking Supervision (the "Basel Committee") developed the Basel Capital Accord (Basel I), which set out international benchmarks for assessing banks' capital adequacy requirements. In June 2005, the Basel Committee issued an update to Basel I (as revised in November 2005, Basel II). Basel II was implemented by many banks in the United States and many other countries in 2009 and 2010. Basel II affects the capital treatment provided to mortgage insurance by domestic and international banks in both their origination and securitization activities.

The Basel II provisions related to residential mortgages and mortgage insurance, or other changes to our customers' capital requirements, may provide incentives to certain of our bank customers not to insure mortgages having a lower risk of claim and to insure mortgages having a higher risk of claim. The Basel II provisions may also alter the competitive positions and financial performance of mortgage insurers in other ways.

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The discussion above does not reflect the release by the Basel Committee in December 2010 of the nearly final version of Basel III or the subsequent guidance issued. Basel III will increase the capital requirements of certain banking organizations. Implementation of Basel III will require formal regulations, which have not yet been proposed by the federal banking agencies and will involve a substantial phase-in period. We are continuing to evaluate the potential effects of the Basel III guidelines on our business.

Our Australian operations may suffer significant losses.

We began international operations in Australia, where we started to write business in June 2007. Since 2008, we are no longer writing new business in Australia. Our existing risk in force in Australia is subject to the risks described in the general economic and insurance business-related factors discussed above. In addition to these risks, we are subject to a number of other risks from having deployed capital in Australia, including foreign currency exchange rate fluctuations and interest-rate volatility particular to Australia.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At December 31, 2011, we leased office space in various cities throughout the United States under leases expiring between 2012 and 2017 and which required annual rental payments that in the aggregate are immaterial.

We own our headquarters facility and an additional office/warehouse facility, both located in Milwaukee, Wisconsin, which contain an aggregate of approximately 310,000 square feet of space.

Item 3. Legal Proceedings.

On December 11, 2011, seven mortgage insurers (including MGIC) and a large mortgage lender (which was the named plaintiffs' lender) were named as defendants in a complaint, alleged to be a class action, filed in U.S. District Court for the Central District of California. On December 30, 2011, a similar complaint was filed in the U.S. District Court for the Eastern District of Pennsylvania by different plaintiffs against the same seven mortgage insurers and another large lender. The complaints in both cases alleged various causes of action related to the captive mortgage reinsurance arrangements of these two mortgage lenders, including that the defendants violated the Real Estate Settlement Procedures Act ("RESPA") by paying excessive premiums to the lenders' captive reinsurers in relation to the risk assumed by those captives. The named plaintiffs' loans were not insured by MGIC. MGIC denies any wrongdoing and intends to vigorously defend itself against the allegations in the lawsuits. There can be no assurance that we will not be subject to further litigation under RESPA or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees' Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the "Complaint") in June 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS (a former minority-owned, unconsolidated, joint venture investment), including its liquidity. The Complaint also named two officers of C-BASS with respect to the Complaints' allegations regarding C-BASS. Our motion to dismiss the Complaint was granted in February 2010. In March 2010, plaintiffs filed a motion for leave to file an amended complaint. Attached to this motion was a proposed Amended Complaint (the "Amended Complaint"). The Amended Complaint alleged that we and two of our officers named in the Amended Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about C-BASS, including its liquidity, and by failing to properly account for our investment in C-BASS. The Amended Complaint also named two officers of C-BASS with respect to the Amended Complaint's allegations regarding C-BASS. The purported class period covered by the Amended Complaint began on February 6, 2007 and ended on August 13, 2007. The Amended Complaint sought damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported violations of federal securities laws. In December 2010, the plaintiffs' motion to file an amended complaint was denied and the Complaint was dismissed with prejudice. In January 2011, the plaintiffs appealed the February 2010 and December 2010 decisions to the United States Court of Appeals for the Seventh Circuit; during oral argument before the Appeals Court regarding the case on January 12, 2012, the plaintiffs confirmed the appeal was limited to issues regarding C-BASS. In June 2011, the plaintiffs filed a motion with the District Court for relief from that court's judgment of dismissal on the ground of newly discovered evidence consisting of transcripts the plaintiffs obtained of testimony taken by the

Securities and Exchange Commission in its now-terminated investigation regarding C-BASS. We are opposing this motion and the matter is awaiting decision by the District Court. We are unable to predict the outcome of these consolidated cases or estimate our associated expenses or possible losses. Other lawsuits alleging violations of the securities laws could be brought against us.

