FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended March 31, 2023

☐ 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	39-1486475
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
250 E. Kilbourn Avenue	53202
Milwaukee, Wisconsin	(Zip Code)
(Address of principal executive offices)	

(414) 347-6480

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock	MTG	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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," "smaller reporting company," and "emerging growth 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)

Emerging growth company ☐ If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of April 28, 2023, there were 286,617,757 shares of common stock of the registrant, par value $1.00 per share, outstanding.

Forward Looking and Other Statements

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are "forward looking statements." Forward looking statements consist of statements that relate to matters other than historical fact. In most cases, forward looking statements may be identified by words such as "believe," "anticipate" or "expect," or words of similar import. The Risk Factors referred to in "Forward Looking Statements and Risk Factors – Location of Risk Factors" in Management's Discussion and Analysis of Financial Condition and Results of Operations below, may cause our 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 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 current as of any time other than the time at which this document was filed with the Securities and Exchange Commission.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED March 31, 2023

Table of contents

Glossary of terms and acronyms

/ A

ARMs

Adjustable rate mortgages

ABS

Asset-backed securities

ASC

Accounting Standards Codification

Available Assets

Assets, as designated under the PMIERs, that are readily available to pay claims, and include the most liquid investments

/ B

Book or book year

A group of loans insured in a particular calendar year

BPMI

Borrower-paid mortgage insurance

/ C

CECL

Current expected credit losses covered under ASC 326

CFPB

Consumer Financial Protection Bureau

CLO

Collateralized loan obligations

CMBS

Commercial mortgage-backed securities

COVID-19 Pandemic

An outbreak of the novel coronavirus disease, later named COVID-19. The outbreak of COVID-19 was declared a pandemic by the World Health Organization and a national emergency in the United States in March 2020

CRT

Credit risk transfer. The transfer of a portion of mortgage credit risk to the private sector through different forms of transactions and structures

/ D

DAC

Deferred insurance policy acquisition costs

Debt-to-income ("DTI") ratio

The ratio, expressed as a percentage, of a borrower's total debt payments to gross income

Delinquent Loan

A loan that is past due on a mortgage payment. A delinquent loan is typically reported to us by servicers when the loan has missed two or more payments. A loan will continue to be reported as delinquent until it becomes current, or a claim payment has been made. A delinquent loan is also referred to as a default

Delinquency Rate

The percentage of insured loans that are delinquent

Direct

Before giving effect to reinsurance

/ E

EPS

Earnings per share

/ F

Fannie Mae

Federal National Mortgage Association

FCRA

Fair Credit Reporting Act

FHA

Federal Housing Administration

FHFA

Federal Housing Finance Agency

FHLB

Federal Home Loan Bank of Chicago, of which MGIC is a member

FICO score

A measure of consumer credit risk provided by credit bureaus, typically produced from statistical models by Fair Isaac Corporation utilizing data collected by the credit bureaus

Freddie Mac

Federal Home Loan Mortgage Corporation

/ G

GAAP

Generally Accepted Accounting Principles in the United States

GSEs

Collectively, Fannie Mae and Freddie Mac

/ H

HAMP

Home Affordable Modification Program

HARP

Home Affordable Refinance Program

Home Re Entities

Unaffiliated special purpose insurers domiciled in Bermuda that participate in our aggregate XOL Transactions through the ILN market.

Home Re Transactions

Excess-of-loss reinsurance transactions with the Home Re Entities

HOPA

Homeowners Protection Act

HUD

Housing and Urban Development

/ I

IBNR Reserves

Loss reserves established on loans we estimate are delinquent, but for which the delinquency has not been reported to us

IIF

Insurance in force, which for loans insured by us, is equal to the unpaid principal balance, as reported to us

ILN

Insurance-linked notes

/ L

LAE

Loss adjustment expenses, which includes the costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process.

Loan-to-value ("LTV") ratio

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.

Long-term debt:

5.25% Notes

5.25% Senior Notes due on August 15, 2028, with interest payable semi-annually on February 15 and August 15 of each year

9% Debentures

9% Convertible Junior Subordinated Debentures due on April 1, 2063, with interest payable semi-annually on April 1 and October 1 of each year

Loss ratio

The ratio, expressed as a percentage, of the sum of net incurred losses and loss adjustment expenses to net premiums earned

Low down payment loans or mortgages

Loans with less than 20% down payments

LPMI

Lender-paid mortgage insurance

/ M

MBS

Mortgage-backed securities

MD&A

Management's discussion and analysis of financial condition and results of operations

MGIC

Mortgage Guaranty Insurance Corporation, a subsidiary of MGIC Investment Corporation

MAC

MGIC Assurance Corporation, a subsidiary of MGIC

Minimum Required Assets

The minimum amount of Available Assets that must be held under the PMIERs which is based on an insurer’s book of RIF and is calculated from tables of factors with several risk dimensions, reduced for credit given for risk ceded under reinsurance transactions, and subject to a floor of $400 million.

MPP

Minimum Policyholder Position, as required under certain state requirements. The “policyholder position” of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums

/ N

N/A

Not applicable for the period presented

NAIC

The National Association of Insurance Commissioners

NIW

New Insurance Written, is the aggregate original principal amount of the mortgages that are insured during a period

N/M

Data, or calculation, deemed not meaningful for the period presented

NPL

Non-performing loan, which is a delinquent loan, at any stage in its delinquency

/ O

OCI

Office of the Commissioner of Insurance of the State of Wisconsin

/ P

Persistency

The percentage of our insurance remaining in force from one year prior

PMI

Private Mortgage Insurance (as an industry or product type)

PMIERs

Private Mortgage Insurer Eligibility Requirements issued by each of Fannie Mae and Freddie Mac to set forth requirements that an approved insurer must meet and maintain to provide mortgage guaranty insurance on loans delivered to or acquired by Fannie Mae or Freddie Mac, as applicable.

Premium Yield

The ratio of premium earned divided by the average IIF outstanding for the period measured

Premium Rate

The contractual rate charged for coverage under our insurance policies

Primary Insurance

Insurance that provides mortgage default protection on individual loans. Primary insurance may be written on a "flow" basis, in which loans are insured in individual, loan-by-loan transactions, or on a "bulk" basis, in which each loan in a portfolio of loans is individually insured in a single bulk transaction.

