

MGIC INVESTMENT CORP

Form 10-K

March 01, 2010

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**FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

☐ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

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

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 ☐

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 ☒

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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

(Do not check if a 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, 2009: Approximately \$535 million*

* 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 24, 2010: 125,563,583

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*
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Proxy Statement for the 2010 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 leading provider of private mortgage insurance in the United States. In 2009, our net premiums written exceeded \$1.2 billion and our new insurance written was \$19.9 billion. As of December 31, 2009, our insurance in force was \$212.2 billion and our risk in force was \$54.3 billion. For further information about our results of operations, see our consolidated financial statements in Item 8. As of December 31, 2009, 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. Through December 31, 2009, MGIC wrote all of our new insurance throughout the United States. However, in 2010 MGIC Indemnity Corporation (MIC) is expected to begin writing new insurance in jurisdictions where MGIC does not meet minimum capital requirements and does not obtain a waiver of those requirements. For more information about the formation of MIC and our plans to utilize it to continue writing new insurance throughout the United States, see Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Capital in Item 7. In addition to mortgage insurance on first liens, we, through our subsidiaries, provide lenders with various underwriting and other services and products related to home mortgage lending.

Overview of the Private Mortgage Insurance Industry

The private mortgage insurance industry was established in 1957 by MGIC to provide a private market alternative to federal government insurance programs. Private mortgage insurance covers losses from homeowner defaults on residential first 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 expanding home ownership opportunities through helping people purchase homes with less than 20% down payments, especially first time homebuyers. In this annual report, we refer to loans with less than 20% down payments as low down payment mortgages or loans. During 2008 and 2009, approximately \$193 billion and \$82 billion, respectively, of mortgages were insured by private mortgage insurance companies.

Private mortgage insurance facilitates the sale of low down payment mortgages in the secondary mortgage market to the Federal National Mortgage Association, commonly known as Fannie Mae, and the Federal Home Loan Mortgage Corporation, commonly known as Freddie Mac. In this annual report, we refer to Fannie Mae and Freddie Mac collectively as the GSEs. The GSEs purchase residential mortgages from mortgage lenders and investors as part of their governmental mandate to provide liquidity in the secondary mortgage market and we believe that the GSEs purchased over 50% of the mortgages underlying our flow new insurance written during the last five years. 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. 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. 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 U.S. single-family residential mortgage market has historically experienced long-term growth, including an increase in mortgage debt outstanding every year between 1985, when MGIC began

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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 this period of increased growth and continuing through 2007, the mortgage lending industry increasingly made home loans at higher loan-to-value 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 substantially all areas 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 earnings of \$169 million in the first half of 2007, we had net losses of \$1.670 billion for 2007, \$525.4 million for 2008 and \$1.322 billion for 2009. Beginning in 2008 and 2009, the insurer financial strength rating of MGIC was downgraded a number of times by all three rating agencies. See the risk factor titled "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements" in Item 1A.

Beginning in late 2007, we implemented a series of changes to our underwriting guidelines that are designed to improve the credit risk profile of our new insurance written. 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 include the creation of two tiers 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 removed several markets from our restricted markets list and moved several other markets from our Tier Two restricted market list (for which our underwriting guidelines are most limiting) to our Tier One restricted market list.

Due to the changing environment, including that described above, at this time we are facing two particularly significant challenges:

Whether we will have access to sufficient capital to continue to write new business beyond 2011. For additional information about this challenge, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Capital" in Item 7.

Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. For additional information about this challenge, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Fannie Mae and Freddie Mac" in Item 7.

General Information About Our Company

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

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, joint venture losses in our results of operations included an impairment charge equal to our entire equity interest in C-BASS, as well as equity losses incurred by C-BASS in the fourth quarter that reduced the carrying value of our \$50 million note from C-BASS to zero. As a result, beginning in 2008, our joint venture income principally consisted of income from Sherman. In August 2008, we sold our entire interest in Sherman to Sherman. Beginning in the fourth quarter of 2008, our results of operations are no longer affected by any joint venture results.

As used in this annual report, "we," "us" and "our" refer to MGIC Investment Corporation's

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consolidated operations. Sherman, C-BASS and our other 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 description of our business in this document generally does not apply to our Australian operations, which are immaterial. 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 factors may also cause actual results to differ materially from the results contemplated by forward looking statements that we may make. 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 the fact that such statements are current at any time other than the time at which this annual report was filed with the Securities and Exchange Commission.

B. The MGIC Book

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.

Types of Product

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.

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). For the effect of bankruptcy cramdowns on the claim amount, see Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation Claims below. 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. 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 is 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

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publication that computes and publishes primary market share information.

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 \$19.9 billion in 2009 compared to \$46.6 billion in 2008 and \$69.0 billion in 2007. No new insurance written for bulk transactions was written in 2009, compared to \$1.6 billion for 2008 and \$7.8 billion in 2007. As noted in - Bulk Transactions below, in the fourth quarter of 2007, we decided to stop writing the portion of our bulk business that insures mortgage loans included in home equity (or private label) securitizations, which are the terms the market uses to refer to securitizations sponsored by firms besides 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. While we will continue to insure loans on a bulk basis when we believe that the loans will be sold to a GSE or retained by the lender, we expect the volume of any future business written through the bulk channel will be insignificant to us.

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

	2009	2008	December 31, 2007 (In millions)	2006	2005
Direct Primary Insurance In Force	\$212,182	\$226,955	\$211,745	\$176,531	\$170,029
Direct Primary Risk In Force	\$ 54,343	\$ 58,981	\$ 55,794	\$ 47,079	\$ 44,860

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 typically occur in the early years of a book of business, the higher premium revenue from deeper coverage has historically been generally recognized before any significant higher losses resulting from that deeper 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 depth of coverage.

In recent years the GSEs, with mortgage insurers, have offered programs under which, on delivery of an insured loan to a GSE, the primary coverage was restructured to an initial shallow tier of coverage followed by a second tier that was subject to an overall loss limit, and compensation may have been paid to the GSE reflecting services or other benefits realized by the mortgage insurer from the coverage conversion. Lenders receive guaranty fee relief from the GSEs on mortgages delivered with these restructured coverage percentages. We believe that the GSEs ceased offering these programs in 2008, though we continue to insure loans subject to these programs. See Sales and Marketing and Competition Competition below for a discussion of Fannie Mae's expansion of the types of loans

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eligible for charter coverage and its plans to eliminate its reduced coverage program in the second quarter of 2010.

In general, mortgage insurance coverage cannot be terminated by the insurer. However, a mortgage insurer may terminate or rescind coverage for, among other reasons, non-payment of premium and in the case of certain material misrepresentations made in connection with the issuance of the insurance 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, 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. 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 the borrower 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 36.0% in 2009 compared to 21.9% in 2008 and 23.2% in 2007. 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

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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.

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, whether the loan finances a home in a market we categorize as higher risk 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. Subject to regulatory approval, effective May 1, 2010, we will price our insurance after considering the borrowers' credit scores for all flow new insurance written. 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 and Company.

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 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.

Under the monthly premium plan, the borrower or lender pays us a monthly premium payment to provide only one month of coverage, rather than one year of coverage provided by the annual premium plan. Under the annual premium plan, the initial 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

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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.

During each of the last three years, the monthly premium plan represented more than 85% 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 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 usually has a stated aggregate loss limit and may also have a deductible under which no losses are paid by the insurer until losses 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. New pool risk written was \$4 million in 2009, \$145 million in 2008 and \$211 million in 2007. New pool risk written during 2007 was primarily comprised of risk associated with loans delivered to the GSEs (agency pool insurance), loans insured through private label securitizations, loans delivered to the Federal Home Loan Banks under their mortgage purchase programs and loans made under state housing finance programs. New pool risk written during 2008 was primarily comprised of risk associated with agency pool insurance and loans made under state housing finance programs. Direct pool risk in force at December 31, 2009 was \$1.7 billion compared to \$1.9 billion and \$2.8 billion at December 31, 2008 and 2007, respectively. The risk amounts referred to above represent pools of loans with contractual aggregate loss limits and in some cases those without these limits. For pools of loans without these limits, risk is estimated based on the amount that would credit enhance these loans to a

AA level based on a rating agency model. Under this model, at December 31, 2009, 2008 and 2007 for \$2.0 billion, \$2.5 billion and \$4.1 billion, respectively, of risk without these limits, risk in force is calculated at \$190 million, \$150 million and \$475 million, respectively.

The settlement of a nationwide class action alleging that MGIC violated the Real Estate Settlement Procedures Act, or RESPA, by providing agency pool insurance and entering into other transactions with lenders that were not properly priced became final in October 2003. In a February 1, 1999 circular addressed to all mortgage guaranty insurers licensed in New York, the New York Department of Insurance advised that significantly underpriced agency pool insurance would violate the provisions of New York insurance law that prohibit mortgage guaranty insurers from providing lenders with inducements to obtain mortgage guaranty business. In a January 31, 2000 letter addressed to all mortgage guaranty insurers licensed in Illinois, the Illinois Department of Insurance advised that providing pool insurance at a discounted or below market premium in return for the referral of primary mortgage insurance would violate Illinois law.

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' criteria and underwriting requirements for pool insurance on mortgages to the extent that they do not meet such insurer's published underwriting guidelines. We are uncertain of the status of these reviews.

Risk Sharing Arrangements.

We have participated in risk sharing arrangements with the GSEs and captive reinsurance arrangements with subsidiaries of certain mortgage lenders that reinsure a portion of the risk on loans

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originated or serviced by the lenders which have MGIC primary insurance.

In a February 1, 1999 circular addressed to all mortgage insurers licensed in New York, the New York Department of Insurance said that it was in the process of developing guidelines that would articulate the parameters under which captive mortgage reinsurance is permissible under New York insurance law. These guidelines, which were to ensure that the reinsurance constituted a legitimate transfer of risk and were fair and equitable to the parties, have not been issued. As discussed under "We are subject to the risk of private litigation and regulatory proceedings" in Item 1A, we provided information regarding captive mortgage reinsurance arrangements to the New York Department of Insurance, the Minnesota Department of Commerce and the Department of Housing and Urban Development, commonly referred to as HUD. The complaint in the RESPA litigation described in "Pool Insurance" alleged that MGIC pays inflated captive reinsurance premiums in violation of RESPA. Since December 2006, class action litigation was separately brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. We are not a defendant in any of these cases and we believe no other mortgage insurer is a defendant.

In addition, 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 9 to our consolidated financial statements in Item 8.

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 decided to stop writing the portion of our bulk business insuring loans included in Wall Street bulk transactions. These securitizations represented approximately 41% and 66% of our new insurance written for bulk transactions during 2007 and 2006, respectively, and 9% of our risk in force, or 62% of our bulk risk in force, at December 31, 2009. New insurance written for bulk transactions was \$1.6 billion during 2008, all of which were eligible for delivery to the GSEs, compared to \$7.8 billion for 2007. 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. The conforming loan limit is subject to annual adjustment, and for mortgages covering a home with one dwelling unit 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 that amount throughout 2009. For additional 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.

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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 39.3% of our new insurance written on a flow basis in 2009, compared to 40.3% in 2008 and 43.0% in 2007. In the fourth quarter of 2009, Countrywide and an affiliate (Countrywide) commenced litigation against us as a result of its dissatisfaction with our rescissions practices shortly after it ceased doing business with us. See the risk factor titled We are subject to the risk of private litigation and regulatory proceedings 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 12.0% of our flow new insurance written in 2008 and 8.3% of our new insurance written in the first three quarters of 2009. In addition, another customer with whom we still do business accounted for almost 14% of our flow new insurance written in 2009.

When writing insurance for Wall Street bulk transactions, we historically dealt primarily with securitizers of the loans or other owners of the loans, who considered whether credit enhancement provided through the structure of the securitization would eliminate or reduce the need for mortgage insurance.

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, Puerto Rico and Guam.

Competition. Our competition includes other mortgage insurers, 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, principally the Federal Housing Administration (FHA) and, to a lesser degree, the Veterans Administration. These agencies sponsor government-backed mortgage insurance programs, which during 2009 and 2008 accounted for approximately 84.6% and 60.4%, 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 the FHA, which until 2008 was not viewed by us as a significant competitor, accounted for the overwhelming majority of this increase in both 2008 and 2009.

Loans insured by the FHA cannot exceed maximum principal amounts which are determined by a percentage of the conforming loan limit. For loans originated in the first half of 2007, the maximum FHA loan amount for homes with one dwelling unit in high cost areas was as high as \$362,790; this amount was temporarily increased to up to \$729,750 in the most costly areas for loans originated in the second half of 2007 or during 2008. For loans originated in 2009 and 2010, this limit was lowered to \$721,050 in Alaska and Hawaii and \$625,500 in other states. Loans insured by the Veteran s Administration do not have mandated maximum principal amounts but have maximum limits on the amount of the guaranty provided by the Veteran s Administration to the lender. For loans closed on or after December 10, 2004, the maximum Veteran s Administration guaranty is \$156,375 in Alaska and Hawaii and \$104,250 in other states.

In addition to competition from the FHA and the Veteran s Administration, we and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states,

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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.

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). Effective January 1, 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage. Fannie Mae has also announced that it would eliminate its reduced coverage program in the second quarter of 2010. In recent years, a majority of our volume has been on loans with GSE standard coverage, a substantial portion of our volume has been on loans with reduced coverage, and a minor portion of our volume has been on loans with charter coverage. We charge higher premium rates for higher coverages. To the extent lenders selling loans to Fannie Mae choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects. See Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Fannie Mae and Freddie Mac for a discussion about the risk that private mortgage insurance will not remain a significant credit enhancement for low down payment single family mortgages and 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 and 2009.

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.

The U.S. private mortgage insurance industry currently consists of seven active mortgage insurers and their affiliates and one new entrant that has said it will begin to write new business in the second quarter of 2010. One of the seven is a joint venture in which another mortgage insurer participates, another is, according to filings with the Securities and Exchange Commission as of February 20, 2010, our largest shareholder and the new entrant reported that one of its investors is JPMorgan Chase, which is one of our customers. 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. In 2008, a mortgage insurer ceased writing new insurance and placed its existing book of business in run-off. According to Inside Mortgage Finance, which obtains its data from reports provided by us and other mortgage insurers that are to be prepared on the same basis as the reports by insurers to the trade association for the private mortgage insurance industry, for more than ten years, we have been the largest private mortgage insurer based on new primary insurance written, with a market share of 26.0% in 2009, 24.5% in 2008, 21.3% in 2007, 21.6% in 2006 and 22.9% in 2005, and at December 31, 2009, we also

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had the largest book of direct primary insurance in force. For more than five years, these reports do not include as primary mortgage insurance insurance on certain loans classified by us as primary insurance, such as loans insured through bulk transactions that already had mortgage insurance placed on the loans at origination.

The private mortgage insurance industry is highly competitive. We believe that we currently compete with other private mortgage insurers based on 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 loans that affect 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 rescissions practices shortly after it ceased doing business with us. See the risk factor titled "We are subject to the risk of private litigation and regulatory proceedings" 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 at "Competition or changes in our relationships with our customers could reduce our revenues or increase our losses" in Item 1A. Several private mortgage insurers compete based on the types of captive mortgage reinsurance that they offer.

Historically, the industry has competed for business written through the flow channel principally on the basis of programs involving captive mortgage reinsurance, agency pool insurance, and other similar structures involving lenders; the provision of contract underwriting and related fee-based services to lenders; financial strength as it is perceived by persons making or influencing the selection of a mortgage insurer; the provision of other products and services that meet lender needs for risk management, affordable housing, loss mitigation, capital markets and training support; and the effective use of technology and innovation in the delivery and servicing of insurance products. We believe competition for Wall Street bulk business was based principally on the premium rate and the portion of loans submitted for insurance that the insurers were willing to insure.

The complaint in the RESPA litigation described in "Pool Insurance" alleged, among other things, that captive mortgage reinsurance, agency pool insurance, and contract underwriting we provided violated RESPA.

Certain private mortgage insurers compete for flow business by offering lower premium rates than other companies, including us, either in general or with respect to particular customers or classes of business. On a case-by-case basis, we will adjust premium rates, generally depending on the risk characteristics, loss performance or class of business of the loans to be insured, or the costs associated with doing such business.

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 Ba3 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

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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.

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. A material portion of our new insurance written through the flow channel in recent years involved loans for which we provided contract underwriting services. The complaint in the RESPA litigation described in - Pool Insurance 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. 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, 2009, 2008 and 2007. However, a generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs, and 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 involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans on which we also provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. In the second half of 2009, we experienced an increase in claims for contract underwriting remedies, which may continue. 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.

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

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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 with lower FICO credit scores compared to loans 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, 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."