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In December 2009, Countrywide filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco against MGIC. This complaint alleges that MGIC has denied, and continues to deny, valid mortgage insurance claims submitted by Countrywide and says it seeks declaratory relief regarding the proper interpretation of the insurance policies at issue. In October 2011, the United States District Court for the Northern District of California, to which the case had been removed, entered an order staying the litigation in favor of the arbitration proceeding we commenced against Countrywide in February 2010.

In the arbitration proceeding, we are seeking a determination that MGIC is entitled to rescind coverage on the loans involved in the proceeding. From January 1, 2008 through December 31, 2011, rescissions of Countrywide-related loans mitigated our paid losses on the order of \$435 million. This amount is the amount we estimate we would have paid had the loans not been rescinded. On a per loan basis, the average amount that we would have paid had the loans not been rescinded was approximately \$72,100. Various materials exchanged by MGIC and Countrywide bring into the dispute loans we did not previously consider to be Countrywide-related and loans on which MGIC rescinded coverage subsequent to those specified at the time MGIC began the proceeding (including loans insured through the bulk channel), and set forth Countrywide's contention that, in addition to the claim amounts under policies it alleges MGIC has improperly rescinded, Countrywide is entitled to other damages of almost \$700 million as well as exemplary damages. Countrywide and MGIC have each selected 12 loans for which a three-member arbitration panel will determine coverage. While the panel's determination will not be binding on the other loans at issue, the panel will identify the issues for these 24 "bellwether" loans and strive to set forth findings of fact and conclusions of law in such a way as to aid the parties to apply them to the other loans at issue. The hearing before the panel on the bellwether loans was scheduled to begin in September 2012, but we and Countrywide have agreed that the parties will take steps to delay the hearing at least 60 days.

We intend to defend MGIC against any further proceedings arising from Countrywide's complaint and to advocate MGIC's position in the arbitration, vigorously. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, we have not accrued any reserves that would reflect an adverse outcome in this proceeding. An accrual for an adverse outcome in this (or any other) proceeding would be a reduction to our capital. In this regard, see the risk factor titled "— Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis" in Item 1A.

At December 31, 2011, 38,127 loans in our primary delinquency inventory were Countrywide-related loans (approximately 22% of our primary delinquency inventory). Of these 38,127 loans, we expect a significant portion will cure their delinquency or be rescinded and will not involve paid claims. From January 1, 2008 through December 31, 2011, of the claims on Countrywide-related loans that were resolved (a claim is resolved when it is paid or rescinded; claims that are submitted but which are under review are not resolved until one of these two outcomes occurs), approximately 78% were paid and the remaining 22% were rescinded.

The flow policies at issue with Countrywide are in the same form as the flow policies that we use with all of our customers, and the bulk policies at issue vary from one another, but are generally similar to those used in the majority of our Wall Street bulk transactions. Because our rescission practices with Countrywide do not differ from our practices with other servicers with which we have not entered into settlement agreements, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. From January 1, 2008 through December 31, 2011, we estimate that total rescissions mitigated our incurred losses by approximately \$3.1 billion, which included approximately \$2.6 billion of mitigation on paid losses, excluding \$0.6 billion that would have been applied to a deductible. At December 31, 2011, we estimate that our total loss reserves were benefited from rescissions by approximately \$0.7 billion.

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In addition to the rescissions at issue with Countrywide, we have a substantial pipeline of claims investigations and pre-rescission rebuttals (including those involving loans related to Countrywide) that we expect will eventually result in future rescissions. For additional information about rescissions as well as rescission settlement agreements, see the risk factor titled “— Our losses could increase if rescission rates decrease faster than we are projecting or we do not prevail in proceedings challenging whether our rescissions were proper” in Item 1A.

In addition to the above litigation, we face other litigation, regulatory risks and disputes. For additional information about such other litigation and regulatory risks, you should review our risk factors titled “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future” and “The settlement agreement we reached with the Internal Revenue Service, relating to significant proposed adjustments to our taxable income for 2000 through 2007, may not be finalized” in Item 1A.

Item 4. Mine Safety Disclosures.

Not Applicable.