Profit Commission

Payments we receive from reinsurers under each of our quota share reinsurance transactions if the annual loss ratio is below levels specified in the quota share reinsurance transaction

/ Q

QSR Transaction

Quota share reinsurance transaction with a group of unaffiliated reinsurers

2015 QSR

Our QSR transaction that provided coverage on eligible NIW written prior to 2017

2019 QSR

Our QSR transaction that provided coverage on eligible NIW in 2019

2020 QSR

Our QSR transactions that provides coverage on eligible NIW in 2020

2021 QSR

Our QSR transactions that provides coverage on eligible NIW in 2021

2022 QSR

Our QSR transactions that provides coverage on eligible NIW in 2022

2023 QSR

Our QSR transactions that provides coverage on eligible NIW in 2023

Credit Union QSR

Our QSR transaction that provides coverage on eligible NIW from credit union institutions originated from April 1, 2020 through December 31, 2025

/ R

RESPA

Real Estate Settlement Procedures Act

RIF

Risk in force, which for an individual loan insured by us, is equal to the unpaid loan principal balance, as reported to us, multiplied by the insurance coverage percentage. RIF is sometimes referred to as exposure

Risk-to-capital

Under certain state regulations, the ratio of RIF, net of reinsurance and exposure on policies currently in default and for which loss reserves have been established, to the level of statutory capital

RMBS

Residential mortgage-backed securities

/ S

State Capital Requirements

Under certain state regulations, the minimum amount of statutory capital relative to risk in force (or similar measure)

/ T

TILA

Truth in Lending Act

Traditional XOL Transaction

Excess-of-loss reinsurance transaction with a group of unaffiliated reinsurers that provides coverage on eligible NIW in 2022.

/ U

Underwriting expense ratio

The ratio, expressed as a percentage, of the underwriting and operating expenses, net and amortization of DAC of our combined insurance operations (which excludes underwriting and operating expenses of our non-insurance subsidiaries) to net premiums written

Underwriting profit

Net premiums earned minus net incurred losses and underwriting and operating expenses

USDA

U.S. Department of Agriculture

/ V

VA
U.S. Department of Veterans Affairs

VIE
Variable interest entity

/ X

XOL Transactions
Excess-of-loss reinsurance transactions executed through the Home Re Transactions and the Traditional XOL Transaction

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)	Note		March 31, 2023		December 31, 2022
			(Unaudited)		
ASSETS					
Investment portfolio:	7 / 8				
Fixed income, available-for-sale, at fair value (amortized cost 2023 - $5,979,045; 2022 - $5,926,785)		**$**	**5,564,053**	$	5,409,698
Equity securities, at fair value (cost 2023 - $15,946; 2022 - $15,924)			**14,523**		14,140
Other invested assets, at cost			**850**		850
Total investment portfolio			**5,579,426**		5,424,688
Cash and cash equivalents			**358,214**		327,384
Restricted cash and cash equivalents			**8,358**		5,529
Accrued investment income			**54,550**		55,178
Reinsurance recoverable on loss reserves	4		**32,761**		28,240
Reinsurance recoverable on paid losses	4		**145**		18,081
Premiums receivable			**57,375**		58,000
Home office and equipment, net			**40,580**		41,419
Deferred insurance policy acquisition costs			**18,097**		19,062
Deferred income taxes, net			**100,174**		124,769
Other assets			**102,608**		111,443
Total assets		**$**	**6,352,288**	$	6,213,793
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Loss reserves	11	**$**	**558,515**	$	557,988
Unearned premiums			**183,467**		195,289
Senior notes	3		**642,092**		641,724
Convertible junior subordinated debentures	3		**21,086**		21,086
Other liabilities			**169,484**		154,966
Total liabilities			**1,574,644**		1,571,053
Contingencies	5				
Shareholders' equity:	12				
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2023 - 371,353; 2022 - 371,353; shares outstanding 2023 - 288,366; 2022 - 293,433)			**371,353**		371,353
Paid-in capital			**1,791,609**		1,798,842
Treasury stock at cost (shares 2023 - 82,987; 2022 - 77,920)			**(1,119,048)**		(1,050,238)
Accumulated other comprehensive income (loss), net of tax			**(395,499)**		(481,511)
Retained earnings			**4,129,229**		4,004,294
Total shareholders' equity			**4,777,644**		4,642,740
Total liabilities and shareholders' equity		**$**	**6,352,288**	$	6,213,793

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

		Three Months Ended March 31,	
(In thousands, except per share data)	Note	**2023**	2022
Revenues:			
Premiums written:			
Direct		**$ 274,247**	$ 274,793
Assumed		**2,751**	2,031
Ceded	4	**(46,806)**	(34,159)
Net premiums written		**230,192**	242,665
Decrease in unearned premiums, net		**11,823**	12,575
Net premiums earned		**242,015**	255,240
Investment income, net of expenses		**49,223**	38,262
Net gains (losses) on investments and other financial instruments	7/8	**(7,698)**	(772) (1)
Other revenue		**425**	1,886 (1)
Total revenues		**283,965**	294,616
Losses and expenses:			
Losses incurred, net	11	**6,446**	(19,314)
Amortization of deferred policy acquisition costs		**2,478**	2,740
Other underwriting and operating expenses, net		**70,063**	54,732
Loss on debt extinguishment		**—**	22,107
Interest expense		**9,374**	14,912
Total losses and expenses		**88,361**	75,177
Income before tax		**195,604**	219,439
Provision for income tax		**41,057**	44,426
Net income		**$ 154,547**	$ 175,013
Earnings per share:			
Basic	6	**$ 0.53**	$ 0.55
Diluted	6	**$ 0.53**	$ 0.54
Weighted average common shares outstanding - basic	6	**290,989**	315,975
Weighted average common shares outstanding - diluted	6	**294,712**	324,538

(1) Certain amounts have been reclassified to conform with the current year presentation

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

		Three Months Ended March 31,	
(In thousands)	Note	**2023**	2022
Net income		**$ 154,547**	$ 175,013
Other comprehensive income (loss), net of tax:	9		
Change in unrealized investment gains and losses	7	**80,659**	(270,938)
Benefit plan adjustments		**5,353**	393
Other comprehensive income (loss), net of tax		**86,012**	(270,545)
Comprehensive income (loss)		**$ 240,559**	$ (95,532)

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

		Three Months Ended March 31,	
(In thousands)	Note	**2023**	2022
Common stock			
Balance, beginning and end of period		**$ 371,353**	$ 371,353
Paid-in capital			
Balance, beginning of period		**1,798,842**	1,794,906
Reissuance of treasury stock, net under share-based compensation plans		**(16,912)**	(17,867)
Equity compensation		**9,679**	6,572
Balance, end of period		**1,791,609**	1,783,611
Treasury stock			
Balance, beginning of period		**(1,050,238)**	(675,265)
Reissuance of treasury stock, net under share-based compensation plans		**9,713**	9,179
Repurchase of common stock	12	**(78,523)**	(127,610)
Balance, end of period		**(1,119,048)**	(793,696)
Accumulated other comprehensive income (loss)			
Balance, beginning of period		**(481,511)**	119,697
Other comprehensive income (loss), net of tax	9	**86,012**	(270,545)
Balance, end of period		**(395,499)**	(150,848)
Retained earnings			
Balance, beginning of period		**4,004,294**	3,250,691
Net income		**154,547**	175,013
Cash dividends	12	**(29,612)**	(25,769)
Balance, end of period		**4,129,229**	3,399,935
Total shareholders' equity		**$ 4,777,644**	$ 4,610,355