Beginning in late 2007, we implemented a series of changes to our underwriting guidelines that are designed to improve the credit risk profile of our new insurance written. 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 include the creation of two tiers 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 removed several markets from our restricted markets list and moved several other markets from our Tier Two restricted market list (for which our underwriting guidelines are most limiting) to our Tier One restricted market list. 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

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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 loss similar to the losses currently being experienced. 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, 2005-2009:

Default Statistics for the MGIC Book

	2009	2008	December 31, 2007	2006	2005
PRIMARY INSURANCE					
Insured loans in force	1,360,456	1,472,757	1,437,432	1,283,174	1,303,084
Loans in default ⁽¹⁾	250,440	182,188	107,120	78,628	85,788
Default rate all loans	18.41%	12.37%	7.45%	6.13%	6.58%
Flow loans in default	185,828	122,693	61,352	42,438	47,051
Default rate flow loans	15.46%	9.51%	4.99%	4.08%	4.52%
Bulk loans in force	158,089	182,268	208,903	243,395	263,225
Bulk loans in default ⁽²⁾	64,612	59,495	45,768	36,190	38,737
Default rate bulk loans	40.87%	32.64%	21.91%	14.87%	14.72%
Prime loans in default ⁽³⁾	150,642	95,672	49,333	36,727	41,395
Default rate prime loans	13.29%	7.90%	4.33%	3.71%	4.11%
A-minus loans in default ⁽³⁾	37,711	31,907	22,863	18,182	20,358
Default rate A-minus loans	40.66%	30.19%	19.20%	16.81%	17.21%
Subprime loans in default ⁽³⁾	13,687	13,300	12,915	12,227	13,762
Default rate subprime loans	50.72%	43.30%	34.08%	26.79%	25.20%
Reduced documentation loans delinquent ⁽⁴⁾	48,400	41,309	22,009	11,492	10,273
Default rate reduced doc loans	45.26%	32.88%	15.48%	8.19%	8.39%
POOL INSURANCE					
Insured loans in force	526,559	603,332	757,114	766,453	767,920
Loans in default	44,231	33,884	25,224	20,458	23,772
Percentage of loans in default (default rate)	8.40%	5.62%	3.33%	2.67%	3.10%

(1) At December 31, 2009, 2008 and 2007, 45,907, 45,482 and 39,704 loans in default, respectively, related to Wall Street bulk transactions and at December 31, 2009, 2008, 2007, 2006 and 2005, 16,389, 13,275, 5,055, 2,906 and 1,914

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.

(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. 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.

- (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.

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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 loans we insured that were in default as of December 31, 2009, 2008 and 2007 for the 15 states for which we paid the most losses during 2009:

State Default Rates

	2009	December 31, 2008	2007
California	34.21%	25.17%	13.60%
Florida	42.61	29.46	12.30
Michigan	19.25	13.61	9.78
Arizona	33.55	21.54	7.48
Nevada	42.01	25.10	8.73
Georgia	22.38	14.36	8.79
Illinois	21.70	13.28	7.73
Ohio	13.96	9.93	8.01
Minnesota	18.12	13.17	9.07
Texas	12.11	8.68	6.27
Virginia	16.90	11.99	6.62
Indiana	14.22	10.07	6.77
Massachusetts	15.22	10.86	7.42
Colorado	14.58	9.02	6.27
Missouri	13.18	9.19	6.04
All other states	14.14	9.10	5.95

The default inventory for the 15 states for which we paid the most losses during 2009, at the dates indicated, appears in the table below.

Default Inventory by State

	2009	December 31, 2008	2007
California	19,661	14,960	6,925
Florida	38,924	29,384	12,548
Michigan	12,759	9,853	7,304
Arizona	8,791	6,338	2,169
Nevada	5,803	3,916	1,337
Georgia	10,905	7,622	4,623
Illinois	13,722	9,130	5,435
Ohio	11,071	8,555	6,901
Minnesota	4,674	3,642	2,478
Texas	13,668	10,540	7,103
Virginia	4,464	3,360	1,761
Indiana	7,005	5,497	3,763
Massachusetts	3,661	2,634	1,596
Colorado	3,451	2,328	1,534
Missouri	4,195	3,263	2,149
All other states	87,686	61,166	39,494
	250,440	182,188	107,120

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Claims. Claims result from defaults which 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.

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 recently due to various state and lender foreclosure moratoriums, 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, 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 prime 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, 2009, 54% of the MGIC Book of primary insurance in force had been written on or after January 1, 2007, although a portion of that insurance arose from the refinancing of earlier originations. See - Insurance In Force by Policy Year.

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 average claim severity on the MGIC Book of primary insurance was \$52,627 for 2009, compared to \$52,239 for 2008, and \$37,165 in 2007. The continued increase in average claim severity in 2009 was primarily a result of the default inventory containing higher loan exposures with expected higher average claim payments.

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Information about net claims we paid during 2007 through 2009 appears in the table below.

Net paid claims (\$ millions)

	2009	2008	2007
Prime (FICO 620 & >)	\$ 831	\$ 547	\$ 332
A-Minus (FICO 575-619)	231	250	161
Subprime (FICO < 575)	95	132	101
Reduced doc (All FICOs)	388	395	190
Other	104	48	45
Direct losses paid	1,649	1,372	829
Reinsurance	(41)	(19)	(12)
Net losses paid	\$ 1,608	\$ 1,353	\$ 817
LAE	60	48	53
Net losses and LAE before terminations	1,668	1,401	870
Reinsurance terminations	(119)	(265)	
Net losses and LAE paid	\$ 1,549	\$ 1,136	\$ 870

Information regarding the 15 states for which we paid the most primary losses during 2009 appears in the table below.

Primary paid claims by state (\$ millions)

	2009	2008	2007
California	\$ 253	\$ 316	\$ 82
Florida	195	129	38
Michigan	111	99	98
Arizona	110	61	10
Nevada	75	45	12
Georgia	62	50	35
Illinois	59	52	35
Ohio	54	58	73
Minnesota	52	43	34
Texas	51	48	51
Virginia	48	32	13
Indiana	32	26	33
Massachusetts	27	29	24
Colorado	27	33	32
Missouri	26	22	17
All other states	363	281	197
Total	1,545	1,324	784
Other	4	(188)	86

Net paid claims	\$ 1,549	\$ 1,136	\$ 870
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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.

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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 review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur 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 rescissions have materially mitigated our paid and incurred losses. For further information about our recent rescission rates, See Management's Discussion and Analysis of Financial Condition and Results of Operations—Losses Incurred in Item 7. While we have a substantial pipeline of claims investigations that we expect will eventually result in rescissions during 2010, we can give no assurance that rescissions will continue to mitigate paid and incurred losses at the same level we have recently experienced. For further information, see We may not continue to realize benefits from rescissions at the levels we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper in Item 1A.

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, whether the requirements to rescind are met ultimately would be determined by legal proceedings. Objections to rescission may be made several years after we have rescinded an insurance policy. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. We have filed an arbitration case against Countrywide regarding rescissions. For more information about this lawsuit and arbitration case, see the risk factor titled, We are subject to the risk of private litigation and regulatory proceedings in Item 1A as well as Item 3, Legal Proceedings. In addition, we continue to have discussions with other lenders regarding their objections to rescissions that in the aggregate are material and are involved in other arbitration proceedings with respect to an amount of rescissions that are not material.

Most of our rescissions involve material misrepresentations made, or fraud committed, in connection with the origination of a loan regarding information we received and relied upon when the loan was insured. In general, our insurance 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. Ultimately, our ability to rescind coverage for material misrepresentation requires a thorough investigation of the facts surrounding the origination of the insured mortgage loan and the discovery of sufficient evidence regarding a misrepresentation and the materiality of the misrepresentation. These types of investigations are very fact-intensive, can be more difficult in reduced documentation and no documentation loan scenarios and often depend on factors outside our control, including whether the borrower cooperates with our investigation.

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. However, eleven states, including Arizona, Illinois, Ohio, Texas and Virginia, prohibit mortgage guaranty insurance companies from obtaining deficiency judgments if the applicable property is a single-family home that the borrower lived in. In six other states, including California, deficiency judgments are effectively

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prohibited. Finally, some states, including, Florida, Indiana, Illinois and Ohio (when, in the latter two states, there is a non-owner occupied property), have a judicial foreclosure process in which a deficiency judgment is obtained. In our experience, the increased time and costs associated with separate actions to obtain a deficiency judgment usually outweigh the potential benefits of collecting the deficiency judgment. In recent years, recoveries on deficiency judgments have been less than 1% of our paid claims. The recent increase in our paid claims has not been accompanied by a similar increase in recoveries on deficiency judgments. This has occurred because the number of borrowers against whom we are seeking deficiency judgments has not increased. This in turn is due to our view that the number of borrowers whose credit quality would warrant our seeking deficiency judgments has remained essentially unchanged despite the substantial increase in the number of potential deficiency candidates.

Loss Reserves and Premium Deficiency Reserves

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 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 which are not currently in default.

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 which 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 and 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 We may not continue to realize benefits from rescissions at the levels we have recently experienced and we may 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 premium deficiency reserves, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premium and already established reserves. In the fourth quarter of 2007, we recorded premium deficiency reserves of \$1,211 million relating to Wall Street bulk transactions remaining in our insurance in force. As of December 31, 2009, this premium deficiency reserve was \$193 million. A premium deficiency reserve represents the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves on the applicable loans.

For further information about loss reserves, see Management's Discussion and Analysis Results of Consolidated Operations Losses in Item 7 and Note 8 to our consolidated financial statements in Item 8.

Table of Contents***Geographic Dispersion***

The following table reflects 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, 2009:

Dispersion of Primary Risk in Force**Top 10 States**

1. Florida	8.0%
2. California	7.6
3. Texas	7.0
4. Illinois	4.5
5. Pennsylvania	4.4
6. Ohio	4.3
7. Michigan	3.8
8. Georgia	3.5
9. New York	3.4
10. Wisconsin	2.7
Total	49.2%

Top 10 Core-based statistical areas

1. Chicago-Naperville-Joliet	3.1%
2. Atlanta-Sandy Springs-Marietta	2.4
3. Houston-Baytown-Sugarland	2.2
4. Washington-Arlington-Alexandria	1.9
5. Phoenix-Mesa-Scottsdale	1.7
6. Los Angeles-Long Beach-Glendale	1.7
7. San Juan-Caguas-Guaynabo	1.6
8. Riverside-San Bernardino-Ontario	1.6
9. Philadelphia	1.5
10. Dallas-Plano-Irving	1.4
Total	19.1%

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.

Table of Contents***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, 2009, by year(s) of policy origination since we began operations in 1985:

Primary Insurance In Force by Policy Year

Policy Year	Flow	Bulk	Total	Percent of Total
		(In millions of dollars)		
1985-2002	\$ 11,906	\$ 2,118	\$ 14,024	6.6%
2003	10,486	1,839	12,325	5.8
2004	11,816	1,976	13,792	6.5
2005	18,368	4,747	23,115	10.9
2006	23,704	9,688	33,392	15.7
2007	54,201	6,165	60,366	28.5
2008	36,071	614	36,685	17.3
2009	18,483		18,483	8.7
Total	\$ 185,035	\$ 27,147	\$ 212,182	100.0%

Risk In Force and Product Characteristics of Risk in Force

At both December 31, 2009 and 2008, 97% 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, 2009, by year(s) of policy origination since we began operations in 1985:

Primary Risk In Force by Policy Year

Policy Year	Flow	Bulk	Total	Percent of Total
		(In millions of dollars)		
1985-2002	\$ 3,058	\$ 579	\$ 3,637	6.7%
2003	2,810	546	3,356	6.2
2004	3,216	555	3,771	6.9
2005	4,886	1,456	6,342	11.7
2006	6,103	2,952	9,055	16.6
2007	13,889	1,499	15,388	28.3
2008	8,812	140	8,952	16.5
2009	3,842		3,842	7.1
Total	\$ 46,616	\$ 7,727	\$ 54,343	100.0%

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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.

Characteristics of Primary Risk in Force

	December 31, 2009	December 31, 2008
Direct Risk in Force (In Millions):	\$ 54,343	\$ 58,981
Loan-to-value ratios: ⁽¹⁾		
100s	28.2%	29.6%
95s	29.5	29.1
90s ⁽²⁾	37.0	35.6
80s	5.3	5.7
Total	100.0%	100.0%
Loan Type:		
Fixed ⁽³⁾	90.5%	89.3%
Adjustable rate mortgages (ARMs ⁽⁴⁾)	9.5	10.7
Total	100.0%	100.0%
Original Insured Loan Amount: ⁽⁵⁾		
Conforming loan limit and below	94.7%	94.3%
Non-conforming	5.3	5.7
Total	100.0%	100.0%
Mortgage Term:		
15-years and under	1.2%	1.1%
Over 15 years	98.8	98.9
Total	100.0%	100.0%
Property Type:		
Single-family ⁽⁶⁾	89.3%	89.7%
Condominium	9.6	9.3
Other ⁽⁷⁾	1.1	1.0
Total	100.0%	100.0%

Occupancy Status:		
Primary residence	93.5%	93.1%
Second home	3.4	3.5
Non-owner occupied	3.1	3.4
Total	100.0%	100.0%
Documentation:		
Reduced documentation ⁽⁸⁾	10.8%	12.0%
Full documentation	89.2	88.0
Total	100.0%	100.0%
FICO Score: ⁽⁹⁾		
Prime (FICO 620 and above)	91.4%	90.7%
A Minus (FICO 575 – 619)	6.7	7.2
Subprime (FICO below 575)	1.9	2.1
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).

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- (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 December 31, 2009 and 2008, 1.3% and 1.2%, respectively, of the primary risk in force consisted of these types of loans.
- (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, 2009, 2008 and 2007, represented 3.5%, 3.8% and 4.5%, 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, 2009, 2008 and 2007, ARMs with loan-to-value ratios in excess of 90% represented 2.3%, 2.7% and 4.0%, 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 throughout 2009.

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, 2009, 2008 and 2007, reduced documentation loans represented 6.1%, 6.8% and 8.2%, respectively, of risk in force written through the flow channel and 38.9%, 40.3% and 41.2%, 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 2009,
2008 and 2007

was 760, 733 and
691,
respectively.

C. Other Business and Joint Ventures

We provide various mortgage services for the mortgage finance industry, such as portfolio retention and secondary marketing of mortgage-related assets. Our eMagic.com LLC subsidiary provides an Internet portal through which mortgage industry participants can access products and services of wholesalers, investors and vendors necessary to make a home mortgage loan. Using the trade name Myers Internet, eMagic.com also provides website hosting, design and marketing solutions for mortgage originators and real estate agents.

For information about our Australian operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Australia in Item 7.

At December 31, 2009, we owned approximately 45.5% of the equity interest in C-BASS, which prior

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to 2008 was one of our principal joint ventures included in the Income from joint ventures, net of tax line in our Consolidated Statement of Operations. A third party has an option that expires in December 2014 to purchase 22.5% of C-BASS equity from us for an exercise price of \$2.5 million. C-BASS is a joint venture with its senior management and Radian Group Inc. that was formerly engaged principally in the business of investing in the credit risk of subprime single-family residential mortgages. In 2007, C-BASS ceased its operations and is managing its portfolio pursuant to a consensual, non-bankruptcy restructuring, under which its assets are to be paid out over time to its secured and unsecured creditors. For further information about C-BASS, see Management's Discussion and Analysis Results of Consolidated Operations in Item 7 and Note 10 to our consolidated financial statements in Item 8.

Until August 2008, when we sold our entire interest in Sherman to Sherman, Sherman was a joint venture with its senior management and Radian Group Inc. Our interest sold represented approximately 24.25% of Sherman's equity. In September 2007, we sold certain interests in Sherman for approximately \$240.8 million. For further information about Sherman, which during 2008 was our principal joint venture included in the Income from joint ventures, net of tax line in our Consolidated Statement of Operations, see Management's Discussion and Analysis Results of Consolidated Operations in Item 7 and Note 10 to our consolidated financial statements in Item 8.

D. Investment Portfolio

Policy and Strategy

At December 31, 2009, the fair value of our investment portfolio and cash and cash equivalents was approximately \$8.4 billion. As of December 31, 2009, approximately \$84 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 cash or cash equivalents. The remainder of the discussion of our investment portfolio refers to our investment portfolio only and not to cash and cash equivalents.

Approximately 59% of our investment portfolio is managed by either BlackRock, Inc. or 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.