Executive Officers of the Registrant

Certain information with respect to our executive officers as of February 29, 2012 is set forth below:

Name and Age	Title
Curt S. Culver, 59	Chairman of the Board and Chief Executive Officer of MGIC Investment Corporation and MGIC; Director of MGIC Investment Corporation and MGIC
Patrick Sinks, 55	President and Chief Operating Officer of MGIC Investment Corporation and MGIC
J. Michael Lauer, 67	Executive Vice President and Chief Financial Officer of MGIC Investment Corporation and MGIC
Lawrence J. Pierzchalski, 59	Executive Vice President – Risk Management of MGIC
Jeffrey H. Lane, 62	Executive Vice President, General Counsel and Secretary of MGIC Investment Corporation and MGIC
James A. Karpowicz, 64	Senior Vice President–Chief Investment Officer and Treasurer of MGIC Investment Corporation and MGIC
Michael G. Meade, 62	Senior Vice President–Information Services and Chief Information Officer of MGIC

Mr. Culver has served as our Chief Executive Officer since January 2000 and as our Chairman of the Board since January 2005. He was our President from January 1999 to January 2006 and was President of MGIC from May 1996 to January 2006. Mr. Culver has been a senior officer of MGIC since 1988 having responsibility at various times during his career with MGIC for field operations, marketing and corporate development. From March 1985 to 1988, he held various management positions with MGIC in the areas of marketing and sales.

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Mr. Sinks became our and MGIC's President and Chief Operating Officer in January 2006. He was Executive Vice President-Field Operations of MGIC from January 2004 to January 2006 and was Senior Vice President-Field Operations of MGIC from July 2002 to January 2004. From March 1985 to July 2002, he held various positions within MGIC's finance and accounting organization, the last of which was Senior Vice President, Controller and Chief Accounting Officer.

Mr. Lauer has served as our and MGIC's Executive Vice President and Chief Financial Officer since March 1989.

Mr. Pierzchalski has served as Executive Vice President-Risk Management of MGIC since May 1996 and prior thereto as Senior Vice President-Risk Management or Vice President-Risk Management of MGIC from April 1990 to May 1996. From March 1985 to April 1990, he held various management positions with MGIC in the areas of market research, corporate planning and risk management.

Mr. Lane has served as our and MGIC's Executive Vice President, General Counsel and Secretary since January 2008 and prior thereto as our Senior Vice President, General Counsel and Secretary from August 1996 to January 2008. For more than five years prior to his joining us, Mr. Lane was a partner of Foley & Lardner, a law firm headquartered in Milwaukee, Wisconsin.

Mr. Karpowicz has served as our and MGIC's Senior Vice President-Chief Investment Officer and Treasurer since January 2005 and has been Treasurer since 1998. From 1986 to January 2005, he held various positions within MGIC's investment operations organization, the last of which was Vice President.

Mr. Meade has served as MGIC's Senior Vice President-Information Services and Chief Information Officer since February 1992 and is expected to retire in March 2012. From 1985 to 1992, he held various positions within MGIC's information services organization, the last of which was Vice President-Information Services.

Mr. Gregory A. Chi, 52, joined MGIC in February 2012 and is expected to assume Mr. Meade's responsibilities upon Mr. Meade's retirement and to become an Executive Officer. Prior to joining MGIC, Mr. Chi had been Senior Vice President of Enterprise Delivery Services with SunTrust Bank since 2008. Prior to joining SunTrust, Mr. Chi had been Vice President, Information Technology Development Application with MetLife, Inc. since 2005. Prior to that, Mr. Chi held various senior management positions in the financial services industry.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Our Common Stock is listed on the New York Stock Exchange under the symbol "MTG." The following table sets forth for 2011 and 2010 by calendar quarter the high and low sales prices of our Common Stock on the New York Stock Exchange.

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Quarter	2011		2010	
	High	Low	High	Low
First	\$11.79	\$7.74	\$11.36	\$5.78
Second	9.64	5.41	13.80	6.87
Third	6.82	1.59	9.60	6.48
Fourth	3.99	1.51	10.90	8.06

In October 2008, the Board suspended payment of our cash dividend. Accordingly, no cash dividends were paid in 2010 or 2011. The payment of future dividends is subject to the discretion of our Board and will depend on many factors, including our operating results, financial condition and capital position. See Note 8, “Debt,” to our consolidated financial statements in Item 8 for dividend restrictions if we elect to defer interest on our Convertible Junior Debentures. We are a holding company and the payment of dividends from our insurance subsidiaries is restricted by insurance regulations. For a discussion of these restrictions, see “Management’s Discussion and Analysis — Liquidity and Capital Resources” in Item 7 of this annual report and Note 16, “Dividend restrictions,” to our consolidated financial statements in Item 8.

As of February 15, 2012, the number of shareholders of record was 125. In addition, we estimate there are approximately 19,000 beneficial owners of shares held by brokers and fiduciaries.

Information regarding equity compensation plans is contained in Item 12.

(b) Not applicable.

(c) We did not repurchase any shares of Common Stock during the fourth quarter of 2011.

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Item 6.