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,		
(In thousands)	**2023**	2022	
Cash flows from operating activities:			
Net income	**$ 154,547**	$ 175,013	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**10,192**	15,395	
Deferred tax expense	**1,732**	5,945	
Equity compensation	**9,679**	6,572	(1)
Loss on debt extinguishment	**—**	22,107	
Net (gains) losses on investments and other financial instruments	**7,698**	772	(1)
Change in certain assets and liabilities:			
Accrued investment income	**628**	1,502	
Reinsurance recoverable on loss reserves	**(4,521)**	2,188	
Reinsurance recoverable on paid losses	**17,936**	36,072	
Premium receivable	**625**	(798)	
Deferred insurance policy acquisition costs	**965**	133	
Profit commission receivable	**9,324**	6,779	
Loss reserves	**527**	(32,250)	
Unearned premiums	**(11,822)**	(12,575)	
Return premium accrual	**(1,300)**	(900)	
Current income taxes	**39,481**	38,445	
Other, net	**(23,405)**	(36,389)	(1)
Net cash provided by (used in) operating activities	**212,286**	228,011	
Cash flows from investing activities:			
Purchases of investments	**(229,198)**	(94,017)	
Proceeds from sales of investments	**32,991**	218,373	
Proceeds from maturity of fixed income securities	**131,389**	225,972	
Additions to property and equipment	**(363)**	(888)	
Net cash provided by (used in) investing activities	**(65,181)**	349,440	
Cash flows from financing activities:			
Purchase of convertible junior subordinated debentures	**—**	(56,965)	
Repayment of FHLB Advance	**—**	(155,000)	
Cash portion of loss on debt extinguishment	**—**	(22,107)	
Repurchase of common stock	**(76,151)**	(123,640)	
Dividends paid	**(30,096)**	(26,112)	
Payment of withholding taxes related to share-based compensation net share settlement	**(7,199)**	(8,688)	
Net cash provided by (used in) financing activities	**(113,446)**	(392,512)	
Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	**33,659**	184,939	
Cash and cash equivalents and restricted cash and cash equivalents at beginning of period	**332,913**	304,958	
Cash and cash equivalents and restricted cash and cash equivalents at end of period	**$ 366,572**	$ 489,897	

(1) Amounts have been reclassified to conform to the current year presentation

See accompanying notes to consolidated financial statements.

Note 1. Nature of Business and Basis of Presentation

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation (“MGIC”), is principally engaged in the mortgage insurance business. We provide mortgage insurance to lenders throughout the United States and to government sponsored entities to protect against loss from defaults on low down payment residential mortgage loans. MGIC Assurance Corporation (“MAC”) and MGIC Indemnity Corporation (“MIC”), insurance subsidiaries of MGIC, provide insurance for certain mortgages under Fannie Mae and Freddie Mac (the “GSEs”) credit risk transfer programs.

The accompanying unaudited consolidated financial statements of MGIC Investment Corporation and its wholly-owned subsidiaries have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission (“SEC”) for interim reporting and do not include all of the other information and disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2022 included in our 2022 Annual Report on Form 10-K. As used below, “we,” “our” and “us” refer to MGIC Investment Corporation’s consolidated operations or to MGIC Investment Corporation, as the context requires.

In the opinion of management, the accompanying financial statements include all adjustments, consisting primarily of normal recurring accruals, necessary to fairly state our consolidated financial position and consolidated results of operations for the periods indicated. The consolidated results of operations for an interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

The substantial majority of our NIW has been for loans purchased by the GSEs. The current private mortgage insurer eligibility requirements ("PMIERs") of the GSEs include financial requirements, as well as business, quality control and certain transactional approval requirements. The financial requirements of the PMIERs require a mortgage insurer’s "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book of risk in force, calculated from tables of factors with several risk dimensions). Based on our application of the PMIERs, as of March 31, 2023, MGIC’s Available Assets are in excess of its Minimum Required Assets; and MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation.

Subsequent events

We have considered subsequent events through the date of this filing.

Note 2. Significant Accounting Policies

Recent accounting and reporting developments

Accounting standards effective in 2023, or early adopted, and relevant to our financial statements are described below:

Reference Rate Reform: ASU 2022-06

In March 2020, the FASB issued ASU 2020-04 to provide temporary optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. It provided optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. In December 2022, the FASB issued ASU 2022-06, extending the election and application from March 12, 2020 through December 31, 2024 (originally December 31, 2022). The adoption of, and future elections under, this standard are not expected to have a material impact on our consolidated financial statements as the standard will ease, if warranted, the requirements for accounting for the future effects of reference rate reform. We continue to monitor the impact the discontinuance of LIBOR or other reference rates will have on our contracts and other transactions.

Inflation Reduction Act

On August 16, 2022, the Inflation Reduction Act (the "IRA") was enacted and signed into law in the United States. The IRA includes provisions for a 15% corporate minimum tax and a 1% excise tax on net stock repurchases. Both of these taxes are effective in 2023. We do not expect these tax provisions to have a material impact on our consolidated financial results, including our annual estimated effective tax rate. The amount of the excise tax on the repurchase of corporate stock was immaterial in the first quarter of 2023.

Note 3. Debt

Debt obligations

The aggregate carrying values of our long-term debt obligations and their par values, if different, as of March 31, 2023 and December 31, 2022 are presented in table 3.1 below.

Long-term debt obligations

Table 3.1

(In millions)		**March 31, 2023**		December 31, 2022
5.25% Notes, due August 2028 (par value: $650 million)	**$**	**642.1**	$	641.7
9% Debentures, due April 2063 (1)		**21.1**		21.1
Long-term debt, carrying value	**$**	**663.2**	$	662.8

(1) Convertible at any time prior to maturity at the holder's option, at a conversion rate, which is subject to adjustment, of 77.9620 shares per $1,000 principal amount, representing a conversion price of approximately $12.83 per share. The payment of dividends by our holding company results in adjustments to the conversion rate, with such adjustments generally deferred until the end of the year.

The 5.25% Senior Notes (5.25% Notes) and 9% Convertible Junior Subordinated Debentures ("9% Debentures") are obligations of our holding company, MGIC Investment Corporation.

See Note 7 - "Debt" in our Annual Report on Form 10-K for the year ended December 31, 2022 for additional information pertaining to our debt obligations. As of March 31, 2023 we are in compliance with all of our debt covenants.

Interest payments

Interest payments for the three months ended March 31, 2023 and 2022 were $17.1 million and $26.7 million, respectively.

Note 4. Reinsurance

The reinsurance agreements to which we are a party, are discussed below. The effect of all of our reinsurance agreements on premiums earned and losses incurred is shown in table 4.1 below.

Reinsurance

Table 4.1

	Three Months Ended March 31,	
(In thousands)	**2023**	2022
Premiums earned:		
Direct	**$ 286,034**	$ 287,273
Assumed	**2,787**	2,126
Ceded - quota share reinsurance [(1)]	**(29,877)**	(22,378)
Ceded - excess-of-loss reinsurance	**(16,929)**	(11,781)
Total ceded	**(46,806)**	(34,159)
Net premiums earned	**$ 242,015**	$ 255,240
Losses incurred:		
Direct	**$ 11,123**	$ (21,092)
Assumed	**4**	(207)
Ceded - quota share reinsurance	**(4,681)**	1,985
Losses incurred, net	**$ 6,446**	$ (19,314)
Other Reinsurance Impacts:		
Profit commission on quota share reinsurance [(1)]	**$ 31,711**	$ 38,980
Ceding commission on quota share reinsurance	**12,318**	12,272

(1) Ceded premiums earned are shown net of profit commission.