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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, fixed-income investments. We seek liquidity through diversification and investment in publicly traded securities. We attempt to maintain a level of liquidity commensurate with our perceived business outlook and the expected timing, direction and degree of changes in interest rates. During 2009, we reduced the proportion of our investment portfolio in tax exempt municipal securities while increasing the proportion of taxable securities principally since the tax benefits of holding tax exempt municipal securities are no longer available based on our current net loss position. Our investment policies in effect at December 31, 2009 limited 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 or non-government money market mutual fund was:

U.S. government securities	No limit
Pre-refunded municipals escrowed in Treasury securities	No limit ⁽¹⁾
U.S. government agencies (in total) ⁽²⁾	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) No limit subject to liquidity considerations.

(2) 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), Federal Home Loan Banks and the Tennessee Valley Authority.

At December 31, 2009, based on amortized cost, approximately 94% of our total fixed income investment portfolio was invested in securities rated A or better, with 47% rated AAA and 30% 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, 2009, tax exempt and taxable municipal securities represented 63.7% of the fair value of our total investment portfolio and derivative financial instruments in our investment portfolio were immaterial. During 2009 we began shifting 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 2.6%, 35.0%, 20.5% and 33.7%, respectively, of the total fair value of our investment in debt securities. Auction rate and mortgage-backed securities represented 6.8% and 1.4%, respectively, of the total fair value of our investment in debt securities. Our pre-tax yield for 2009 was 3.6%, compared to pre-tax yields of 3.9% and 4.7% in 2008 and 2007, respectively.

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Our ten largest holdings at December 31, 2009 appear in the table below:

	Fair Value (in thousands of dollars)
1. New York, NY	\$ 80,846
2. Sales Tax Asset Receivable	60,254
3. Montana State Higher Student Assist	58,766
4. Penn State Higher Educ Asst	48,493
5 North Carolina Municipal Power	48,190
6. San Joaquin Hills California	47,983
7. Brazos Texas Higher Education	46,656
8. Bank of America Corp	45,658
9. New York City Water Fin Authority	40,219
10. Florida St. Brd Ed Lottery Rev	39,578
	\$ 516,643

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

The sectors of our investment portfolio at December 31, 2009 appear in the table below:

	Percentage of Portfolio's Fair Value
1. Municipal	55.8%
2. Corporate	18.4
3. U.S. Treasuries	12.2
4. Taxable Municipals	7.9
5. Asset Backed	3.9
6. Foreign	1.6
7. Other Taxable	0.2
	100.0%

For further information concerning investment operations, see Note 4 to our consolidated financial statements in Item 8.

E. 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 us and many other 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 general, regulation of our subsidiaries' business relates to:

licenses to transact business;

policy forms;

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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 discussion of a February 1, 1999 circular letter from the New York Insurance Department and a January 31, 2000 letter from the Illinois Department of Insurance, see *The MGIC Book Types of Product Pool Insurance* and *We are subject to the risk of private litigation and regulatory proceedings* in Item 1A. For a description of limits on dividends payable, see

Management's Discussion and Analysis Liquidity and Capital Resources in Item 7 and Note 13 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 *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 13 to our consolidated financial statements in Item 8.

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

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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 subject to the risk of private litigation and regulatory proceedings" 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 "While our plan to write new insurance in MGIC Indemnity Corporation (MIC) has received Wisconsin OCI and GSE approval, we cannot guarantee that its implementation will allow us to continue to write new insurance on an uninterrupted basis throughout the United States in the future" 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 both of the GSEs. The Obama administration and certain members of Congress have publicly stated that they are considering proposing significant changes to domestic housing policies and regulations including those applicable to the GSEs. As a result, it is uncertain what role that the GSEs will play in the domestic residential housing finance system in the future. For additional information about the potential impact that any such changes in the GSEs' 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 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" Overview "Fannie Mae and Freddie Mac" in Item 7.

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 Veterans Administration, 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 subject to the risk of private litigation and regulatory proceedings" in Item 1A.

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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.

F. Employees

At December 31, 2009, we had approximately 1,020 full- and part-time employees, of whom approximately 27% 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 125 to more than 350.

G. 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.

Item 1A. Risk Factors.

Forward-Looking Statements and Risk Factors

Our revenues and losses may be affected by the risk factors discussed below. These risk factors are an integral part of this annual report.

These 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 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 the fact that such statements are current at any time other than the time at which this annual report was filed with the Securities and Exchange Commission.

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While our plan to write new insurance in MGIC Indemnity Corporation (MIC) has received Wisconsin OCI and GSE approval, we cannot guarantee that its implementation will allow us to continue to write new insurance on an uninterrupted basis throughout the United States in the future.

For some time, we have been working to implement a plan to write new mortgage insurance in MIC, which is driven by our belief that in the future MGIC will not meet minimum regulatory capital requirements to write new business and may not be able to obtain appropriate waivers of these requirements in all jurisdictions in which they are present. Absent the waiver granted by the Office of the Commissioner of Insurance for the State of Wisconsin (OCI) referred to below, a failure to meet Wisconsin's minimum capital requirements would have prevented MGIC from writing new business anywhere. Also, absent a waiver in a particular jurisdiction, failure of MGIC to meet minimum capital requirements of that jurisdiction would prevent MGIC from writing business there. In addition to Wisconsin, these minimum capital requirements are present in 16 jurisdictions while the remaining jurisdictions in which MGIC does business do not have specific capital requirements applicable to mortgage insurers. Before MIC can begin writing new business, it must obtain or update licenses in the jurisdictions where it will transact business.

In October 2009, we, MGIC and MIC entered into an agreement with Fannie Mae (the Fannie Mae Agreement) under which MGIC agreed to contribute \$200 million to MIC (which MGIC has done) and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011 subject to the terms of the Fannie Mae Agreement. Under the Fannie Mae Agreement, MIC will be eligible to write mortgage insurance only in those 16 other jurisdictions in which MGIC cannot write new insurance due to MGIC's failure to meet regulatory capital requirements applicable to mortgage insurers and if MGIC fails to obtain relief from those requirements or a specified waiver of them. The Fannie Mae Agreement, including certain restrictions imposed on us, MGIC and MIC, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission on October 16, 2009.

On February 11, 2010, Freddie Mac notified (the Freddie Mac Notification) MGIC that we may utilize MIC to write new business in states in which MGIC does not meet minimum regulatory capital requirements to write new business and does not obtain appropriate waivers of those requirements. This conditional approval to use MIC as a Limited Insurer will expire December 31, 2012, includes terms substantially similar to those in the Fannie Mae Agreement and is summarized more fully in our Form 8-K filed with the Securities and Exchange Commission on February 16, 2010.

In December 2009, the OCI issued an order waiving, until December 31, 2011, the requirement that MGIC maintain a specific level of minimum policyholders position to write new business. The waiver may be modified, terminated or extended by the OCI in its sole discretion. In December 2009, the OCI also approved a transaction under which MIC will be eligible to write new mortgage guaranty insurance policies only in jurisdictions where MGIC does not meet minimum capital requirements similar to those waived by the OCI and does not obtain a waiver of those requirements from that jurisdiction's regulatory authority. MGIC has applied for waivers in all jurisdictions that have the regulatory capital requirements. MGIC has received similar waivers from some of these states. These waivers expire at various times, with the earliest expiration being December 31, 2010. Some jurisdictions have denied the request because a waiver is not authorized under the jurisdictions' statutes or regulations and others may deny the request on other grounds. There can be no assurances that MIC will receive the necessary approvals from any or all of the jurisdictions in which MGIC would be prohibited from continuing to write new business due to MGIC's failure to meet applicable regulatory capital requirements or obtain waivers of those requirements.

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Under the Fannie Mae Agreement, MIC has been approved as an eligible mortgage insurer only through December 31, 2011 and Freddie Mac has approved MIC as a Limited Insurer only through December 31, 2012. Whether MIC will continue as an eligible mortgage insurer after these dates will be determined by the applicable GSE's mortgage insurer eligibility requirements then in effect. Further, under the Fannie Mae Agreement and the Freddie Mac Notification, MGIC cannot capitalize MIC with more than the \$200 million contribution without prior approval from each GSE, which limits the amount of business MIC can write. We believe that the amount of capital that MGIC has contributed to MIC will be sufficient to write business for the term of the Fannie Mae Agreement in the jurisdictions in which MIC is eligible to do so. 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 regulatory capital requirements applicable to mortgage insurers, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC is not eligible to write business.

A failure to meet the specific minimum regulatory capital requirements to insure new business does not mean that MGIC does not have sufficient resources to pay claims on its insurance. Even in scenarios in which losses materially exceed those that would result in not meeting such requirements, we believe that we have claims paying resources at MGIC that exceed our claim obligations on our insurance in force. Our estimates of our claims paying resources and claim obligations are based on various assumptions. These assumptions include our anticipated rescission activity, 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 housing values and unemployment more volatile than they would otherwise be. Our anticipated rescission activity is also subject to volatility.

We may not continue to realize benefits from rescissions at the levels we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper.

Historically, claims submitted to us on policies we rescinded were not a material portion of our claims resolved during a year. However, beginning in 2008 rescissions have materially mitigated our paid losses. In 2009, rescissions mitigated our paid losses by \$1.2 billion, which includes amounts that would have resulted in either a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer. While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we can give no assurance that rescissions will continue to mitigate paid losses at the same level we have recently experienced.

In addition, if the insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by legal proceedings. Objections to rescission may be made several years after we have rescinded an insurance policy. Countrywide and an affiliate (Countrywide) have filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. We have filed an arbitration case against Countrywide regarding rescissions. For more information about this lawsuit and arbitration case, see the risk factor titled, "We are subject to the risk of private litigation and regulatory proceedings as well as Item 3, Legal Proceedings." In addition, we continue to have discussions with other lenders regarding their objections to rescissions that in the aggregate are material and are involved in other arbitration proceedings with

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respect to an amount of rescissions that are not material.

In addition, our loss reserving methodology incorporates the effects rescission activity is expected to have on the losses we will pay on our delinquent inventory. A variance between ultimate actual rescission rates and these estimates could materially affect our losses. 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."

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. As a result, the business practices of the GSEs affect the entire relationship between them 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,

- 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, and

- 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.

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. Such changes may allow the GSEs to reduce or eliminate the level of private mortgage insurance coverage that they use as credit enhancement. The Obama administration and certain members of Congress have publicly stated that they are considering proposing significant changes to the GSEs. As a result, it is uncertain what role that the GSEs will play in the domestic residential housing finance system in the future.

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

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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). Effective January 1, 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage. Fannie Mae has also announced that it would eliminate its reduced coverage program in the second quarter of 2010. In recent years, a majority of our volume was on loans with GSE standard coverage, a substantial portion of our volume has been on loans with reduced coverage, and a minor portion of our volume has been on loans with charter coverage. We charge higher premium rates for higher coverages. To the extent lenders selling loans to Fannie Mae choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

Both of the GSEs have policies which provide guidelines on terms under which they can conduct business with mortgage insurers with financial strength ratings below Aa3/AA-. For information about how these policies could affect us, see the risk factor titled MGIC may not continue to meet the GSEs mortgage insurer eligibility requirements.

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 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 mortgage credit due to more stringent underwriting standards, liquidity issues affecting lenders or other factors. The residential mortgage market in the United States has for some time experienced a variety of worsening economic conditions, including a material decline in housing values that has been nationwide, with declines continuing in a number of areas. The recession that began in December 2007 may result in further deterioration in home values and employment. In addition, even were this recession to end formally, home values may continue to deteriorate and unemployment levels may continue to increase or remain elevated.

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

Even when housing values are stable or rising, certain types of mortgages have higher probabilities of claims. These segments include loans with loan-to-value ratios over 95% (including loans with 100% loan-to-value ratios or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or total debt-to-income ratios of 38% or higher, as well as loans having combinations of higher risk factors. As of December 31, 2009, approximately 60% of our primary risk in force consisted of loans with loan-to-value ratios equal to or greater than 95%, 8.6% had FICO credit scores below 620, and 10.8% had limited underwriting, including limited borrower documentation. A material portion of these loans were written in 2005 2007 and through 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

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information about such loans, see footnote (4) to the table titled "Default Statistics for the MGIC Book" in Item 1.

Beginning in the fourth quarter of 2007 we made a series of changes to our underwriting guidelines in an effort to improve the risk profile of our new business. Requirements imposed by new guidelines, however, only affect business written under commitments to insure loans that are issued after those guidelines become effective. Business for which commitments are issued after new guidelines are announced and before they become effective is insured by us in accordance with the guidelines in effect at time of the commitment even if that business would not meet the new guidelines. For commitments we issue for loans that close and are insured by us, a period longer than a calendar quarter can elapse between the time we issue a commitment to insure a loan and the time we receive the payment of the first premium and report the loan in our risk in force, although this period is generally shorter.

The changes to our underwriting guidelines since the fourth quarter of 2007 include the creation of two tiers 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 removed several markets from our restricted markets list and moved several other markets from our Tier Two restricted market list (for which our underwriting guidelines are most limiting) to our Tier One restricted market list.

As of December 31, 2009, approximately 3.6% of our primary risk in force written through the flow channel, and 42.2% 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 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 prove 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.

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.

In accordance with GAAP for the mortgage insurance industry, 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 what is referred to as IBNR in the mortgage insurance industry). We establish reserves using estimated claims rates and claims 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,

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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 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 what we believe best reflect the estimate of what will actually be paid on the loans in default as of the reserve date and incorporates anticipated mitigation from rescissions.

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 drop in housing values that could materially reduce our ability to mitigate potential loss through property acquisition and resale or expose us to greater loss on resale of properties obtained through the claim settlement process 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.

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, 2009, the premium deficiency reserve was \$193 million. At each date, the premium deficiency reserve is the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves on these bulk transactions.

The mortgage insurance industry is experiencing 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

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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 additional premium deficiency reserves on Wall Street Bulk or on other portions of our insurance portfolio will not be required.

We may not be able to repay the amounts that we owe under our Senior Notes due in September 2011.

As of December 31, 2009, we had a total of approximately \$84 million in short-term investments available at our holding company. These investments are virtually all of our holding company's liquid assets. As of January 18, 2010, our holding company had approximately \$78.4 million of Senior Notes due in September 2011 (during 2009, our holding company purchased \$121.6 million principal amount of these Notes) and \$300 million of Senior Notes due in November 2015 outstanding. On an annual basis as of December 31, 2009, our holding company's current use of funds for interest payments on its Senior Notes approximates \$21 million.

While under the Fannie Mae Agreement and the Freddie Mac Notification (see the risk factor titled "While our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received Wisconsin OCI and GSE approval, we cannot guarantee that its implementation will allow us to continue to write new insurance on an uninterrupted basis throughout the United States in the future") MGIC may not pay dividends to our holding company without the GSEs' consent, the GSEs have consented to dividends of not more than \$100 million in the aggregate to purchase existing debt obligations of our holding company or to pay such obligations at maturity. Any dividends from MGIC to our holding company would require the approval of the OCI, and may require other approvals.

Covenants in the Senior Notes include the requirement that there be no liens on the stock of the designated subsidiaries unless the Senior Notes are equally and ratably secured; that there be no disposition of the stock of designated subsidiaries unless all of the stock is disposed of for consideration equal to the fair market value of the stock; and that we and the designated subsidiaries preserve our corporate existence, rights and franchises unless we or such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Senior Notes. A designated subsidiary is any of our consolidated subsidiaries which has shareholders' equity of at least 15% of our consolidated shareholders' equity.

See Notes 6 and 7 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K for more information regarding our holding company's assets and liabilities as of that date, including information about its junior convertible debentures and its election to defer payment of interest on them.

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. 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. We believe that the GSEs view remediation plans as a continuing process of interaction between a mortgage insurer and the GSE that continues until the mortgage insurer under the remediation plan once again has a rating of at least Aa3/AA-. There can be no assurance that MGIC will be able to continue to operate as an eligible mortgage insurer under a remediation plan. If MGIC ceases being eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

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Loan modification and other similar programs may not provide material benefits to us and may increase our losses.

Beginning in the fourth quarter of 2008, the federal government, including through the FDIC 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. For the quarter ending December 31, 2009, we were notified of modifications involving loans with risk in force of approximately \$263 million.

One such program is the Home Affordable Modification Program (HAMP), which was announced by the US Treasury in early 2009. Some of HAMP 's eligibility criteria require current information about borrowers, such as his or her 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 are aware of approximately 29,700 loans in our delinquent inventory at December 31, 2009 for which the HAMP trial period has begun and approximately 2,400 delinquent loans have cured their delinquency after entering HAMP. 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.