Selected Financial Data.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
Summary of Operations					
Revenues:					
Net premiums written	\$ 1,064,380	\$ 1,101,795	\$ 1,243,027	\$ 1,466,047	\$ 1,345,794
Net premiums earned	\$ 1,123,835	\$ 1,168,747	\$ 1,302,341	\$ 1,393,180	\$ 1,262,390
Investment income, net	201,270	247,253	304,678	308,517	259,828
Realized investment gains (losses), net, including net impairment losses	142,715	92,937	51,934	(12,486)	142,195
Other revenue	36,459	11,588	49,573	32,315	28,793
Total revenues	1,504,279	1,520,525	1,708,526	1,721,526	1,693,206
Losses and expenses:					
Losses incurred, net	1,714,707	1,607,541	3,379,444	3,071,501	2,365,423
Change in premium deficiency reserve	(44,150)	(51,347)	(261,150)	(756,505)	1,210,841
Underwriting and other expenses	214,750	225,142	239,612	271,314	309,610
Reinsurance fee	-	-	26,407	1,781	-
Interest expense	103,271	98,589	89,266	81,074	41,986
Total losses and expenses	1,988,578	1,879,925	3,473,579	2,669,165	3,927,860
Loss before tax and joint ventures	(484,299)	(359,400)	(1,765,053)	(947,639)	(2,234,654)
Provision for (benefit from) income taxes	1,593	4,335	(442,776)	(397,798)	(833,977)
Income (loss) from joint ventures, net of tax(1)	-	-	-	24,486	(269,341)
Net loss	\$(485,892)	\$(363,735)	\$(1,322,277)	\$(525,355)	\$(1,670,018)
Weighted average common shares outstanding (in thousands)					
	201,019	176,406	124,209	113,962	81,294
Diluted loss per share	\$(2.42)	\$(2.06)	\$(10.65)	\$(4.61)	\$(20.54)
Dividends per share	\$-	\$-	\$-	\$0.075	\$0.775
Balance sheet data					
Total investments	\$ 5,823,647	\$ 7,458,282	\$ 7,254,465	\$ 7,045,536	\$ 5,896,233
Cash and cash equivalents	995,799	1,304,154	1,185,739	1,097,334	288,933
Total assets	7,216,230	9,333,642	9,404,419	9,146,734	7,716,361
Loss reserves	4,557,512	5,884,171	6,704,990	4,775,552	2,642,479
Premium deficiency reserve	134,817	178,967	193,186	454,336	1,210,841
Short- and long-term debt	170,515	376,329	377,098	698,446	798,250
Convertible senior notes	345,000	345,000	-	-	-
Convertible junior debentures	344,422	315,626	291,785	272,465	-
Shareholders' equity	1,196,815	1,669,055	1,302,581	2,434,233	2,594,343

Book value per share	5.95	8.33	10.41	19.46	31.72
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- (1) For many years ending in 2008, we had significant investments in two less than majority owned joint ventures, Credit-Based Asset Servicing and Securitization LLC, or “C-BASS,” and Sherman Financial Group LLC, or “Sherman.” In 2007, we reduced the carrying value of C-BASS to zero. As a result, in 2008, our joint venture income principally consisted of income from Sherman. In August 2008, we sold our entire interest in Sherman. Beginning in the fourth quarter of 2008, our results of operations are no longer affected by any joint venture results.

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	Year Ended December 31,										
	2011		2010		2009		2008		2007		
New primary insurance written (\$ millions)	\$	14,234	\$	12,257	\$	19,942	\$	48,230	\$	76,806	
New primary risk written (\$ millions)		3,525		2,944		4,149		11,669		19,632	
New pool risk written (\$ millions)		-		-		4		145		211	
Insurance in force (at year-end)											
(\$ millions)											
Direct primary insurance		172,873		191,250		212,182		226,955		211,745	
Direct primary risk		44,462		48,979		54,343		58,981		55,794	
Direct pool risk											
With aggregate loss limits		674		1,154		1,478		1,752		2,325	
Without aggregate loss limits		1,177		1,532		1,951		2,521		4,131	
Primary loans in default ratios											
Policies in force		1,090,086		1,228,315		1,360,456		1,472,757		1,437,432	
Loans in default		175,639		214,724		250,440		182,188		107,120	
Percentage of loans in default		16.11	%	17.48	%	18.41	%	12.37	%	7.45	%
Percentage of loans in default — bulk		35.33	%	37.36	%	40.87	%	32.64	%	21.91	%
Insurance operating ratios (GAAP) (1)											
Loss ratio		152.6	%	137.5	%	259.5					