Quota share reinsurance

We have entered into quota share reinsurance ("QSR") transactions with panels of third-party reinsurers to cede a fixed quota share percentage of premiums earned and received and losses incurred on insurance covered by the transactions. We receive the benefit of a ceding commission equal to 20% of premiums ceded before profit commission. We also receive the benefit of a profit commission through a reduction of premiums we cede. The profit commission varies inversely with the level of losses on a “dollar for dollar” basis and can be eliminated at annual loss ratios higher than we have experienced on our QSR Transactions.

Each of our QSR Transactions typically have annual loss ratio caps of 300% and lifetime loss ratios of 200%.

Table 4.2 below provides additional detail regarding our QSR Transactions.

Quota Share Reinsurance

Table 4.2

Quota Share Contract	Covered Policy Years	Quota Share %	Annual Loss Ratio to Exhaust Profit Commission [(1)]	Contractual Termination Date
2020 QSR	2020	12.5 %	62.0 %	December 31, 2031
2020 QSR and 2021 QSR	2020	17.5 %	62.0 %	December 31, 2032
2020 QSR and 2021 QSR	2021	17.5 %	61.9 %	December 31, 2032
2021 QSR and 2022 QSR	2021	12.5 %	57.5 %	December 31, 2032
2021 QSR and 2022 QSR	2022	15.0 %	57.5 %	December 31, 2033
2022 QSR and 2023 QSR	2022	15.0 %	62.0 %	December 31, 2033
2022 QSR and 2023 QSR	2023	15.0 %	62.0 %	December 31, 2034
2023 QSR	2023	10.0 %	58.5 %	December 31, 2034
Credit Union QSR	2020-2025	65.0 %	50.0 %	December 31, 2039

[(1)] We will receive a profit commission provided the annual loss ratio on policies covered under the transaction remains below this ratio.

We can elect to terminate the QSR Transactions under specified scenarios without penalty upon prior written notice, including if we will receive less than 90% (80% for the Credit Union QSR Transaction) of the full credit amount under the PMIERs, full financial statement credit or full credit under applicable regulatory capital requirements for the risk ceded in any required calculation period.

Table 4.3 provides additional detail regarding optional termination dates and optional reductions to our quota share percentage which can, in each case, be elected by us for a fee. Under the optional reduction to the quota share percentage, we may reduce our quota share percentage from the original percentage shown in table 4.2 to the percentage shown in table 4.3.

Quota Share Reinsurance

Table 4.3

Quota Share Contract	Covered Policy Years	Optional Termination Date (1)	Optional Quota Share % Reduction Date (2)	Optional Reduced Quota Share %
2020 QSR	2020	June 30, 2023	January 1, 2023	10.5% or 8%
2020 QSR and 2021 QSR	2020	June 30, 2023	January 1, 2023	14.5% or 12%
2020 QSR and 2021 QSR	2021	December 31, 2023	January 1, 2023	14.5% or 12%
2021 QSR and 2022 QSR	2021	December 31, 2023	January 1, 2023	10.5% or 8%
2021 QSR and 2022 QSR	2022	December 31, 2024	July 1, 2023	12.5% or 10%
2022 QSR and 2023 QSR	2022	December 31, 2024	July 1, 2023	12.5% or 10%
2022 QSR and 2023 QSR	2023	December 31, 2025	July 1, 2024	12.5% or 10%
2023 QSR	2023	December 31, 2025	July 1, 2024	8% or 7%

(1) We can elect early termination of the QSR Transaction beginning on this date, and semi-annually thereafter.

(2) We can elect to reduce the quota share percentage beginning on this date, and semi-annually thereafter.

Under the terms of our QSR Transactions, ceded premiums earned, ceding commissions, profit commission, and ceded paid loss and LAE are settled net on a quarterly basis. The ceded premiums earned due after deducting the related ceding commission and profit commission is reported within Other liabilities on the consolidated balance sheets.

The reinsurance recoverable on loss reserves related to our QSR Transactions was $32.8 million as of March 31, 2023 and $28.2 million as of December 31, 2022. The reinsurance recoverable balance is secured by funds on deposit from reinsurers, the minimum amount of which is based on the greater of 1) a reinsurer's funding requirements under PMIERs or 2) ceded reserves and unpaid losses. Each of the reinsurers under our quota share reinsurance agreements described above has an insurer financial strength rating of A- or better (or a comparable rating) by Standard and Poor's Rating Services, A.M. Best, Moody's, or a combination of the three.

Excess of loss reinsurance

We have Excess-of-loss transactions (“XOL Transactions”) with a panel of unaffiliated reinsurers executed through the traditional reinsurance market (“Traditional XOL Transaction”) and with unaffiliated special purpose insurers (“Home Re Transactions”).

The 2022 Traditional XOL Transaction provides reinsurance coverage on eligible NIW in 2022. For the covered policies, we retain the first layer of the aggregate losses paid, and the reinsurers will then provide second layer coverage up to the outstanding reinsurance coverage amount. We retain losses paid in excess of the outstanding reinsurance coverage amount. The reinsurance coverage is subject to adjustment based on the risk characteristics of the covered loans.

We can elect to terminate our Traditional XOL Transaction under specified scenarios without penalty upon prior written notice, including if we will receive less than the full credit amount under the PMIERs, full financial statement credit or full credit under applicable regulatory capital requirements for the risk ceded in any required calculation period. The reinsurance premiums ceded to the Traditional XOL Transaction are based off the remaining reinsurance coverage levels. The reinsured coverage levels are secured by funds on deposit from reinsurers, the minimum amount of which is based on the greater of 1) a reinsurer's funding requirements under PMIERs or 2) ceded reserves and unpaid losses.

The Home Re Transactions are executed with unaffiliated special purpose insurers (“Home Re Entities”). For the reinsurance coverage periods, we retain the first layer of the respective aggregate losses paid, and a Home Re Entity will then provide second layer coverage up to the outstanding reinsurance coverage amount. We retain losses paid in excess of the outstanding reinsurance coverage amount. Subject to certain conditions, the reinsurance coverage decreases over a period of either 10 or 12.5 years, depending on the transaction, as the underlying covered mortgages amortize or are repaid, or mortgage insurance losses are paid.

The Home Re Entities financed the collateral for the coverages by issuing mortgage insurance-linked notes (“ILNs”) to unaffiliated investors in an aggregate amount equal to the initial reinsurance coverage amounts. Each ILN is non-recourse to any assets of MGIC or affiliates. The proceeds of the ILNs, which were deposited into reinsurance trusts for the benefit of MGIC, will be the source of reinsurance claim payments to MGIC and principal repayments on the ILNs.