Under HAMP, a net present value test (the NPV Test) is used to determine if loan modifications will be offered. For loans owned or guaranteed by the GSEs, servicers may, depending on the results of the NPV Test and other factors, be required to offer loan modifications, as defined by HAMP, to borrowers. As of December 1, 2009, the GSEs changed how the NPV Test is used. These changes made it more difficult for some loans to be modified under HAMP. While we lack sufficient data to determine the impact of these changes, we believe that they may materially decrease the number of our loans that will participate in HAMP. In January 2010 the United States Treasury department has further modified the HAMP eligibility requirements. Effective June 1, 2010 a servicer may evaluate and initiate a HAMP trial modification for a borrower only after the servicer receives certain documents that allow the servicer to verify the borrower 's income and the cause of the borrower 's financial hardship. Previously, these documents were not required to be submitted until after the successful completion of HAMP 's trial modification period. We believe that this will decrease the number of new HAMP trial modifications.

Even if a loan is modified, 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, and therefore we cannot ascertain with confidence whether these programs will provide material benefits to us. 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 mortgage balance to be reduced in bankruptcy, we would still be responsible to pay the original balance if the borrower re-defaulted on that mortgage after its balance had been reduced. Various government entities and private parties have enacted foreclosure moratoriums. A moratorium does not affect the accrual of interest and other expenses on a loan. Unless a loan is modified during a moratorium to cure the default, at the expiration of the moratorium additional interest and expenses would be due which could result in our losses on loans subject to the moratorium being higher than if there had been no moratorium.

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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.

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.

The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance.

These 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, which until 2008 was not viewed by us as a significant competitor, substantially increased its market share beginning in 2008. 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). Recent federal legislation and programs have also provided the FHA with greater flexibility in establishing new products and have increased the FHA's competitive position against private mortgage insurers.

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

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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. Our private mortgage insurance competitors include:

PMI Mortgage Insurance Company,

Genworth Mortgage Insurance Corporation,

United Guaranty Residential Insurance Company,

Radian Guaranty Inc.,

Republic Mortgage Insurance Company, whose parent, based on information filed with the SEC through January 14, 2010, is our largest shareholder, and

CMG Mortgage Insurance Company.

Our relationships with our customers could be adversely affected by a variety of factors, including continued tightening of and adherence to our underwriting guidelines, which have resulted in our declining to insure some of the loans originated by our customers, rescission of loans that affect 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 rescissions practices shortly after Countrywide ceased doing business with us. See the risk factor titled "We are subject to the risk of private litigation and regulatory proceedings" 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 12.0% of our flow new insurance written in 2008 and 8.3% of our new insurance written in the first three quarters of 2009. The FHA, which in recent years was not viewed by us as a significant competitor, substantially increased its market share beginning in 2008.

Until recently, the mortgage insurance industry had not had new entrants in many years. Recently, Essent Guaranty, Inc. announced that it would begin 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. We understand that one potential new entrant has advertised for employees.

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.

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

We have filed, and the SEC has declared effective, a shelf registration statement that would allow us to sell up to \$850 million of common stock, preferred stock, debt and other types of securities. While we have no current plans to sell any securities under this registration statement, any capital that we do raise through the sale of common stock or equity or equity-linked securities senior to our common stock or convertible into our common stock will dilute your ownership percentage in our company and may decrease the market price of our common shares. Furthermore, the securities may have rights, preferences and privileges that are senior or otherwise superior to those of our common shares.

We have approximately \$390 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

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principal amount of debentures. This represents an initial conversion price of approximately \$13.50 per share. We have elected to defer the payment of a total of approximately \$35 million of interest on these debentures. We may also defer additional interest 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.

Our common stock could be delisted from the NYSE.

The listing of our common stock on the New York Stock Exchange, or NYSE, is subject to compliance with NYSE's continued listing standards, including that the average closing price of our common stock during any 30 trading day period equal or exceed \$1.00 and that our average market capitalization for any such period equal or exceed \$15 million. The NYSE can also, in its discretion, discontinue listing a company's common stock if the company discontinues a substantial portion of its operations. If we do not satisfy any of NYSE's continued listing standards or if we cease writing new insurance, our common stock could be delisted from the NYSE unless we cure the deficiency during the time provided by the NYSE. If the NYSE were to delist our common stock, it likely would result in a significant decline in the trading price, trading volume and liquidity of our common stock. We also expect that the suspension and delisting of our common stock would lead to decreases in analyst coverage and market-making activity relating to our common stock, as well as reduced information about trading prices and volume. As a result, it could become significantly more difficult for our shareholders to sell their shares of our common stock at prices comparable to those in effect prior to delisting or at all.

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 and liquidity issues affecting lenders,

- the level of home mortgage interest rates,

- the health of the domestic economy as well as conditions in regional and local economies,

- 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.

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.

We are subject to the risk of private litigation and regulatory proceedings.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. Seven mortgage insurers, including MGIC, have been involved in litigation alleging

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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 late December 2004 following denial of class certification in June 2004. Since December 2006, class action litigation was separately brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. While we are not a defendant in any of these cases, there can be no assurance that we will not be subject to future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on us.

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 June 2005, in response to a letter from the New York Insurance Department, 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, which regulates insurance, we provided the Department with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the Minnesota Department of Commerce, and beginning in March 2008 that Department has sought additional information as well as answers to questions regarding captive mortgage reinsurance on several occasions. In June 2008, we received a subpoena from the Department of Housing and Urban Development, commonly referred to as HUD, seeking information about captive mortgage reinsurance similar to that requested by the Minnesota Department of Commerce, but not limited in scope to the state of Minnesota. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The anti-referral fee provisions of RESPA provide that HUD as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions 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 outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

In October 2007, the Division of Enforcement of the Securities and Exchange Commission requested that we voluntarily furnish documents and information primarily relating to C-BASS, the now-terminated merger with Radian and the subprime mortgage assets in the Company's various lines of business. We have provided responsive documents and/or other information to the Securities and Exchange Commission and understand this matter is ongoing.

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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) on June 22, 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, including its liquidity. The Complaint also names two officers of C-BASS with respect to the Complaint's allegations regarding C-BASS. The purported class period covered by the Complaint begins on October 12, 2006 and ends on February 12, 2008. The Complaint seeks damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported misstatements and omissions. With limited exceptions, our bylaws provide that our officers are entitled to indemnification from us for claims against them of the type alleged in the Complaint. Our motion to dismiss the Complaint was granted on February 18, 2010. Under the Court's order, the plaintiff may, on or before March 18, 2010, move for leave to file an amended complaint. 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.

Several law firms have 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. With limited exceptions, our bylaws provide that our officers and 401(k) plan fiduciaries are entitled to indemnification from us for claims against them. We intend to defend vigorously any proceedings that may result from these investigations.

As we previously disclosed, for some time we have had discussions with lenders regarding their objections to rescissions that in the aggregate are material. On December 17, 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 flow insurance policies at issue. On January 19, 2010, we removed this case to the United States District Court for the Northern District of California. For additional information about this case, see Item 3 of this Form 10-K. We intend to defend MGIC against the allegations in Countrywide's complaint, and pursue the arbitration, vigorously. However, we are unable to predict the outcome of these proceedings or their effect on us. During 2008 and 2009, rescissions of Countrywide-related flow loans mitigated our paid losses by approximately \$100 million. In addition, we have a substantial pipeline of claims investigations (including investigations involving loans related to Countrywide) that we expect will eventually result in future rescissions. For additional information about rescissions, see the risk factor titled "We may not continue to realize benefits from rescissions at the levels we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper."

The Internal Revenue Service has proposed significant adjustments to our taxable income for 2000 through 2007.

The Internal Revenue Service (IRS) has completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and has issued assessments for unpaid taxes, interest and penalties. The primary adjustment in both examinations relates 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 has indicated that it does not believe that, for various reasons, we have established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We disagree with this conclusion and believe that the flow through income and loss from these investments was properly reported on our federal income tax returns in accordance with applicable tax laws and regulations in effect during the periods involved and have appealed these adjustments.

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The appeals process is ongoing and may last for an extended period of time, although it is reasonably possible that a final resolution may be reached during 2010. The assessment for unpaid taxes related to the REMIC issue for these years is \$197.1 million in taxes and accuracy-related penalties, plus applicable interest. Other adjustments during taxable years 2000 through 2007 are not material, and have been agreed to with the IRS. On July 2, 2007, we made a payment on account of \$65.2 million with the United States Department of the Treasury to eliminate the further accrual of interest. We believe, after discussions with outside counsel about the issues raised in the examinations and the procedures for resolution of the disputed adjustments, that an adequate provision for income taxes has been made for potential liabilities that may result from these assessments. If the outcome of this matter differs materially from our estimates, it could have a material impact on our effective tax rate, results of operations and cash flows.

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 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 may be implemented by the remaining banks in the United States and many other countries in 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.

We may not be able to recover the capital we invested in our Australian operations for many years and may not recover all of such capital.

We have committed significant resources to begin international operations, primarily in Australia, where we started to write business in June 2007. In view of our need to dedicate capital to our domestic mortgage insurance operations, we have reduced our Australian headcount and are no longer writing new business in Australia. In addition to the general economic and insurance business-related factors discussed above, we are subject to a number of other risks from having deployed capital in Australia,

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including foreign currency exchange rate fluctuations and interest-rate volatility particular to Australia.

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. A recent trend in the mortgage lending and mortgage loan servicing industry has been towards consolidation of loan servicers. This 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. Future housing market conditions could lead to additional such increases. Managing a substantially higher volume of non-performing loans could lead to disruptions in the servicing of mortgage

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At December 31, 2009, we leased office space in various cities throughout the United States under leases expiring between 2010 and 2015 and which required annual rental payments of \$2.1 million in 2009.

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 17, 2009, Countrywide Home Loans, Inc. and BAC Home Loans Servicing, LP (collectively, Countrywide) filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco against Mortgage Guaranty Insurance Corporation (MGIC), our principal mortgage insurance subsidiary. 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 flow insurance policies at issue. On January 19, 2010, we removed this case to the United States District Court for the Northern District of California. On February 18, 2010, Countrywide filed a motion to have the case remanded to the Superior Court of the State of California in San Francisco. On February 24, 2010, we commenced an arbitration action against Countrywide seeking a determination that MGIC was entitled to deny and/or rescind coverage on the loans involved in the arbitration demand, which numbered more than 1,400 loans as of the filing of the demand. On February 25, 2010, we filed a motion to stay proceedings in the Northern District of California in view of, among other things, the parties arbitration agreement and the pending arbitration. We intend to defend MGIC against the allegations in Countrywide s complaint, and to pursue the arbitration, vigorously. However, we are unable to predict the outcome of these proceedings or their 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) on June 22, 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, including its liquidity. The Complaint also names two officers of C-BASS with respect to the Complaint s allegations regarding C-BASS. The purported class period covered

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by the Complaint begins on October 12, 2006 and ends on February 12, 2008. The Complaint seeks damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported misstatements and omissions. With limited exceptions, our bylaws provide that our officers are entitled to indemnification from us for claims against them of the type alleged in the Complaint. Our motion to dismiss the Complaint was granted on February 18, 2010. Under the Court's order, the plaintiffs may, on or before March 18, 2010, move for leave to file an amended complaint. Other lawsuits alleging violations of the securities laws could be brought against us.

In addition, we are involved in other litigation in the ordinary course of business. In the opinion of management, the ultimate resolution of this pending litigation will not have a material adverse effect on our financial position or results of operations.

For information about the risk of certain legal proceedings, see the text under "We are subject to the risk of private litigation and regulatory proceedings" under "Risk Factors" in Item 1A, which is incorporated by reference.

Item 4. [Reserved]

Executive Officers

Certain information with respect to our executive officers as of March 1, 2010 is set forth below:

Name and Age	Title
Curt S. Culver, 57	Chairman of the Board and Chief Executive Officer of MGIC Investment Corporation and MGIC; Director of MGIC Investment Corporation and MGIC
Patrick Sinks, 53	President and Chief Operating Officer of MGIC Investment Corporation and MGIC
J. Michael Lauer, 65	Executive Vice President and Chief Financial Officer of MGIC Investment Corporation and MGIC
Lawrence J. Pierzchalski, 57	Executive Vice President - Risk Management of MGIC
Jeffrey H. Lane, 60	Executive Vice President, General Counsel and Secretary of MGIC Investment Corporation and MGIC
James A. Karpowicz, 62	Senior Vice President - Chief Investment Officer and Treasurer of MGIC Investment Corporation and MGIC
Michael G. Meade, 60	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.

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

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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. From 1985 to 1992 he held various positions within MGIC's information services organization, the last of which was Vice President Information Services.

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 2008 and 2009 by calendar quarter the high and low sales prices of our Common Stock on the New York Stock Exchange.

Quarter	2008		2009	
	High	Low	High	Low
First	\$ 22.72	\$ 9.60	\$ 4.45	\$ 0.70
Second	14.14	5.41	5.90	1.32
Third	12.50	3.51	9.94	3.27
Fourth	8.91	1.58	7.56	3.72

In 2008, we declared and paid the following cash dividends on our Common Stock

Quarter	2008
First	\$.025
Second	.025
Third	.025
Fourth	\$ 0.075

In October 2008, the Board discontinued payment of our cash dividend. Accordingly, no cash dividends were paid in 2009. The payment of future dividends is subject to the discretion of our Board

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and will depend on many factors, including our operating results, financial condition and capital position. We are a holding company and the payment of dividends from our insurance subsidiaries is restricted by insurance regulation. 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 13 to our consolidated financial statements in Item 8, which are incorporated by reference.

As of February 15, 2010, the number of shareholders of record was 138. In addition, we estimate there are approximately 17,000 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 2009.

Table of Contents**Item 6. Selected Financial Data.**

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands of dollars, except per share data)				
Summary of Operations					
Revenues:					
Net premiums written	\$ 1,243,027	1,466,047	\$ 1,345,794	\$ 1,217,236	\$ 1,252,310
Net premiums earned	\$ 1,302,341	1,393,180	\$ 1,262,390	\$ 1,187,409	\$ 1,238,692
Investment income, net	304,678	308,517	259,828	240,621	228,854
Realized investment gains (losses), net, including net impairment losses	51,934	(12,486)	142,195	(4,264)	14,857
Other revenue	49,573	32,315	28,793	45,403	44,127
Total revenues	1,708,526	1,721,526	1,693,206	1,469,169	1,526,530
Losses and expenses:					
Losses incurred, net	3,379,444	3,071,501	2,365,423	613,635	553,530
Change in premium deficiency reserves	(261,150)	(756,505)	1,210,841		
Underwriting and other expenses	239,612	271,314	309,610	290,858	275,416
Reinsurance fee	26,407	1,781			
Interest expense	89,266	81,074	41,986	39,348	41,091
Total losses and expenses	3,473,579	2,669,165	3,927,860	943,841	870,037
(Loss) income before tax and joint ventures	(1,765,053)	(947,639)	(2,234,654)	525,328	656,493
(Benefit) provision for income tax	(442,776)	(397,798)	(833,977)	130,097	176,932
Income (loss) from joint ventures, net of tax		24,486	(269,341)	169,508	147,312
Net (loss) income	\$ (1,322,277)	(525,355)	\$ (1,670,018)	\$ 564,739	\$ 626,873
Weighted average common shares outstanding (in thousands)					
	124,209	113,962	81,294	84,950	92,443
Diluted (loss) earnings per share	\$ (10.65)	(4.61)	\$ (20.54)	\$ 6.65	\$ 6.78

Dividends per share	\$	0.075	\$	0.775	\$	1.00	\$	0.525
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Balance sheet data

Total investments	\$ 7,254,465	7,045,536	\$ 5,896,233	\$ 5,252,422	\$ 5,295,430
Cash and cash equivalents	1,185,739	1,097,334	288,933	293,738	195,256
Total assets	9,404,419	9,146,734	7,716,361	6,621,671	6,357,569
Loss reserves	6,704,990	4,775,552	2,642,479	1,125,715	1,124,454
Premium deficiency reserves	193,186	454,336	1,210,841		
Short- and long-term debt	377,098	698,446	798,250	781,277	685,163
Convertible debentures	291,785	272,465			
Shareholders' equity	1,302,581	2,434,233	2,594,343	4,295,877	4,165,055
Book value per share	10.41	19.46	31.72	51.88	47.31

Note: Certain amounts in the 2008 column have been retrospectively adjusted to reflect the adoption of a new accounting standard regarding convertible debt. See Note 2 to our Consolidated Financial Statements in Item 8.

During 2008 we adopted new accounting standards regarding the recognition and presentation of other-than-temporary impairments. See Note 2 to our Consolidated Financial Statements in Item 8.