Payment of principal on the related insurance-linked notes will be suspended and the reinsurance coverage available to MGIC under the transactions will not be reduced by such principal payments until a target level of credit enhancement is obtained or if certain thresholds or “Trigger Events” are reached, as defined in the related insurance-linked notes transaction agreement. As of March 31, 2023 a "Trigger Event" has occurred on our Home Re 2019-1 ILN transaction because the reinsured principal balance of loans that were reported 60 or more days delinquent exceeded a percentage of the total reinsured principal balance of loans specified under each transaction. A "Trigger Event" has also occurred on the Home Re 2022-1 ILN transactions because the target level of credit enhancement on the most senior tranche has not been met.

Tables 4.4a and 4.4b provide a summary of our XOL Transactions as of March 31, 2023 and December 31, 2022.

Excess of Loss Reinsurance

4.4a

($ in thousands)	**Issue Date**	**Policy In force Dates**	**Optional Call Date (1)**	**Legal Maturity**	**Initial First Layer Retention**	**Initial Excess of Loss Reinsurance Coverage**
2022 Traditional XOL	April 1, 2022	January 1, 2022 - December 30, 2022	January 1, 2030	10 years	$82,523	$142,642
Home Re 2022-1, Ltd.	April 26, 2022	May 29, 2021 - December 31, 2021	April 25, 2028	12.5 years	$325,589	$473,575
Home Re 2021-2, Ltd.	August 3, 2021	January 1, 2021 - May 28, 2021	July 25, 2028	12.5 years	190,159	398,429
Home Re 2021-1, Ltd.	February 2, 2021	August 1, 2020 - December 31, 2020	January 25, 2028	12.5 years	211,159	398,848
Home Re 2020-1, Ltd.	October 29, 2020	January 1, 2020 - July 31, 2020	October 25, 2027	10 years	275,283	412,917
Home Re 2019-1, Ltd.	May 25, 2019	January 1, 2018 - March 31, 2019	May 25, 2026	10 years	185,730	315,739
Home Re 2018-1, Ltd.	October 30, 2018	July 1, 2016 - December 31, 2017	October 25, 2025	10 years	168,691	318,636

(1) We have the right to terminate the Home Re Transactions under certain circumstances and on any payment date on or after the respective Optional Call Date. We can elect early termination of the Traditional XOL Transaction beginning on this date, and quarterly thereafter.

4.4b	**Remaining First Layer Retention**		**Remaining Excess of Loss Reinsurance Coverage**	
($ in thousands)	**March 31, 2023**	December 31, 2022	**March 31, 2023**	December 31, 2022
2022 Traditional XOL	**$ 82,509**	$ 82,517	**$ 142,642**	$ 142,642
Home Re 2022-1, Ltd.	**$ 325,520**	325,576	**$ 473,575**	473,575
Home Re 2021-2, Ltd.	**190,016**	190,097	**327,346**	352,084
Home Re 2021-1, Ltd.	**211,055**	211,102	**251,942**	277,053
Home Re 2020-1, Ltd.	**274,979**	274,871	**92,648**	113,247
Home Re 2019-1, Ltd.	**183,351**	183,540	**208,146**	208,146
Home Re 2018-1, Ltd.	**164,708**	164,849	**121,513**	140,993

The reinsurance premiums ceded to each Home Re Entity are composed of coverage, initial expense and supplemental premiums. The coverage premiums are generally calculated as the difference between the amount of interest payable by the Home Re Entity on the remaining reinsurance coverage levels, and the investment income collected on the collateral assets held in a reinsurance trust account and used to collateralize the Home Re Entity’s reinsurance obligation to MGIC. The amount of monthly reinsurance coverage premium ceded on the Home Re Transactions will fluctuate due to changes in the reference rate and changes in money market rates that affect investment income collected on the assets in the reinsurance trust. The Home Re 2021-2 and Home Re 2022-1 Transactions reference SOFR, while the remaining Home Re Transactions reference one-month LIBOR. As a result, we concluded that each Home Re Transaction contains an embedded derivative that is accounted for separately as a freestanding derivative. The fair values of the derivatives at March 31, 2023 and December 31, 2022, were not material to our consolidated balance sheet and the changes in fair value during the three months ended March 31, 2023 and March 31, 2022 were not material to our consolidated statements of operations. (See Note 7 - “Investments” and Note 8 - “Fair Value Measurements”.)

At the time the Home Re Transactions were entered into, we concluded that each Home Re Entity is a variable interest entity (“VIE”). A VIE is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make sufficient decisions relating to the entity’s operations through voting rights or do not substantively participate in gains and losses of the entity. Given that MGIC (1) does not have the unilateral power to direct the activities that most significantly affect each Home Re Entity’s economic performance and (2) does not have the obligation to absorb losses or the right to receive benefits of each Home Re Entity that could be significant to the Home Re Entity, consolidation of the Home Re Entities is not required.

We are required to disclose our maximum exposure to loss, which we consider to be an amount that we could be required to record in our statements of operations, as a result of our involvement with the VIEs under our Home Re Transactions. As of March 31, 2023, and December 31, 2022, we did not have material exposure to the VIEs as we have no investment in the VIEs and had no reinsurance claim payments due from the VIEs under our reinsurance transactions. We are unable to determine the timing or extent of claims from losses that are ceded under the reinsurance transactions. The VIE assets are deposited in reinsurance trusts for the benefit of MGIC that will be the source of reinsurance claim payments to MGIC. The purpose of the reinsurance trusts is to provide security to MGIC for the obligations of the VIEs under the reinsurance transactions. The trustee of the reinsurance trusts, a recognized provider of corporate trust services, has established segregated accounts within the reinsurance trusts for the benefit of MGIC, pursuant to the trust agreements. The trust agreements are governed by, and construed in accordance with, the laws of the State of New York. If the trustee of the reinsurance trusts failed to distribute claim payments to us as provided in the reinsurance trusts, we would incur a loss related to our losses ceded under the reinsurance transactions and deemed unrecoverable. We are also unable to determine the impact such possible failure by the trustee to perform pursuant to the reinsurance trust agreements may have on our consolidated financial statements. As a result, we are unable to quantify our maximum exposure to loss related to our involvement with the VIEs. MGIC has certain termination rights under the reinsurance transactions should its claims not be paid. We consider our exposure to loss from our reinsurance transactions with the VIEs to be remote.

Table 4.5 presents the total assets of the Home Re Entities as of March 31, 2023 and December 31, 2022.

Home Re total assets

Table 4.5

(In thousands)	Total VIE Assets	
Home Re Entity	**March 31, 2023**	December 31, 2022
Home Re 2022-1 Ltd.	**$ 473,575**	$ 473,575
Home Re 2021-2 Ltd.	**337,486**	357,340
Home Re 2021-1 Ltd.	**260,680**	285,039
Home Re 2020-1 Ltd.	**100,561**	119,159
Home Re 2019-1 Ltd.	**208,146**	208,146
Home Re 2018-1 Ltd.	**128,995**	146,822

The reinsurance trust agreements provide that the trust assets may generally only be invested in certain money market funds that (i) invest at least 99.5% of their total assets in cash or direct U.S. federal government obligations, such as U.S. Treasury bills, as well as other short-term securities backed by the full faith and credit of the U.S. federal government or issued by an agency of the U.S. federal government, (ii) have a principal stability fund rating of “AAAm” by S&P or a money market fund rating of “Aaamf” by Moody’s as of the Closing Date and thereafter maintain any rating with either S&P or Moody’s, and (iii) are permitted investments under the applicable credit for reinsurance laws and applicable PMIERs credit for reinsurance requirements.