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	Year Ended December 31,				
	2009	2008	2007	2006	2005
New primary insurance written (\$ millions)	\$ 19,942	\$ 48,230	\$ 76,806	\$ 58,242	\$ 61,503
New primary risk written (\$ millions)	4,149	11,669	19,632	15,937	16,836
New pool risk written (\$ millions) ⁽¹⁾	4	145	211	240	358
Insurance in force (at year-end) (\$ millions)					
Direct primary insurance	212,182	226,955	211,745	176,531	170,029
Direct primary risk	54,343	58,981	55,794	47,079	44,860
Direct pool risk ⁽¹⁾	1,668	1,902	2,800	3,063	2,909
Primary loans in default ratios					
Policies in force	1,360,456	1,472,757	1,437,432	1,283,174	1,303,084
Loans in default	250,440	182,188	107,120	78,628	85,788
Percentage of loans in default	18.41%	12.37%	7.45%	6.13%	6.58%
Percentage of loans in default bulk	40.87%	32.64%	21.91%	14.87%	14.72%
Insurance operating ratios (GAAP)					
Loss ratio	259.5%	220.4%	187.3%	51.7%	44.7%
Expense ratio ⁽²⁾	15.1%	14.2%	15.8%	17.0%	15.9%
Combined ratio	274.6%	234.6%	203.1%	68.7%	60.6%
Risk-to-capital ratio (statutory)					
Mortgage Guaranty Insurance Corporation	19.4:1	12.9:1	10.3:1	6.4:1	6.3:1
Combined insurance companies	22.1:1	14.7:1	11.9:1	7.5:1	7.4:1

⁽¹⁾ Represents contractual aggregate loss limits and, for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, for

\$2.0 billion,
 \$2.5 billion,
 \$4.1 billion,
 \$4.4 billion and
 \$5.0 billion,
 respectively, of
 risk without
 such limits, risk
 is calculated at
 \$0 million, \$1
 million,
 \$2 million,
 \$4 million and
 \$51 million,
 respectively, for
 new risk written
 and
 \$190 million,
 \$150 million,
 \$475 million,
 \$473 million
 and
 \$469 million,
 respectively, for
 risk in force, the
 estimated
 amount that
 would credit
 enhance these
 loans to a AA
 level based on a
 rating agency
 model.

- (2) The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The expense ratio is the ratio, expressed as a percentage, of the combined insurance

operations
underwriting
expenses to net
premiums
written.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Overview

Through our subsidiary MGIC, we are the leading provider of private mortgage insurance in the United States to the home mortgage lending industry.

As used below, we and our refer to MGIC Investment Corporation's consolidated operations. In the discussion below, we classify loans, in accordance with industry practice, as full documentation loans if they are approved by GSE and other automated underwriting systems under doc waiver programs that do not require verification of borrower income. For additional information about such loans, see footnote (3) to the delinquency table under Results of Consolidated Operations-Losses-Losses Incurred. The discussion of our business in this document generally does not apply to our international operations which are immaterial. The results of our operations in Australia are included in the consolidated results disclosed. For additional information about our Australian operations, see

Overview Australia below.

Forward Looking Statements

As discussed under Forward Looking Statements and Risk Factors in Item 1A of Part 1 of this Report, actual results may differ materially from the results contemplated by forward looking statements. We are not undertaking any obligation to update any forward looking statements or other statements we may make in the following discussion or elsewhere in this document even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. Therefore no reader of this document should rely on these statements being accurate as of any time other than the time at which this document was filed with the Securities and Exchange Commission.

Outlook

At this time, we are facing two particularly significant challenges:

Whether we will have access to sufficient capital to continue to write new business beyond 2011. This challenge is discussed under Capital below.

Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. This challenge is discussed under Fannie Mae and Freddie Mac below.

Capital

At December 31, 2009, MGIC's policyholders position exceeded the required regulatory minimum by approximately \$213 million, and we exceeded the required minimum by approximately \$300 million on a combined statutory basis. (The combined figures give effect to reinsurance with subsidiaries of our holding company.) At December 31, 2009 MGIC's risk-

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to-capital was 19.4:1 and was 22.1:1 on a combined statutory basis. Beginning with our June 30, 2009 risk-to-capital calculations we have deducted risk in force on policies currently in default and for which loss reserves have been established. For additional information about how we calculate risk-to-capital, see **Liquidity and Capital Resources** **Risk to Capital** below.

For some time, we have been working to implement a plan to write new mortgage insurance in MIC, which is driven by our belief that in the future MGIC will not meet minimum regulatory capital requirements to write new business and may not be able to obtain appropriate waivers of these requirements in all jurisdictions in which they are present. Absent the waiver granted by the Office of the Commissioner of Insurance for the State of Wisconsin (**OCI**) referred to below, a failure to meet Wisconsin's minimum capital requirements would have prevented MGIC from writing new business anywhere. Also, absent a waiver in a particular jurisdiction, failure of MGIC to meet minimum capital requirements of that jurisdiction would prevent MGIC from writing business there. In addition to Wisconsin, these minimum capital requirements are present in 16 jurisdictions while the remaining jurisdictions in which MGIC does business do not have specific capital requirements applicable to mortgage insurers. Before MIC can begin writing new business, it must obtain or update licenses in the jurisdictions where it will transact business.

In October 2009, we, MGIC and MIC entered into an agreement with Fannie Mae (the **Fannie Mae Agreement**) under which MGIC agreed to contribute \$200 million to MIC (which MGIC has done) and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011 subject to the terms of the Fannie Mae Agreement. Under the Fannie Mae Agreement, MIC will be eligible to write mortgage insurance only in those 16 other jurisdictions in which MGIC cannot write new insurance due to MGIC's failure to meet regulatory capital requirements applicable to mortgage insurers and if MGIC fails to obtain relief from those requirements or a specified waiver of them. The Fannie Mae Agreement, including certain restrictions imposed on us, MGIC and MIC, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission on October 16, 2009.

On February 11, 2010, Freddie Mac notified (the **Freddie Mac Notification**) MGIC that we may utilize MIC to write new business in states in which MGIC does not meet minimum regulatory capital requirements to write new business and does not obtain appropriate waivers of those requirements. This conditional approval to use MIC as a

Limited Insurer will expire December 31, 2012, includes terms substantially similar to those in the Fannie Mae Agreement and is summarized more fully in our Form 8-K filed with the Securities and Exchange Commission on February 16, 2010.

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In December 2009, the OCI issued an order waiving, until December 31, 2011, the requirement that MGIC maintain a specific level of minimum policyholders position to write new business. The waiver may be modified, terminated or extended by the OCI in its sole discretion. In December 2009, the OCI also approved a transaction under which MIC will be eligible to write new mortgage guaranty insurance policies only in jurisdictions where MGIC does not meet minimum capital requirements similar to those waived by the OCI and does not obtain a waiver of those requirements from that jurisdiction's regulatory authority. MGIC has applied for waivers in all jurisdictions that have the regulatory capital requirements. MGIC has received similar waivers from some of these states. These waivers expire at various times, with the earliest expiration being December 31, 2010. Some jurisdictions have denied the request because a waiver is not authorized under the jurisdictions' statutes or regulations and others may deny the request on other grounds. There can be no assurances that MIC will receive the necessary approvals from any or all of the jurisdictions in which MGIC would be prohibited from continuing to write new business due to MGIC's failure to meet applicable regulatory capital requirements or obtain waivers of those requirements.

Under the Fannie Mae Agreement, MIC has been approved as an eligible mortgage insurer only through December 31, 2011 and Freddie Mac has approved MIC as a Limited Insurer only through December 31, 2012. Whether MIC will continue as an eligible mortgage insurer after these dates will be determined by the particular GSE's mortgage insurer eligibility requirements then in effect. Further, under the Fannie Mae Agreement and the Freddie Mac Notification, MGIC cannot capitalize MIC with more than the \$200 million contribution without prior approval from the applicable GSE, which limits the amount of business MIC can write. We believe that the amount of capital that MGIC has contributed to MIC will be sufficient to write business for the term of the Fannie Mae Agreement in the jurisdictions in which MIC is eligible to do so. 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 regulatory capital requirements applicable to mortgage insurers, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC is not eligible to write business.

A failure to meet the specific minimum regulatory capital requirements to insure new business does not mean that MGIC does not have sufficient resources to pay claims on its insurance. Even in scenarios in which losses materially exceed those that would result in not meeting such requirements, we believe that we have claims paying resources at MGIC that exceed our claim obligations on our insurance in force. Our estimates of our claims paying resources and claim obligations are based on various assumptions. These assumptions include our anticipated rescission activity, 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 housing values and unemployment more volatile than they would otherwise be. Our anticipated rescission activity is also subject to volatility.

Our senior management believes that our capital plans described above will be feasible and that we will be able to continue to write new business through the end of 2010. We can, however, give no assurance in this regard and higher losses, adverse changes in our relationship with the GSEs, or reduced benefit from rescission activity, among other factors, could result in senior management's belief not being realized.

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Fannie Mae and Freddie Mac

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. Such changes may allow the GSEs to reduce or eliminate the level of private mortgage insurance coverage that they use as credit enhancement. The Obama administration and certain members of Congress have publicly stated that they are considering proposing significant changes to domestic housing policies and regulations including those applicable to the GSEs.

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). Effective January 1, 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage. Fannie Mae has also announced that it would eliminate its reduced coverage program in the second quarter of 2010. In recent years, a majority of our volume was on loans with GSE standard coverage, a substantial portion of our volume has been on loans with reduced coverage, and a minor portion of our volume has been on loans with charter coverage. We charge higher premium rates for higher coverages. To the extent lenders selling loans to Fannie Mae choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

Both of the GSEs have policies which provide guidelines on terms under which they can conduct business with mortgage insurers with financial strength ratings below Aa3/AA-. For information about how these policies could affect us, see the risk factor titled MGIC may not continue to meet the GSEs mortgage insurer eligibility requirements. *Debt at our Holding Company and Holding Company Capital Resources*

At December 31, 2009, we had approximately \$84 million in short-term investments at our holding company. These investments are virtually all of our holding company's liquid assets. As of December 31, 2009, our holding company's obligations included \$78.4 million of debt which is scheduled to mature in September 2011 and \$300 million of Senior Notes due in November 2015, both of which must be serviced pending scheduled maturity. On an annual basis, as of December 31, 2009 our use of funds at the holding company for interest payments on our Senior Notes approximated \$21 million. See Note 7 to our consolidated financial statements contained in Item 8 for a discussion of our election to defer payment of interest on our \$389.5 million in junior convertible debentures due in 2063. The annual interest payments on these debentures approximate \$35 million, excluding interest on the interest payments that have been deferred. See Notes 6 and 7 to our consolidated financial statements contained in Item 8 for additional information about this indebtedness. Historically, dividends from MGIC have been the principal source of our holding company's cash inflow. The last such dividend was paid in the third quarter of 2008. In 2010 and 2011, MGIC cannot pay any dividends to our

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holding company without approval from the OCI. There can be no assurances that such approvals can be obtained in order to service the debt at our holding company. In addition, under the terms of the Fannie Mae Agreement and Freddie Mac Notification, MGIC may not pay dividends to our holding company without each GSE's consent; however each GSE has consented to dividends of not more than \$100 million in the aggregate to purchase existing debt obligations of our holding company or to pay such obligations at maturity.

Loan Modification and Other Similar Programs

Beginning in the fourth quarter of 2008, the federal government, including through the FDIC 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. For the year ended December 31, 2009, we were notified of modifications involving loans with risk in force of approximately \$931 million.

One such program is the Home Affordable Modification Program (HAMP), which was announced by the US Treasury in early 2009. Some of HAMP's eligibility criteria require current information about borrowers, such as his or her 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 are aware of approximately 29,700 loans in our delinquent inventory at December 31, 2009 for which the HAMP trial period had begun and approximately 2,400 delinquent loans had cured their delinquency after entering HAMP. 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.

Under HAMP, a net present value test (the NPV Test) is used to determine if loan modifications will be offered. For loans owned or guaranteed by the GSEs, servicers may, depending on the results of the NPV Test and other factors, be required to offer loan modifications, as defined by HAMP, to borrowers. Effective December 1, 2009, the GSEs changed how the NPV Test is used. These changes made it more difficult for some loans to be modified under HAMP. While, for the reasons noted above, we lack sufficient data to determine the impact of these changes, we believe that they may materially decrease the number of our loans that will participate in HAMP. In January 2010 the United States Treasury department has further modified the HAMP eligibility requirements. Effective June 1, 2010 a servicer may evaluate and initiate a HAMP trial modification for a borrower only after the servicer receives certain documents that allow the servicer to verify the borrower's income and the cause of the borrower's financial hardship. Previously, these documents were not required to be submitted until after the successful completion of HAMP's trial modification period. We believe that this will decrease the number of new HAMP trial modifications.

Even if a loan is modified, 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, and therefore we cannot ascertain with confidence whether these programs will provide material benefits to us. In addition, because we do not have current 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 mortgage balance to be reduced in bankruptcy, we would still be responsible to pay

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the original balance if the borrower re-defaulted on that mortgage after its balance had been reduced. Various government entities and private parties have enacted foreclosure moratoriums. A moratorium does not affect the accrual of interest and other expenses on a loan. Unless a loan is modified during a moratorium to cure the default, at the expiration of the moratorium additional interest and expenses would be due which could result in our losses on loans subject to the moratorium being higher than if there had been no moratorium.

Factors Affecting Our Results

Our results of operations are affected by:

Premiums written and earned

Premiums written and earned in a year are influenced by:

New insurance written, which increases insurance in force and, is the aggregate principal amount of the mortgages that are insured during a period. Many factors affect new insurance written, including the volume of low down payment home mortgage originations and competition to provide credit enhancement on those mortgages, including competition from the FHA, other mortgage insurers, GSE programs that may reduce or eliminate the demand for mortgage insurance and other alternatives to mortgage insurance. New insurance written does not include loans previously insured by us which are modified, such as loans modified under the Home Affordable Refinance Program.

Cancellations, which reduce insurance in force. Cancellations due to refinancings are affected by the level of current mortgage interest rates compared to the mortgage coupon rates throughout the in force book. Refinancings are also affected by current home values compared to values when the loans in the in force book became insured and the terms on which mortgage credit is available. Cancellations also include rescissions, which require us to return any premiums received related to the rescinded policy, and policies canceled due to claim payment. Finally, cancellations are affected by home price appreciation, which can give homeowners the right to cancel the mortgage insurance on their loans.

Premium rates, which are affected by the risk characteristics of the loans insured and the percentage of coverage on the loans. See our discussion of premium rate changes on new insurance written beginning May 1, 2010 under Results of Consolidated Operations New insurance written .

Premiums ceded to reinsurance subsidiaries of certain mortgage lenders (captives) and risk sharing arrangements with the GSEs.

Premiums are generated by the insurance that is in force during all or a portion of the period. Hence, changes in the average insurance in force in the current period compared to an earlier period is a factor that will increase (when the average in force is higher) or reduce (when it is lower) premiums written and earned in the current period, although this effect may be enhanced (or mitigated) by differences in the average premium rate between the two

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periods as well as by premiums that are returned or expected to be returned in connection with rescissions and premiums ceded to captives or the GSEs. Also, new insurance written and cancellations during a period will generally have a greater effect on premiums written and earned in subsequent periods than in the period in which these events occur.

Investment income

Our investment portfolio is comprised almost entirely of fixed income securities rated A or higher. The principal factors that influence investment income are the size of the portfolio and its yield. As measured by amortized cost (which excludes changes in fair market value, such as from changes in interest rates), the size of the investment portfolio is mainly a function of cash generated from (or used in) operations, such as net premiums received, investment earnings, net claim payments and expenses, less cash provided by (or used for) non-operating activities, such as debt or stock issuances or repurchases or dividend payments. Realized gains and losses are a function of the difference between the amount received on sale of a security and the security's amortized cost, as well as any other than temporary impairments recognized in earnings. The amount received on sale of fixed income securities is affected by the coupon rate of the security compared to the yield of comparable securities at the time of sale.

Losses incurred

Losses incurred are the current expense that reflects estimated payments that will ultimately be made as a result of delinquencies on insured loans. As explained under Critical Accounting Policies, except in the case of premium deficiency reserves, we recognize an estimate of this expense only for delinquent loans. Losses incurred are generally affected by:

The state of the economy, including unemployment, and housing values, each of which affects the likelihood that loans will become delinquent and whether loans that are delinquent cure their delinquency. The level of new delinquencies has historically followed a seasonal pattern, with new delinquencies in the first part of the year lower than new delinquencies in the latter part of the year, though this pattern can be affected by the state of the economy and the strength of local housing markets.

The product mix of the in force book, with loans having higher risk characteristics generally resulting in higher delinquencies and claims.

The size of loans insured, with higher average loan amounts tending to increase losses incurred.

The percentage of coverage on insured loans, with deeper average coverage tending to increase incurred losses.

Changes in housing values, which affect our ability to mitigate our losses through sales of properties with delinquent mortgages as well as borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance.

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The rates at which we rescind policies. Our estimated loss reserves reflect mitigation from rescissions of policies and denials of claims, using the rate at which we have rescinded claims during recent periods. We collectively refer to such rescissions and denials as rescissions and variations of this term.

The distribution of claims over the life of a book. Historically, the first two years after loans are originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency, the condition of the economy, including unemployment and housing prices, and other factors can affect this pattern. For example, a weak economy or housing price declines 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. See Mortgage Insurance Earnings and Cash Flow Cycle and Losses Incurred below.

Changes in premium deficiency reserves

Each quarter, we re-estimate the premium deficiency reserve on the remaining Wall Street bulk insurance in force. The premium deficiency reserve primarily changes from quarter to quarter as a result of two factors. First, it changes as the actual premiums, losses and expenses that were previously estimated are recognized. Each period such items are reflected in our financial statements as earned premium, losses incurred and expenses. The difference between the amount and timing of actual earned premiums, losses incurred and expenses and our previous estimates used to establish the premium deficiency reserves has an effect (either positive or negative) on that period's results. Second, the premium deficiency reserve changes as our assumptions relating to the present value of expected future premiums, losses and expenses on the remaining Wall Street bulk insurance in force change. Changes to these assumptions also have an effect on that period's results.

Underwriting and other expenses

The majority of our operating expenses are fixed, with some variability due to contract underwriting volume. Contract underwriting generates fee income included in Other revenue.

Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. The principal amount of our long-term debt obligations at December 31, 2009 is comprised of approximately \$78.4 million of 5.625% Senior Notes due in September 2011, \$300 million of 5.375% Senior Notes due in November 2015, and \$389.5 million in convertible debentures due in 2063 (interest on these debentures accrues and compounds even if we defer the payment of interest), as discussed in Notes 6 and 7 to our consolidated financial statements contained in Item 8 and under

Liquidity and Capital Resources below. Also as discussed in Note 2 to our consolidated financial statements contained in Item 8, we adopted, on a retrospective basis, new guidance regarding the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement), on a retrospective basis, and our interest expense now reflects our non-convertible debt borrowing rate on the convertible debentures of approximately 19% at the time of issuance. At December 31, 2009, the convertible debentures are reflected as a liability on our consolidated balance sheet at the current amortized value of \$291.8 million, with the unamortized discount reflected in equity.

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Income from joint ventures

During the period in which we held an equity interest in Sherman Financial Group, Sherman was principally engaged in purchasing and collecting for its own account delinquent consumer receivables, which are primarily unsecured, and in originating and servicing subprime credit card receivables. The factors that affected Sherman's consolidated results of operations during this period are discussed in our Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2008, to which you should refer.

Beginning in the first quarter of 2008, our joint venture income principally consisted of income from Sherman. In the third quarter of 2008, we sold our entire interest in Sherman to Sherman. As a result, beginning in the fourth quarter of 2008, our results of operations are no longer affected by any joint venture results. See **Results of Consolidated Operations - Joint Ventures - Sherman** for discussion of our sale of interest in Sherman and related note receivable.

Mortgage Insurance Earnings and Cash Flow Cycle

In our industry, a **book** is the group of loans insured in a particular calendar year. In general, the majority of any underwriting profit (premium revenue minus losses) that a book generates occurs in the early years of the book, with the largest portion of any underwriting profit realized in the first year. Subsequent years of a book generally result in modest underwriting profit or underwriting losses. This pattern of results typically occurs because relatively few of the claims that a book will ultimately experience typically occur in the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as the number of insured loans decreases (primarily due to loan prepayments), and increasing losses.

Australia

In 2007, we began providing mortgage insurance to lenders in Australia. At December 31, 2009 the equity value of our Australian operations was approximately \$115 million and our risk in force in Australia was approximately \$1.1 billion. In Australia, mortgage insurance is a single premium product that covers the entire loan balance. As a result, our Australian risk in force represents the entire amount of the loans that we have insured. However, the mortgage insurance we provide only covers the unpaid loan balance after the sale of the underlying property. In view of our need to dedicate capital to our domestic mortgage insurance operations, we have reduced our Australian headcount and are no longer writing new business in Australia.

Summary of 2009 Results

Our results of operations for 2009 were principally affected by:

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Net premiums written and earned

Net premiums written and earned during 2009 decreased when compared to 2008 due to a lower average insurance in force, due to reduced levels of new insurance written, and lower average premium yields which are a result of the shift in the mix of newer writings to loans with lower loan-to-value ratios, higher FICO scores and full documentation, which carry lower premium rates, offset by lower ceded premiums due to captive terminations and run-offs. Our net premiums written and earned during 2009 were also negatively impacted as a result of higher levels of rescissions as well as increases in our estimates for expected premium refunds due to increases in our expected rescission levels.

Investment income

Investment income in 2009 was lower when compared to 2008 due to a decrease in the pre-tax yield, offset by an increase in the average amortized cost of invested assets.

Realized gains (losses) and other-than-temporary impairments

Realized gains for 2009 included \$92.9 million in net realized gains on the sale of fixed income investments. Realized gains for 2008 included \$62.8 million from the sale of our interest in Sherman, which was offset by net realized losses on sales of investments of \$9.9 million. Net impairment losses recognized in earnings were \$40.9 million in 2009 compared to \$65.4 million in 2008.

Losses incurred

Losses incurred for 2009 increased compared to 2008 primarily due to increases in the estimated claim rate and a smaller benefit from captive arrangements, offset by a decrease in the estimated severity. The estimated claim rate increased in 2009 compared to a slight decrease in 2008. The smaller benefit from captive arrangements was due to captive terminations in late 2008 and 2009. The estimated severity decreased in 2009, compared to an increase in 2008. Our losses incurred in both 2008 and 2009 were materially mitigated by rescissions.

Premium deficiency

During 2009 the premium deficiency reserve on Wall Street bulk transactions declined by \$261 million from \$454 million, as of December 31, 2008, to \$193 million as of December 31, 2009. The decrease in the premium deficiency represents the net result of actual premiums, losses and expenses as well as a net change in assumptions primarily related to lower estimated premiums. The \$193 million premium deficiency reserve as of December 31, 2009 reflects the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves.

Underwriting and other expenses

Underwriting and other expenses for 2009 decreased when compared to 2008. The decrease reflects our lower contract underwriting volume as well as a reduction in headcount and a focus on expenses in difficult market conditions.

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Interest expense

Interest expense for 2009 increased when compared to 2008. The increase is due to interest on our convertible debentures issued in March and April of 2008 (interest on these debentures accrues even if we defer the payment of interest). As discussed in Note 2 to our consolidated financial statements contained in Item 8, we adopted new guidance regarding accounting for convertible debt instruments, on a retrospective basis, and our interest expense now reflects our non-convertible debt borrowing rate on the convertible debentures of approximately 19%. The increase in interest on the convertible debentures is somewhat offset by repaying the \$200 million credit facility in the second quarter of 2009 as well as the repurchase, during 2009, of approximately \$121.6 million of our Senior Notes due in September 2011.

Income from joint ventures

We had no income from joint ventures in 2009. Income from joint ventures, net of tax, was \$24.5 million in 2008. The income from joint ventures in 2008 was related to our interest in Sherman that was sold in the third quarter of 2008.

Benefit from income taxes

The effective tax rate benefit on our pre-tax loss was (25.1%) in 2009, compared to (42.0%) in 2008. During those periods, the rate reflected the benefits recognized from tax-preferenced investments. Our tax-preferenced investments that impact the effective tax rate consist almost entirely of tax-exempt bonds. The difference in the rate was primarily the result of the establishment of a valuation allowance, which reduced the amount of tax benefits recognized during 2009.

Table of Contents**Results of Consolidated Operations***New insurance written*

The amount of our primary new insurance written during the years ended December 31, 2009, 2008 and 2007 was as follows:

	2009	2008 (\$ billions)	2007
NIW Flow Channel	\$ 19.9	\$ 46.6	\$ 69.0
NIW Bulk Channel		1.6	7.8
Total Primary NIW	\$ 19.9	\$ 48.2	\$ 76.8

Refinance volume as a % of primary flow NIW	40%	26%	24%
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The decrease in new insurance written on a flow basis in 2009, compared to 2008 and 2007, was primarily due to changes in our underwriting guidelines as well as premium rate increases discussed below. We believe our changes in guidelines, as well as changes in guidelines made by other private mortgage insurers, and premium rate changes have led to greater usage of FHA insurance programs as an alternative to private mortgage insurance. Additionally, both GSEs have implemented adverse market charges on all loans and credit risk-based loan level price adjustments on loans with certain risk characteristics which include loans that qualify for private mortgage insurance. The application of these loan level price adjustments results in a materially higher monthly payment for the borrower, which we also believe has led to greater usage of FHA insurance programs as an alternative to private mortgage insurance. For a discussion of new insurance written through the bulk channel, see Bulk transactions below.

We anticipate our new insurance written for 2010 will be lower than the level written in 2009 due to the reasons noted in the preceding paragraph, as well as an expected decrease in the total origination market. Our January 2010 new insurance written was \$0.6 billion compared to \$1.6 billion in January 2009. Our level of new insurance written could also be affected by other items, including those noted in our Risk Factors in Item 1A.

Beginning in late 2007, we implemented a series of changes to our underwriting guidelines that are designed to improve the credit risk profile of our new insurance written. 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 include the creation of two tiers 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 removed several markets from our restricted markets list and moved several other markets from our Tier Two restricted market list (for which our underwriting

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guidelines are most limiting) to our Tier One restricted market list. We also implemented premium rate increases during 2008.

In 2009, 93% of our new insurance written had FICO scores of 700 or greater. As shown in the table below, the percentage of our volume written on a flow basis that includes certain segments that we view as having a higher probability of claim declined significantly in 2008 and 2009 as a result of the changes we made in our underwriting guidelines.

	Year ended December 31,		
	2009	2008	2007
Product mix as a % of flow NIW			
> 95% LTVs	1%	18%	42%
ARMs (1)	1%	1%	3%
FICO < 620	0%	2%	8%
Reduced documentation (2)	0%	2%	10%
(1) Consists of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing (ARMs).			
(2) 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, with
respect to new
commitments,
in the second
half of 2008.

We believe that given the various changes in our underwriting guidelines noted above, our business written beginning in the second quarter of 2008 will generate underwriting profit. Subject to regulatory approval, effective May 1, 2010, we will price our new insurance written after considering, among other things, the borrower's credit score. Our pricing changes create three new tiers of pricing for full documentation loans for which the applicable borrower has a credit score of 620 or higher. The three new tiers will predominantly result in,
lower rates for borrowers with credit scores of 720 and greater,

higher rates for borrowers with credit scores between 620 - 679, and

no change in rates for borrowers with credit scores between 680 - 719.

Had these rate changes been in place with respect to new insurance written in the second half of 2009 and the first two months of 2010, the rate changes would have resulted in lower premiums being charged by MGIC for a substantial majority of such new insurance written.

Given the premium rate increases previously announced by the FHA, which will be effective in the near future, we intend that these price changes will position us to be price competitive with the FHA for loans to borrowers with credit scores of 720 and greater. However, there may be advantages to lenders to insure loans through the FHA, including higher servicing fees than on conventional loans. Although we are not eliminating our previous rates, we expect that lenders will generally begin utilizing our lowered rates as soon as they are able to.

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Cancellations and insurance in force

New insurance written and cancellations of primary insurance in force during the years ended December 31, 2009, 2008 and 2007 were as follows:

	2009	2008 (\$ billions)	2007
NIW	\$ 19.9	\$ 48.2	\$ 76.8
Cancellations	(34.7)	(32.9)	(41.6)
Change in primary insurance in force	\$ (14.8)	\$ 15.3	\$ 35.2
Direct primary insurance in force as of December 31,	\$ 212.2	\$ 227.0	\$ 211.7

Cancellation activity has historically been affected by the level of mortgage interest rates and the level of home price appreciation. Cancellations generally move inversely to the change in the direction of interest rates, although they generally lag a change in direction. Cancellations also include rescissions and policies cancelled due to claim payment.

Our persistency rate (percentage of insurance remaining in force from one year prior) was 84.7% at December 31, 2009, an increase from 84.4% at December 31, 2008 and 76.4% at December 31, 2007. These persistency rate improvements in 2008 and 2009 reflect the more restrictive credit policies of lenders (which make it more difficult for homeowners to refinance loans), as well as declines in housing values.

Bulk transactions

We ceased writing Wall Street bulk business in the fourth quarter of 2007. In addition, we wrote no new business through the bulk channel since the second quarter of 2008. We expect the volume of any future business written through the bulk channel will be insignificant. Wall Street bulk transactions, as of December 31, 2009, included approximately 100,000 loans with insurance in force of approximately \$16.4 billion and risk in force of approximately \$4.8 billion, which is approximately 71% of our bulk risk in force.

Pool insurance

We are currently not issuing new commitments for pool insurance and expect that the volume of any future pool business will be insignificant.

Our direct pool risk in force was \$1.7 billion, \$1.9 billion and \$2.8 billion at December 31, 2009, 2008 and 2007, respectively. These risk amounts represent pools of loans with contractual aggregate loss limits and in some cases those without these limits. For pools of

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loans without these limits, risk is estimated based on the amount that would credit enhance the loans in the pool to a AA level based on a rating agency model. Under this model, at December 31, 2009, 2008 and 2007, for \$2.0 billion, \$2.5 billion and \$4.1 billion, respectively, risk in force is calculated at \$190 million, \$150 million and \$475 million, respectively.

Net premiums written and earned

Net premiums written during 2009 decreased when compared to 2008 due to the following reasons:

- o lower average insurance in force, due to reduced levels of new insurance written,
- o lower average premium yields which are a result of the shift in the mix of newer writings to loans with lower loan-to-value ratios, higher FICO scores and full documentation, which carry lower premium rates, and
- o higher levels of rescissions and expected rescissions, which result in a return of premium.

These were offset by the following:

- o increases, in 2008, of our premium rates, and
- o lower ceded premiums due to captive terminations and run-offs. In a captive termination, the arrangement is cancelled, with no future premium ceded and funds for any incurred but unpaid losses transferred to us. In a run-off, no new loans are reinsured by the captive but loans previously reinsured continue to be covered, with premium and losses continuing to be ceded on those loans.

We expect our average insurance in force in 2010 to continue to decline. We expect our premium yields (net premiums written or earned, expressed on an annual basis, divided by the average insurance in force) in 2010 to continue at approximately the level experienced during 2009.

Net premiums written and earned during 2008 increased compared to 2007. The average insurance in force continued to increase; however the effect of the higher in force was somewhat offset by lower average premium yields due to a shift in the mix of new writings to loans with lower loan-to-value ratios, higher FICO scores and full documentation, which carry lower premium rates

Risk sharing arrangements

For the year ended December 31, 2009, approximately 5% of our flow new insurance written was subject to arrangements with captives or risk sharing arrangements with the GSEs compared to 34% for the year ended December 31, 2008 and 48% for the year ended December 31, 2007. We expect the percentage of new insurance written subject to risk sharing arrangements to approximate 5% in 2010 for the reasons discussed below.

Effective January 1, 2009, we are no longer ceding new business under excess of loss reinsurance treaties with lender captive reinsurers. Loans reinsured through December 31, 2008 under excess of loss agreements will run off pursuant to the terms of the particular captive arrangement. New business will continue to be ceded under quota share reinsurance

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arrangements, limited to a 25% cede rate. Beginning in 2008, many of our captive arrangements have either been terminated or placed into run-off.

We anticipate that our ceded premiums related to risk sharing agreements will continue to decline in 2010 for the reasons discussed above.

See discussion under *-Losses* regarding losses assumed by captives.

In June 2008 we entered into a reinsurance agreement that was effective on the risk associated with up to \$50 billion of qualifying new insurance written each calendar year. The term of the reinsurance agreement began on April 1, 2008 and was scheduled to end on December 31, 2010, subject to two one-year extensions that could have been exercised by the reinsurer. Due to our rating agency downgrades in the first quarter of 2009, under the terms of the reinsurance agreement we ceased being entitled to a profit commission, making the agreement less favorable to us. Effective March 20, 2009, we terminated this reinsurance agreement. The termination resulted in a reinsurance fee of \$26.4 million as reflected in our results of operations for the year ended December 31, 2009. There are no further obligations under this reinsurance agreement.