The total calculated PMIERs credit for risk ceded under our XOL Transactions are generally based on the PMIERs requirement of the covered policies and the attachment and detachment points of the coverage, all of which fluctuate over time. (See Note 1 - “Nature of Business and Basis of Presentation”.)

Note 5. Litigation and Contingencies

Before paying an insurance claim, generally we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage or deny a claim on the loan (both referred to herein as “rescissions”). In addition, our insurance policies generally provide that we can reduce a claim if the servicer did not comply with its obligations under our insurance policy (such reduction referred to as a “curtailment”).

When the insured disputes our right to rescind coverage or curtail claims, we generally engage in discussions in an attempt to settle the dispute. If we are unable to reach a settlement, the outcome of a dispute ultimately may be determined by legal proceedings. Under ASC 450-20, until a loss associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss. When we determine that a loss is probable and can be reasonably estimated, we record our best estimate of our probable loss. In those cases, until settlement negotiations or legal proceedings are concluded (including the receipt of any necessary GSE approvals), it is possible that we will record an additional loss.

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

Note 6. Earnings per Share

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of shares of common stock outstanding. For purposes of calculating basic EPS, vested restricted stock and restricted stock units ("RSUs") are considered outstanding. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common stock equivalents. The determination of whether components are dilutive is calculated independently for each period. We calculate diluted EPS using the treasury stock method and if-converted method. Under the treasury stock method, diluted EPS reflects the potential dilution that could occur if unvested RSUs result in the issuance of common stock. Under the if-converted method, diluted EPS reflects the potential dilution that could occur if our 9% Debentures result in the issuance of common stock. The determination of potentially issuable shares does not consider the satisfaction of the conversion requirements and the shares are included in the determination of diluted EPS as of the beginning of the period, if dilutive.

Table 6.1 reconciles the numerators and denominators used to calculate basic and diluted EPS.

Earnings per share
Table 6.1

	Three Months Ended March 31,			
(In thousands, except per share data)		**2023**		2022
Basic earnings per share:				
Net income	**$**	**154,547**	$	175,013
Weighted average common shares outstanding - basic		**290,989**		315,975
Basic earnings per share	**$**	**0.53**	$	0.55
Diluted earnings per share:				
Net income	**$**	**154,547**	$	175,013
Interest expense, net of tax [1]:				
9% Debentures		**375**		1,512
Diluted income available to common shareholders	**$**	**154,922**	$	176,525
Weighted average common shares outstanding - basic		**290,989**		315,975
Effect of dilutive securities:				
Unvested RSUs		**2,079**		2,029
9% Debentures		**1,644**		6,534
Weighted average common shares outstanding - diluted		**294,712**		324,538
Diluted earnings per share	**$**	**0.53**	$	0.54

(1) Interest expense for the three months ended March 31, 2023 and 2022, respectively, has been tax effected at a rate of 21%.

Note 7. Investments

Fixed income securities

Our fixed income securities classified as available-for-sale at March 31, 2023 and December 31, 2022 are shown in tables 7.1a and 7.1b below.

Details of fixed income securities by category as of March 31, 2023

Table 7.1a

(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 223,428**	**$ 31**	**$ (7,713)**	**$ 215,746**
Obligations of U.S. states and political subdivisions	**2,403,603**	**9,776**	**(201,039)**	**2,212,340**
Corporate debt securities	**2,341,134**	**1,733**	**(164,925)**	**2,177,942**
ABS	**124,175**	**15**	**(4,819)**	**119,371**
RMBS	**217,751**	**10**	**(22,256)**	**195,505**
CMBS	**250,589**	**20**	**(18,704)**	**231,905**
CLOs	**337,033**	**—**	**(6,459)**	**330,574**
Foreign government debt	**4,486**	**—**	**(659)**	**3,827**
Commercial paper	**76,846**	**—**	**(3)**	**76,843**
Total fixed income securities	**$ 5,979,045**	**$ 11,585**	**$ (426,577)**	**$ 5,564,053**

Details of fixed income securities by category as of December 31, 2022

Table 7.1b

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 145,581	$ 2	$ (9,683)	$ 135,900
Obligations of U.S. states and political subdivisions	2,400,261	4,866	(256,073)	2,149,054
Corporate debt securities	2,416,475	1,043	(196,377)	2,221,141
ABS	126,723	5	(6,041)	120,687
RMBS	223,743	10	(25,744)	198,009
CMBS	257,785	22	(20,591)	237,216
CLOs	337,656	5	(7,829)	329,832
Foreign government debt	4,486	—	(699)	3,787
Commercial paper	14,075	—	(3)	14,072
Total fixed income securities	$ 5,926,785	$ 5,953	$ (523,040)	$ 5,409,698

We had $12.1 million and $11.8 million of investments at fair value on deposit with various states as of March 31, 2023 and December 31, 2022, respectively, due to regulatory requirements of those state insurance departments.

In connection with our insurance and reinsurance activities within MAC and MIC, insurance subsidiaries of MGIC, we are required to maintain assets in trusts for the benefit of contractual counterparties, which had investments at fair value of $130.7 million and $128.4 million at March 31, 2023 and December 31, 2022, respectively.

The amortized cost and fair values of fixed income securities at March 31, 2023, by contractual maturity, are shown in table 7.2 below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most mortgage and asset-backed securities provide for periodic payments throughout their lives, they are listed in separate categories.

Fixed income securities maturity schedule
Table 7.2

	March 31, 2023	
(In thousands)	**Amortized cost**	**Fair Value**
Due in one year or less	**$ 667,113**	**$ 657,832**
Due after one year through five years	**1,362,173**	**1,300,280**
Due after five years through ten years	**1,831,636**	**1,693,166**
Due after ten years	**1,188,575**	**1,035,420**
	5,049,497	**4,686,698**
ABS	**124,175**	**119,371**
RMBS	**217,751**	**195,505**
CMBS	**250,589**	**231,905**
CLOs	**337,033**	**330,574**
Total as of March 31, 2023	**$ 5,979,045**	**$ 5,564,053**

Equity securities

The cost and fair value of investments in equity securities at March 31, 2023 and December 31, 2022 are shown in tables 7.3a and 7.3b below.