Investment income

Investment income for 2009 decreased when compared to 2008 due to a decrease in the average investment yield, offset by an increase in the average amortized cost of invested assets. The decrease in the average investment yield was caused both by decreases in prevailing interest rates and a decrease in the average maturity of our investments. The portfolio's average pre-tax investment yield was 3.61% at December 31, 2009 and 3.87% at December 31, 2008. We expect a decline in investment income in 2010 as the average amortized cost of invested assets decreases due to claim payments exceeding premiums received in future periods. See further discussion under *Liquidity and Capital Resources* below.

Investment income for 2008 increased when compared to 2007 due to an increase in the average amortized cost of invested assets, offset by a decrease in the average investment yield. The portfolio's average pre-tax investment yield was 4.69% at December 31, 2007.

Realized gains and other-than-temporary impairments

We had net realized investment gains of \$92.9 million in 2009, compared to \$52.9 million in 2008. The net realized gains on investments in 2009 are primarily the result of the sale of fixed income securities. We are in the process of reducing the proportion of our investment portfolio in tax exempt municipal securities and increasing the proportion of corporate securities. We are shifting the portfolio to taxable securities because the tax benefits of holding tax exempt municipal securities are no longer available based on our current net loss position. Realized gains for 2008 included \$62.8 million from the sale of our interest in Sherman, which was offset by realized losses on sales of investments of \$9.9 million.

Net impairment losses recognized in earnings were \$40.9 million in 2009 compared to \$65.4 million in 2008. The impairment losses in 2009 related to our fixed income investments,

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including credit losses related to collateralized debt obligations, debt instruments issued by health facilities, and mortgage backed bonds. The impairment losses in 2008 related to fixed income investments including debt instruments issued by Fannie Mae, Freddie Mac, Lehman Brothers and AIG.

Realized gains in 2007 included a \$162.9 million gain from the sale of a portion our interest in Sherman, offset by realized losses on the sale of fixed income securities. There were no impairment losses in 2007.

Other revenue

Other revenue for 2009 increased, when compared to 2008, due to gains of \$27.2 million recognized from the repurchase of \$121.6 million in par value of our September 2011 Senior Notes, somewhat offset by decreases in contract underwriting revenues.

Other revenue for 2008 increased when compared to 2007. The increase in other revenue was primarily the result of other non-insurance operations.

Losses

As discussed in Critical Accounting Policies , and consistent with industry practices, we establish loss reserves for future claims only for loans that are currently delinquent. The terms delinquent and default are used interchangeably by us and are defined as an insured loan with a mortgage payment that is 45 days or more past due. Loss reserves are established based on our estimate of the number of loans in our default inventory that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. Historically, a substantial majority of borrowers have eventually cured their delinquent loans by making their overdue payments, but this percentage has decreased significantly in recent years.

Estimation of losses that we will pay in the future is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the economy, including unemployment, and the current and future strength of local housing markets. Current conditions in the housing and mortgage industries make these assumptions 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 further deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers income and thus their ability to make mortgage payments, and a further drop in housing values, which expose us to greater losses on resale of properties obtained through the claim settlement process and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could result in a material impact to our results of operations, even in a stable economic environment.

In addition, our loss reserving methodology incorporates the effects rescission activity is expected to have on the losses we will pay on our delinquent inventory. A variance between ultimate actual rescission rates and these estimates could materially affect our losses. See our risk factor titled We may not continue to realize benefits from rescissions at the levels we

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have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper. in Item 1A.

Our estimates could also be positively affected by government efforts to assist current borrowers in refinancing to new loans, assisting delinquent borrowers and lenders in reducing their mortgage payments, and forestalling foreclosures. In addition, private company efforts may have a positive impact on our loss development. See discussion of HAMP program under Overview Loan Modification and Other Similar Programs.

Losses incurred

In 2009, net losses incurred were \$3,379 million, of which \$2,913 million related to current year loss development and \$466 million related to unfavorable prior years loss development. In 2008, net losses incurred were \$3,071 million, of which \$2,684 million related to current year loss development and \$387 million related to unfavorable prior years loss development. See Note 8 of our Notes to Consolidated Financial Statements in Item 8.

Current year losses incurred increased in 2009 compared to 2008 primarily due to an increase in estimated claim rates and a smaller benefit from captive arrangements, offset by a decrease in estimated severity. The increase in claim rates experienced during 2009 was likely due to general economic conditions, including the unemployment rate, as well as further decreases in home values which can affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. The increase in 2009 claim rates was significantly offset by an increase in expected rescission levels. The smaller benefit from captive arrangements was due to captive terminations in late 2008 and 2009. The decrease in severity, compared to an increase in 2008, was primarily due to an increase in expected rescission levels. The average exposure on policies rescinded in 2009 was higher than the average exposure on claims paid. Current year losses incurred significantly increased in 2008 compared to 2007 primarily due to significant increases in the default inventory, offset by a smaller increase in estimated severity and a slight decrease in the estimated claim rate, when each are compared to the same period in 2007.

The amount of losses incurred relating to prior year loss development represents actual claim payments that were higher or lower than what was estimated by us at the end of the prior year as well as a re-estimation of amounts to be ultimately paid on defaults remaining in our default inventory from the end of the prior year. This re-estimation is the result of our review of current trends in default inventory, such as defaults that have resulted in a claim, the amount of the claim, the change in relative level of defaults by geography and the change in average loan exposure. The \$466 million addition to losses incurred relating to prior years in 2009 was primarily related to more defaults remaining in inventory at December 31, 2009 from a prior year. Historically, approximately 75% of our default inventory was resolved in one year, and therefore at any point in time, approximately 25% of the default inventory was greater than one year old. Of the 182,188 primary defaults in our December 31, 2008 inventory, 91,668 primary defaults, approximately 50%, remained in our default inventory one year later at December 31, 2009. These defaults have a higher estimated claim rate when compared to a year ago because our experience is that as a default ages it become more likely to result in a claim payment. The \$387 million increase in losses incurred in 2008 related to prior years was also a result of more defaults remaining in inventory at December 31, 2008 from a year prior.

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Our loss estimates are established based upon historical experience. We continue to experience increases in delinquencies in certain markets with higher than average loan balances, such as Florida and California, however those increases were smaller in 2009 compared to 2008. In 2009 we experienced an increase in delinquencies in California of 4,701, or 7% of our total increase in delinquencies that year, compared to an increase of 8,035 in 2008, or 11% of our total increase in delinquencies that year. In 2009 we experienced an increase in delinquencies in Florida of 9,540, or 14% of our total increase in delinquencies that year, compared to an increase of 16,836 in 2008, or 22% of our total increase in delinquencies that year. The average claim paid on California loans in 2009 remained more than twice as high as the average claim paid for the remainder of the country.

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. Most of our rescissions involve material misrepresentations made, or fraud committed, in connection with the origination of a loan regarding information we received and relied upon when the loan was insured. Because we 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, rescissions were not a material portion of our claims resolved during a year. However, beginning in 2008 rescissions have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in rescissions, we can give no assurance that rescissions will continue to mitigate paid and incurred losses at the same level we have recently experienced. Rescissions mitigated our paid losses by approximately \$1.2 billion in 2009, compared to \$0.2 billion in 2008. These figures include amounts that would have resulted in either 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 2009, \$256 million, of the \$1.2 billion mitigated, would have been applied to a deductible had the policy not been rescinded.

In addition, our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. We do not utilize an explicit rescission rate in our reserving methodology, but rather our reserving methodology incorporates the effects rescission activity has had on our historical claim rate and claim severities. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. Our estimation process does not include a direct correlation between claim rates and severities to projected rescission activity or other economic conditions such as changes in unemployment rates, interest rates or housing values. Our experience is that analysis of that nature would not produce reliable results, as the change in one condition cannot be isolated to determine its sole effect on our ultimate paid losses as our ultimate paid losses are also influenced at the same time by other economic conditions. Based upon the increase in rescission activity during 2008 and 2009, the effects rescissions have on our losses incurred have become material. While we do not incorporate an explicit rescission rate into our reserving methodology, we have estimated the effects

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rescissions have had on our incurred losses based upon recent rescission history, as shown in the table that follows labeled Ever to Date Rescission Rates on Claims Received . We estimate that rescissions mitigated our incurred losses by approximately \$2.5 billion in 2009, compared to \$0.4 billion in 2008; both of these figures include the benefit of claims not paid as well as the impact on our loss reserves. The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At December 31, 2009 the estimate of this liability totaled \$88.3 million. Separate components of this liability are included in Other liabilities and Premium deficiency reserves on our consolidated balance sheet. At December 31, 2008 this liability was not material to our financial statements. Changes in the liability affect premiums written and earned.

If the insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by legal proceedings. Objections to rescission may be made several years after we have rescinded an insurance policy. Countrywide and an affiliate (Countrywide) has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. We have filed an arbitration case against Countrywide. During 2008 and 2009, rescissions of Countrywide's flow loans mitigated our paid losses by approximately \$100 million. In addition, we have a substantial pipeline of claims investigations involving loans related to Countrywide that we expect will eventually result in future rescissions. For more information about this lawsuit and arbitration case, see Note 15 to our consolidated financial statements in Item 8 and the risk factor titled,

We are subject to the risk of private litigation and regulatory proceedings in Item 1A. In addition, we continue to have discussions with other lenders regarding their objections to rescissions that in the aggregate are material and are involved in other arbitration proceedings with respect to an amount of rescissions that are not material.

Information regarding the ever-to-date rescission rates by the quarter in which the claim was received appears in the table below. No information is presented for claims received two quarters or less before the end of our most recently completed quarter to allow sufficient time for a substantial percentage of the claims received in those two quarters to reach resolution.

As of December 31, 2009

Ever-to-Date Rescission Rates on Claims Received
(based on count)

Quarter in Which the Claim was Received	ETD Rescission Rate (1)	ETD Claims Resolution Percentage (2)
Q1 2008	12.6%	100.0%
Q2 2008	16.0%	100.0%
Q3 2008	21.3%	99.8%
Q4 2008	24.9%	99.2%
Q1 2009	28.0%	97.2%
Q2 2009	22.2%	89.1%

(1) This percentage is claims received during the quarter shown that have been rescinded as of our most recently completed quarter divided by the total claims received

during the
quarter shown.

- (2) This percentage is claims received during the quarter shown that have been resolved as of our most recently completed quarter divided by the total claims received during the quarter shown. Claims resolved principally consist of claims paid plus claims rescinded.

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We anticipate that the ever-to-date rescission rate in the more recent quarters will increase as the ever-to-date resolution percentage approaches 100%.

As discussed under Risk Sharing Arrangements, a portion of our flow new insurance written is subject to reinsurance arrangements with lender captives. The majority of these reinsurance arrangements have, historically, been aggregate excess of loss reinsurance agreements, and the remainder were quota share agreements. As discussed under Risk Sharing Arrangements effective January 1, 2009 we are no longer ceding new business under excess of loss reinsurance treaties with lender captives. Loans reinsured through December 31, 2008 under excess of loss agreements will run off pursuant to the terms of the particular captive arrangement. Under the aggregate excess of loss agreements, we are responsible for the first aggregate layer of loss, which is typically between 4% and 5%, the captives are responsible for the second aggregate layer of loss, which is typically 5% or 10%, and we are responsible for any remaining loss. The layers are typically expressed as a percentage of the original risk on an annual book of business reinsured by the captive. The premium cessions on these agreements typically ranged from 25% to 40% of the direct premium. Under a quota share arrangement premiums and losses are shared on a pro-rata basis between us and the captives, with the captives' portion of both premiums and losses typically ranging from 25% to 50%. Beginning June 1, 2008 new loans insured through quota share captive arrangements are limited to a 25% cede rate.

Under these agreements the captives are required to maintain a separate trust account, of which we are the sole beneficiary. Premiums ceded to a captive are deposited into the applicable trust account to support the captive's layer of insured risk. These amounts are held in the trust account and are available to pay reinsured losses. The captive's ultimate liability is limited to the assets in the trust account. When specific time periods are met and the individual trust account balance has reached a required level, then the individual captive may make authorized withdrawals from its applicable trust account. In most cases, the captives are also allowed to withdraw funds from the trust account to pay verifiable federal income taxes and operational expenses. Conversely, if the account balance falls below certain thresholds, the individual captive may be required to contribute funds to the trust account. However, in most cases, our sole remedy if a captive does not contribute such funds is to put the captive into run-off, in which case no new business would be ceded to the captive. In the event that the captives' incurred but unpaid losses exceed the funds in the trust account, and the captive does not deposit adequate funds, we may also be allowed to terminate the captive agreement, assume the captives' obligations, transfer the assets in the trust accounts to us, and retain all future premium payments. We intend to exercise this additional remedy when it is available to us. However, if the captive would challenge our right to do so, the matter would be determined by arbitration. The reinsurance recoverable on loss reserves related to captive agreements was approximately \$297 million at December 31, 2009. The total fair value of the trust fund assets under these agreements at December 31, 2009 was approximately \$547 million. During 2009, \$119 million of trust fund assets were transferred to us. The transferred funds resulted in an increase in our investment portfolio (including cash and cash equivalents) and there was a corresponding decrease in our reinsurance recoverable on loss reserves, which is offset by a decrease in our net losses paid. During 2008, \$265 million of trust fund assets were transferred to us as a result of captive terminations.

In 2009 the captive arrangements reduced our losses incurred by approximately \$234 million, compared to a \$476 million captive reduction in 2008. We anticipate that the reduction in losses

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incurred will be lower in 2010, compared to 2009, as some of our captive arrangements were terminated in 2009.

A rollforward of our primary insurance default inventory for the years ended December 31, 2009, 2008 and 2007 appears in the table below.

	2009	2008	2007
Default inventory at beginning of year	182,188	107,120	78,628
Plus: New Notices	259,876	263,603	195,407
Less: Cures	(149,251)	(161,069)	(145,198)
Less: Paid (including those charged to a deductible or captive)	(29,732)	(25,318)	(21,113)
Less: Rescissions and denials	(12,641)	(2,148)	(604)
Default inventory at end of year	250,440	182,188	107,120

Information about the composition of the primary insurance default inventory at December 31, 2009, 2008 and 2007 appears in the table below. Within the tables below, reduced documentation loans only appear in the reduced documentation category and do not appear in any of the other categories.

	2009	2008	2007
Total loans delinquent (1)	250,440	182,188	107,120
Percentage of loans delinquent (default rate)	18.41%	12.37%	7.45%
Prime loans delinquent (2)	150,642	95,672	49,333
Percentage of prime loans delinquent (default rate)	13.29%	7.90%	4.33%
A-minus loans delinquent (2)	37,711	31,907	22,863
Percentage of A-minus loans delinquent (default rate)	40.66%	30.19%	19.20%
Subprime credit loans delinquent (2)	13,687	13,300	12,915
Percentage of subprime credit loans delinquent (default rate)	50.72%	43.30%	34.08%
Reduced documentation loans delinquent (3)	48,400	41,309	22,009
Percentage of reduced doc loans delinquent (default rate)	45.26%	32.88%	15.48%

(1) At December 31, 2009, 2008 and 2007, 45,907, 45,482 and 39,704 loans in default, respectively, related to Wall Street bulk transactions and 16,389, 13,275 and 5,055 loans in default, respectively, were in our

claims received
inventory.

- (2) 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 us at the time a commitment to insure is issued. Most A-minus and subprime credit loans were written through the bulk channel. However, we classify all loans without complete documentation as "reduced documentation" loans regardless of FICO score rather than as a prime, "A-minus" or "subprime" loan.

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- (3) 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, with respect to new commitments,

in the second
half of 2008.

The pool notice inventory increased from 33,884 at December 31, 2008 to 44,231 at December 31, 2009; the pool notice inventory was 25,224 at December 31, 2007.

The average primary claim paid for 2009 was \$52,627, compared to \$52,239 for 2008. The average claim paid can vary materially from period to period based upon a variety of factors, on both a national and state basis, including the geographic mix, average loan amount and average coverage percentage of loans for which claims are paid.

The average claim paid for the top 5 states (based on 2009 paid claims) for the years ended December 31, 2009, 2008 and 2007 appears in the table below.

Average claim paid	2009	2008	2007
California	\$ 105,552	\$ 115,409	\$ 96,196
Florida	66,059	69,061	56,846
Michigan	38,341	37,020	35,607
Arizona	61,929	67,058	58,211
Nevada	74,601	82,528	73,905
All other states	43,682	40,571	32,994

All states	\$ 52,627	\$ 52,239	\$ 37,165
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The average loan size of our insurance in force at December 31, 2009, 2008 and 2007 appears in the table below.

Average loan size	2009	2008	2007
Total insurance in force	\$ 155,960	\$ 154,100	\$ 147,308
Prime (FICO 620 & >)	154,480	151,240	141,690
A-Minus (FICO 575-619)	130,410	132,380	133,460
Subprime (FICO < 575)	118,440	121,230	124,530
Reduced doc (All FICOs)	203,340	208,020	209,990

The average loan size of our insurance in force at December 31, 2009, 2008 and 2007 for the top 5 states (based on 2009 paid claims) appears in the table below.

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Average loan size	2009	2008	2007
California	\$ 288,650	\$ 293,442	\$ 291,578
Florida	178,262	180,261	178,063
Michigan	121,431	121,001	119,428
Arizona	188,614	190,339	185,518
Nevada	220,506	223,861	222,707
All other states	147,713	145,201	138,155

Information about net paid claims during the years ended December 31, 2009, 2008 and 2007 appears in the table below.

Net paid claims (\$ millions)	2009	2008	2007
Prime (FICO 620 & >)	\$ 831	\$ 547	\$ 332
A-Minus (FICO 575-619)	231	250	161
Subprime (FICO < 575)	95	132	101
Reduced doc (All FICOs)	388	395	190
Other	104	48	45
Direct losses paid	1,649	1,372	829
Reinsurance	(41)	(19)	(12)
Net losses paid	1,608	1,353	817
LAE	60	48	53
Net losses and LAE paid before terminations	1,668	1,401	870
Reinsurance terminations	(119)	(265)	
Net losses and LAE paid	\$ 1,549	\$ 1,136	\$ 870

Primary claims paid for the top 15 states (based on 2009 paid claims) and all other states for the years ended December 31, 2009, 2008 and 2007 appears in the table below.

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Paid Claims by state (\$ millions)	2009	2008	2007
California	\$ 253	\$ 316	\$ 82
Florida	195	129	38
Michigan	111	99	98
Arizona	110	61	10
Nevada	75	45	12
Georgia	62	50	35
Illinois	59	52	35
Ohio	54	58	73
Minnesota	52	43	34
Texas	51	48	51
Virginia	48	32	13
Indiana	32	26	33
Massachusetts	27	29	24
Colorado	27	33	32
Missouri	26	22	17
All other states	363	281	197
	1,545	1,324	784
Other (Pool, LAE, Reinsurance)	4	(188)	86
	\$ 1,549	\$ 1,136	\$ 870

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The default inventory in those same states at December 31, 2009, 2008 and 2007 appears in the table below.

Default inventory by state	2009	2008	2007
California	19,661	14,960	6,925
Florida	38,924	29,384	12,548
Michigan	12,759	9,853	7,304
Arizona	8,791	6,338	2,169
Nevada	5,803	3,916	1,337
Georgia	10,905	7,622	4,623
Illinois	13,722	9,130	5,435
Ohio	11,071	8,555	6,901
Minnesota	4,674	3,642	2,478
Texas	13,668	10,540	7,103
Virginia	4,464	3,360	1,761
Indiana	7,005	5,497	3,763
Massachusetts	3,661	2,634	1,596
Colorado	3,451	2,328	1,534
Missouri	4,195	3,263	2,149
All other states	87,686	61,166	39,494
	250,440	182,188	107,120

The default inventory at December 31, 2009, 2008 and 2007 separated between our flow and bulk business appears in the table below.

Default inventory	2009	2008	2007
Flow	185,828	122,693	61,352
Bulk	64,612	59,495	45,768
	250,440	182,188	107,120

The flow default inventory by policy year at December 31, 2009, 2008 and 2007 appears in the table below.

Flow Default inventory by Policy Year	2009	2008	2007
Policy year:			
2003 and prior	28,242	24,042	21,886
2004	13,869	10,266	7,905
2005	21,354	15,462	9,909
2006	33,373	24,315	12,637
2007	73,304	43,211	9,015
2008	15,524	5,397	
2009	162		
	185,828	122,693	61,352

Beginning in 2008, the rate at which claims are received and paid slowed for a combination of reasons, including foreclosure moratoriums, servicing delays, court delays, loan

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modifications and our claims investigations. Although these factors continue to affect our paid claims, we believe that paid claims in 2010 will exceed the \$1.7 billion paid in 2009.

As of December 31, 2009, 54% of our primary insurance in force was written subsequent to December 31, 2006. On our flow business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. On our bulk business, the period of highest claims frequency has generally occurred earlier than in the historical pattern on our flow business. However, the pattern of claims frequency can be affected by many factors, including persistency and deteriorating economic conditions. Low persistency can have the effect of accelerating the period in the life of a book during which the highest claim frequency occurs. Deteriorating economic conditions can result in increasing claims following a period of declining claims. We are currently experiencing such performance as it relates to delinquencies from our older books.

Premium deficiency

During 2009, the premium deficiency reserve on Wall Street bulk transactions declined by \$261 million from \$454 million, as of December 31, 2008, to \$193 million as of December 31, 2009. The \$193 million premium deficiency reserve as of December 31, 2009 reflects the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves. The discount rate used in the calculation of the premium deficiency reserve at December 31, 2009 was 3.6%. During 2008 the premium deficiency reserve on Wall Street bulk transactions declined by \$757 million from \$1,211 million, as of December 31, 2007, to \$454 million as of December 31, 2008. The discount rate used in the calculation of the premium deficiency reserve at December 31, 2008 was 4.0%.

The components of the premium deficiency reserve at December 31, 2009, 2008 and 2007 appear in the table below.

	2009	December 31, 2008 (\$ millions)	2007
Present value of expected future premium	\$ 427	\$ 712	\$ 901
Present value of expected future paid losses and expenses	(2,157)	(3,063)	(3,561)
Net present value of future cash flows	(1,730)	(2,351)	(2,660)
Established loss reserves	1,537	1,897	1,449
Net deficiency	\$ (193)	\$ (454)	\$ (1,211)

Each quarter, we re-estimate the premium deficiency reserve on the remaining Wall Street bulk insurance in force. The premium deficiency reserve primarily changes from quarter to quarter as a result of two factors. First, it changes as the actual premiums, losses and

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expenses that were previously estimated are recognized. Each period such items are reflected in our financial statements as earned premium, losses incurred and expenses. The difference between the amount and timing of actual earned premiums, losses incurred and expenses and our previous estimates used to establish the premium deficiency reserves has an effect (either positive or negative) on that period's results. Second, the premium deficiency reserve changes as our assumptions relating to the present value of expected future premiums, losses and expenses on the remaining Wall Street bulk insurance in force change. Changes to these assumptions also have an effect on that period's results.

The decrease in the premium deficiency reserve for the years ended December 31, 2009 and 2008 was \$261 million and \$757 million, respectively, as shown in the charts below, which represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The change in assumptions for 2009 is primarily related to lower estimated ultimate losses, offset by lower estimated ultimate premiums. The lower estimated ultimate losses and lower estimated ultimate premiums were primarily due to higher expected rates of rescissions. The change in assumption for 2008 primarily related to higher estimated ultimate losses.

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	(\$ millions)
Premium Deficiency Reserve at December 31, 2008	\$ (454)
Paid claims and LAE	584
Increase (decrease) in loss reserves	(360)
Premium earned	(156)
Effects of present valuing on future premiums, losses and expenses	21
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized	89
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses and expenses and discount rate (1)	172
Premium Deficiency Reserve at December 31, 2009	\$ (193)
(1) A positive number for changes in assumptions relating to premiums, losses, expenses and discount rate indicates a redundancy of prior premium deficiency reserves.	
	(\$ millions)
Premium Deficiency Reserve at December 31, 2007	\$ (1,211)
Paid claims and LAE	770
Increase (decrease) in loss reserves	448
Premium earned	(234)
Effects of present valuing on future premiums, losses and expenses	(93)
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized	891
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses and expenses and discount rate (2)	(134)

Premium Deficiency Reserve at December 31, 2008

\$ (454)

- (2) A negative number for changes in assumptions relating to premiums, losses, expenses and discount rate indicates a deficiency of prior premium deficiency reserves.

At the end of 2009, and the end of each quarter, we performed a premium deficiency analysis on the portion of our book of business not covered by the premium deficiency described above. That analysis concluded that, as of December 31, 2009, there was no premium deficiency on such portion of our book of business. For the reasons discussed below, our analysis of any potential deficiency reserve is subject to inherent uncertainty and requires significant judgment by management. To the extent, in a future period, expected losses are higher or expected premiums are lower than the assumptions we used in our analysis, we could be required to record a premium deficiency reserve on this portion of our book of business in such period.

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The calculation of premium deficiency reserves requires the use of significant judgments and estimates to determine the present value of future premium and present value of expected losses and expenses on our business. The present value of future premium relies on, among other things, assumptions about persistency and repayment patterns on underlying loans. The present value of expected losses and expenses depends on assumptions relating to severity of claims and claim rates on current defaults, and expected defaults in future periods. These assumptions also include an estimate of expected rescission activity. Similar to our loss reserve estimates, our estimates for premium deficiency reserves could be adversely affected by several factors, including a deterioration of regional or economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values that could expose us to greater losses. Assumptions used in calculating the deficiency reserves can also be affected by volatility in the current housing and mortgage lending industries. To the extent premium patterns and actual loss experience differ from the assumptions used in calculating the premium deficiency reserves, the differences between the actual results and our estimates will affect future period earnings and could be material.

Underwriting and other expenses

Underwriting and other expenses for 2009 decreased when compared to 2008. The decrease reflects our lower contract underwriting volume as well as reductions in headcount and a focus on expenses in difficult market conditions.

Underwriting and other expenses for 2008 decreased when compared to 2007. The decrease reflects our lower volumes of new insurance written as well as a focus on expenses in difficult market conditions. Also, 2007 included \$12.3 million in one-time expenses associated with a terminated merger.

Ratios

The table below presents our loss, expense and combined ratios for our combined insurance operations for the years ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
Loss ratio	259.5%	220.4%	187.3%
Expense ratio	15.1%	14.2%	15.8%
Combined ratio	274.6%	234.6%	203.1%

The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The loss ratio does not reflect any effects due to premium deficiency. The increase in the loss ratio in 2009, compared to 2008, was due to an increase in losses incurred, as well a decrease in premium earned. The expense ratio is the ratio, expressed as a percentage, of underwriting expenses to net premiums written. The increase in the expense ratio in 2009, compared to 2008, was due to a decrease in premiums

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written, which was partially offset by a decrease in underwriting and other expenses. The combined ratio is the sum of the loss ratio and the expense ratio.

The increase in the loss ratio in 2008, compared to 2007, was due to an increase in losses incurred, partially offset by an increase in premiums earned. The decrease in the expense ratio in 2008, compared to 2007, was due to a decrease in underwriting and other expenses as well as an increase in premiums written.

Interest expense

Interest expense for 2009 increased when compared to 2008. The increase was primarily due to an increase in interest on our convertible debentures (interest on these debentures accrues even if we defer the payment of interest). As discussed in Note 1 to our consolidated financial statements contained in Item 8, we adopted new guidance regarding accounting for convertible debt instruments, on a retrospective basis, and our interest expense now reflects our non-convertible debt borrowing rate on the convertible debentures of approximately 19%. This increase was partially offset by repaying the \$200 million credit facility in the second quarter of 2009 as well as the repurchase, in 2009, of approximately \$121.6 million of our Senior Notes due in September 2011.

Interest expense for 2008 increased compared to 2007. The increase primarily reflected the issuance of the \$390 million of convertible debentures in March and April of 2008.

Income taxes

The effective tax rate benefit on our pre-tax loss was (25.1%) in 2009, compared to (42.0%) in 2008. During those periods, the rate reflected the benefits recognized from tax-preferenced investments. Our tax-preferenced investments that impact the effective tax rate consist almost entirely of tax-exempt bonds. The difference in the rate was primarily the result of the establishment of a valuation allowance, which reduced the amount of tax benefits recognized during 2009. The effective tax rate benefit on our pre-tax loss was (37.3%) in 2007.

We review the need to establish a deferred tax asset valuation allowance on a quarterly basis. We include an analysis of several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the expected occurrence of future income or loss and available tax planning alternatives. As discussed below, we established a valuation allowance during 2009.

In periods prior to 2008, we deducted significant amounts of statutory contingency reserves on our federal income tax returns. The reserves were deducted to the extent we purchased tax and loss bonds in an amount equal to the tax benefit of the deduction. The reserves are included in taxable income in future years when they are released for statutory accounting purposes (see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Risk-to-Capital) or when the taxpayer elects to redeem the tax and loss bonds that were purchased in connection with the deduction for the reserves. Since the tax effect on these reserves exceeded the gross deferred tax assets less deferred tax liabilities, we believe that all gross deferred tax assets recorded in

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periods prior to the quarter ended March 31, 2009 were fully realizable. Therefore, we established no valuation reserve.

In the first quarter of 2009, we redeemed the remaining balance of our tax and loss bonds of \$431.5 million. Therefore, the remaining contingency reserves were released and are no longer available to support any net deferred tax assets. Beginning with the first quarter of 2009, any benefit from income taxes, relating to operating losses, has been reduced or eliminated by the establishment of a valuation allowance. The valuation allowance, established during 2009, reduced our benefit from income taxes by \$238.5 million. During 2009, our deferred tax asset valuation allowance was reduced by the deferred tax liability related to \$159.5 million of unrealized gains on investments that were recorded to equity. In the event of future operating losses, it is likely that a tax provision (benefit) will be recorded as an offset to any taxes recorded to equity for changes in unrealized gains or other items in other comprehensive income.

Recently enacted legislation expanded the carryback period for certain net operating losses from 2 years to 5 years. A total benefit for income taxes of \$282.0 million has been recorded in the Consolidated Statement of Operations in 2009 for the carryback of current year losses. Since the carryback period includes years where we have not reached final agreements on the amount of taxes due with the IRS, the receipt of any taxes recoverable may be delayed and subject to any final settlement.

Giving full effect to the carryback of net operating losses for federal income tax purposes, we have approximately \$856 million of net operating loss carryforwards on a regular tax basis and \$130 million of net operating loss carryforwards for computing the alternative minimum tax as of December 31, 2009. Any unutilized carryforwards are scheduled to expire at the end of tax year 2029.

Joint ventures

Our equity in the earnings from Sherman and C-BASS and certain other joint ventures and investments, accounted for in accordance with the equity method of accounting, is shown separately, net of tax, on our consolidated statement of operations. Income from joint ventures, net of tax, was \$24.5 million in 2008 compared to a loss from joint ventures, net of tax, of \$269.3 million for 2007. The loss from joint venture in 2007 was due primarily to the impairment of our investment in C-BASS, which is discussed below. In the third quarter of 2008, we sold our remaining interest in Sherman to Sherman. As a result, beginning in the fourth quarter of 2008, we no longer have income or loss from joint ventures.

C-BASS

Beginning in February 2007 and continuing through approximately the end of March 2007, the subprime mortgage market experienced significant turmoil. After a period of relative stability that persisted during April, May and through approximately late June, market dislocations recurred and then accelerated to unprecedented levels beginning in approximately mid-July 2007. As described in Note 10 of our Notes to Consolidated Financial Statements in Item 8, in the third quarter of 2007, we concluded that our total equity interest in C-BASS was impaired. In addition, during the fourth quarter of 2007 due to additional losses incurred by C-BASS, we reduced the carrying value of our \$50 million note from C-BASS to zero under equity method accounting.

Table of Contents**Sherman**

Our interest in Sherman sold in the third quarter of 2008 represented approximately 24.25% of Sherman's equity. The sale price was paid \$124.5 million in cash and by delivery of Sherman's unsecured promissory note in the principal amount of \$85 million (the Note). The scheduled maturity of the Note is February 13, 2011 and it bears interest, payable monthly, at the annual rate equal to three-month LIBOR plus 500 basis points. The Note is issued under a Credit Agreement, dated August 13, 2008, between Sherman and MGIC. For additional information regarding the sale of our interest please refer to our Current Report on Form 8-K filed with the Securities and Exchange Commission on August 14, 2008. We recorded a \$62.8 million pre-tax gain on this sale, which is reflected in our results of operations for the year ended December 31, 2008 as a realized gain.

A summary Sherman income statement for the periods indicated appears below. Prior to the sale of our interest, we did not consolidate Sherman with us for financial reporting purposes, and we did not control Sherman. Sherman's internal controls over its financial reporting were not part of our internal controls over our financial reporting. However, our internal controls over our financial reporting included processes to assess the effectiveness of our financial reporting as it pertains to Sherman. We believe those processes were effective in the context of our overall internal controls.

Sherman Summary Income Statement:

	Year Ended December 31,	
	2008*	2007
	(unaudited)	(audited)
	(In millions of dollars)	
Revenues from receivable portfolios	\$ 660.3	\$ 994.3
Portfolio amortization	264.8	488.1
Revenues, net of amortization	395.5	