Details of equity security investments as of March 31, 2023
Table 7.3a

(In thousands)	**Cost**	**Gross Gains**	**Gross Losses**	**Fair Value**
Equity securities	**$ 15,946**	**$ 2**	**$ (1,425)**	**$ 14,523**

Details of equity security investments as of December 31, 2022
Table 7.3b

(In thousands)	Cost	Gross Gains	Gross Losses	Fair Value
Equity securities	$ 15,924	$ —	$ (1,784)	$ 14,140

Net gains (losses) on investments and other financial instruments

The net gains (losses) on investments and other financial instruments and the proceeds from the sale of fixed income securities classified as available-for-sale are shown in table 7.4 below.

Details of net gains (losses) on investments and other financial instruments
Table 7.4

	Three Months Ended March 31,	
(in thousands)	**2023**	2022
Fixed income securities		
Gains on sales	**59**	4,134
Losses on sales	**(4,133)**	(4,657)
Equity securities gains (losses)		
Market adjustment	**360**	(1,005)
Change in embedded derivative on Home Re Transactions (1)	**(3,976)**	733
Other		
Gains (losses) on sales	**6**	11
Market adjustment	**(14)**	12
Net gains (losses) on investments and other financial instruments	**(7,698)**	(772)
Proceeds from sales of fixed income securities	**32,181**	216,824
Proceeds from sales of equity securities	**—**	—

Other invested assets

Our other invested assets balance includes an investment in FHLB stock that is carried at cost, which due to its nature approximates fair value. Ownership of FHLB stock provides access to a secured lending facility, subject to certain conditions, which includes requirements to post collateral and to maintain a minimum investment in FHLB stock.

Unrealized investment losses

Tables 7.5a and 7.5b below summarize, for all available-for-sale investments in an unrealized loss position at March 31, 2023 and December 31, 2022, the aggregate fair value and gross unrealized loss by the length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in tables 7.5a and 7.5b are estimated using the process described in Note 8 - "Fair Value Measurements" to these consolidated financial statements and in Note 3 - "Significant Accounting Policies" to the consolidated financial statements in our 2022 Annual Report on Form 10-K.

Unrealized loss aging for securities by type and length of time as of March 31, 2023

Table 7.5a

	Less Than 12 Months		12 Months or Greater		**Total**	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	**Fair Value**	**Unrealized Losses**
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 59,935	$ (1,108)	$ 84,568	$ (6,605)	**$ 144,503**	**$ (7,713)**
Obligations of U.S. states and political subdivisions	615,219	(13,633)	962,757	(187,406)	**1,577,976**	**(201,039)**
Corporate debt securities	889,684	(28,273)	1,269,912	(136,652)	**2,159,596**	**(164,925)**
ABS	36,028	(245)	77,206	(4,574)	**113,234**	**(4,819)**
RMBS	4,078	(177)	207,258	(22,079)	**211,336**	**(22,256)**
CMBS	11,699	(714)	221,259	(17,990)	**232,958**	**(18,704)**
CLOs	17,068	(195)	313,506	(6,264)	**330,574**	**(6,459)**
Foreign government debt	—	—	3,828	(659)	**3,828**	**(659)**
Commercial paper	491	—	3,375	(3)	**3,866**	**(3)**
Total	$ 1,634,202	$ (44,345)	$ 3,143,669	$ (382,232)	**$ 4,777,871**	**$ (426,577)**

Unrealized loss aging for securities by type and length of time as of December 31, 2022

Table 7.5b

	Less Than 12 Months		12 Months or Greater		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 67,531	$ (3,583)	$ 76,246	$ (6,100)	$ 143,777	$ (9,683)
Obligations of U.S. states and political subdivisions	1,344,272	(157,903)	360,956	(98,170)	1,705,228	(256,073)
Corporate debt securities	1,488,255	(109,976)	758,732	(86,401)	2,246,987	(196,377)
ABS	53,201	(1,008)	67,073	(5,033)	120,274	(6,041)
RMBS	77,563	(8,572)	136,179	(17,172)	213,742	(25,744)
CMBS	166,973	(12,951)	70,792	(7,640)	237,765	(20,591)
CLOs	213,461	(4,644)	114,459	(3,185)	327,920	(7,829)
Foreign government debt	—	—	3,787	(699)	3,787	(699)
Commercial paper	—	—	3,816	(3)	3,816	(3)
Total	$ 3,411,256	$ (298,637)	$ 1,592,040	$ (224,403)	$ 5,003,296	$ (523,040)

There were 1,152 and 1,226 securities in an unrealized loss position at March 31, 2023 and December 31, 2022, respectively. Based on current facts and circumstances, we believe the unrealized losses as of March 31, 2023 presented in table 7.5a above are not indicative of the ultimate collectability of the current amortized cost of the securities. The unrealized losses in all categories of our investments at March 31, 2023 were primarily caused by an increase in prevailing interest rates. We also rely upon estimates of several credit and non-credit factors in our review and evaluation of individual investments to determine whether a credit impairment exists. All of the securities in an unrealized loss position are current with respect to their interest obligations.

Note 8. Fair Value Measurements

Recurring fair value measurements

The following describes the valuation methodologies generally used by the independent pricing sources, or by us, to measure financial instruments at fair value, including the general classification of such financial instruments pursuant to the valuation hierarchy.

- Fixed income securities:

  U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies: Securities with valuations derived from quoted prices for identical instruments in active markets that we can access are categorized in Level 1 of the fair value hierarchy. Securities valued by surveying the dealer community, obtaining relevant trade data, benchmark quotes and spreads and incorporating this information in the valuation process are categorized as Level 2 of the fair value hierarchy.

  Corporate Debt Securities are valued by surveying the dealer community, obtaining relevant trade data, benchmark quotes and spreads and incorporating this information into the valuation process. These securities are generally categorized in Level 2 of the fair value hierarchy.

  Obligations of U.S. States & Political Subdivisions are valued by tracking, capturing, and analyzing quotes for active issues and trades reported via the Municipal Securities Rulemaking Board records. Daily briefings and reviews of current economic conditions, trading levels, spread relationships, and the slope of the yield curve provide further data for evaluation. These securities are generally categorized in Level 2 of the fair value hierarchy.

  Residential Mortgage-Backed Securities ("RMBS") are valued by monitoring interest rate movements, and other pertinent data daily. Incoming market data is enriched to derive spread, yield and/or price data as appropriate, enabling known data points to be extrapolated for valuation application across a range of related securities. These securities are generally categorized in Level 2 of the fair value hierarchy.

  Commercial Mortgage-Backed Securities ("CMBS") are valued using techniques that reflect market participants' assumptions and maximize the use of relevant observable inputs including quoted prices for similar assets, benchmark yield curves and market corroborated inputs. Evaluation uses regular reviews of the inputs for securities covered, including executed trades, broker quotes, credit information, collateral attributes and/or cash flow waterfall as applicable. These securities are generally categorized in Level 2 of the fair value hierarchy.

  Asset-Backed Securities ("ABS") are valued using spreads and other information solicited from market buy-and-sell-side sources, including primary and secondary dealers, portfolio managers, and research analysts. Cash flows are generated for each tranche, benchmark yields are determined, and deal collateral performance and tranche level attributes including trade activity, bids, and offers are applied, resulting in tranche specific prices. These securities are generally categorized in Level 2 of the fair value hierarchy.

  Collateralized loan obligations ("CLOs") are valued by evaluating manager rating, seniority in the capital structure, assumptions about prepayment, default and recovery and their impact on cash flow generation. Loan level net asset values are determined and aggregated for tranches and as a final step prices are checked against available recent trade activity. These securities are generally categorized in Level 2 of the fair value hierarchy.

  Foreign government debt is valued by surveying the dealer community, obtaining relevant trade data, benchmark quotes and spreads and incorporating this information into the valuation process. These securities are generally categorized in Level 2 of the fair value hierarchy.

  Commercial Paper, which has an original maturity greater than 90 days*,* is valued using market data for comparable instruments of similar maturity and average yields. These securities are generally categorized in Level 2 of the fair value hierarchy.

- Equity securities: Consist of actively traded, exchange-listed equity securities, including exchange traded funds ("ETFs") and Bond Mutual Funds, with valuations derived from quoted prices for identical assets in active markets that we can access. These securities are valued in Level 1 of the fair value hierarchy.

- Cash Equivalents: Consists of money market funds and treasury bills with valuations derived from quoted prices for identical assets in active markets that we can access. These securities are valued in level 1 of the fair value hierarchy. Instruments in this category valued using market data for comparable instruments are classified as level 2 in the fair value hierarchy.

Assets measured at fair value, by hierarchy level, as of March 31, 2023 and December 31, 2022 are shown in tables 8.1a and 8.1b below. The fair value of the assets is estimated using the process described above, and more fully in Note 3 - “Significant Accounting Policies” to the consolidated financial statements in our 2022 Annual Report on Form 10-K.

Assets carried at fair value by hierarchy level as of March 31, 2023

Table 8.1a

(In thousands)	**Total Fair Value**	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 215,746**	$ 173,261	$ 42,485
Obligations of U.S. states and political subdivisions	**2,212,340**	—	2,212,340
Corporate debt securities	**2,177,942**	—	2,177,942
ABS	**119,371**	—	119,371
RMBS	**195,505**	—	195,505
CMBS	**231,905**	—	231,905
CLOs	**330,574**	—	330,574
Foreign government debt	**3,827**	—	3,827
Commercial paper	**76,843**	—	76,843
Total fixed income securities	**5,564,053**	173,261	5,390,792
Equity securities	**14,523**	14,523	—
Cash equivalents	**362,788** (1)	328,906	33,882
Total	**$ 5,941,364**	$ 516,690	$ 5,424,674

Assets carried at fair value by hierarchy level as of December 31, 2022

Table 8.1b

(In thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 135,900	$ 116,897	$ 19,003
Obligations of U.S. states and political subdivisions	2,149,054	—	2,149,054
Corporate debt securities	2,221,141	—	2,221,141
ABS	120,687	—	120,687
RMBS	198,009	—	198,009
CMBS	237,216	—	237,216
CLOs	329,832	—	329,832
Foreign government debt	3,787	—	3,787
Commercial paper	14,072	—	14,072
Total fixed income securities	5,409,698	116,897	5,292,801
Equity securities	14,140	14,140	—
Cash equivalents	328,756 (1)	324,129	4,627
Total	$ 5,752,594	$ 455,166	$ 5,297,428

(1) Includes restricted cash equivalents

Certain financial instruments, including insurance contracts, are excluded from these fair value disclosure requirements. The carrying values of cash (Level 1) and accrued investment income (Level 2) approximated their fair values. Additional fair value disclosures related to our investment portfolio are included in Note 7 – “Investments.”

In addition to the assets carried at fair value discussed above, we have embedded derivatives carried at fair value related to our Home Re Transactions that are classified as Other liabilities or Other assets in our consolidated balance sheets. The estimated fair value related to our embedded derivatives reflects the present value impact of the variation in investment income on the assets held by the reinsurance trusts and the contractual reference rate on the Home Re Transactions used to calculate the reinsurance premiums we estimate we will pay over the estimated remaining life. These liabilities or assets are categorized in Level 3 of the fair value hierarchy. At March 31, 2023 and December 31, 2022, the fair value of the embedded derivatives was a liability of $1.5 million and an asset of $2.5 million, respectively. (See Note 4 - "Reinsurance" for more information about our reinsurance programs.)

Real estate acquired through claim settlement is carried at fair values and is reported in "Other assets" on the consolidated balance sheet. These assets are categorized as Level 3 of the fair value hierarchy. Purchases of real estate acquired were $0.1 million and $0.5 million for the three months ended March 31, 2023, and 2022, respectively. Sales of real estate acquired were $1.2 million and $1.0 million for the three months ended March 31, 2023, and 2022, respectively.

Financial assets and liabilities not measured at fair value

Other invested assets include an investment in FHLB stock that is carried at cost, which due to restrictions that require it to be redeemed or sold only to the security issuer at par value, approximates fair value. The fair value of other invested assets is categorized as Level 2.

Financial liabilities include our outstanding debt obligations. The fair values of our 5.25% Notes and 9% Debentures were based on observable market prices. In all cases the fair values of the financial liabilities below are categorized as level 2.

Table 8.2 presents the carrying value and fair value of our financial assets and liabilities disclosed, but not carried, at fair value at March 31, 2023 and December 31, 2022.

Financial assets and liabilities not measured at fair value
Table 8.2

	March 31, 2023		December 31, 2022	
(In thousands)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Other invested assets	**$ 850**	**$ 850**	$ 850	$ 850
Financial liabilities				
5.25% Senior Notes	**642,092**	**617,994**	641,724	600,938
9% Convertible Junior Subordinated Debentures	**21,086**	**28,196**	21,086	28,085
Total financial liabilities	**$ 663,178**	**$ 646,190**	$ 662,810	$ 629,023

Note 9. Other Comprehensive Income

The pretax and related income tax benefit (expense) components of our other comprehensive income (loss) for the three months ended March 31, 2023 and 2022 are included in table 9.1 below.

Components of other comprehensive income (loss)
Table 9.1

(In thousands)	Three Months Ended March 31, 2023	2022
Net unrealized investment gains (losses) arising during the period	**$ 102,099**	$ (342,960)
Total income tax benefit (expense)	**(21,440)**	72,022
Net of taxes	**80,659**	(270,938)
Net changes in benefit plan assets and obligations	**6,776**	498
Total income tax benefit (expense)	**(1,423)**	(105)
Net of taxes	**5,353**	393
Total other comprehensive income (loss)	**108,875**	(342,462)
Total income tax benefit (expense)	**(22,863)**	71,917
Total other comprehensive income (loss), net of tax	**$ 86,012**	$ (270,545)

The pretax and related income tax benefit (expense) components of the amounts reclassified from our accumulated other comprehensive income (loss) ("AOCI") to our consolidated statements of operations for the three months ended March 31, 2023 and 2022 are included in table 9.2 below.

Reclassifications from AOCI
Table 9.2

(In thousands)	Three Months Ended March 31, 2023	2022
Reclassification adjustment for net realized (losses) gains[(1)]	**$ (4,164)**	$ 4,841
Income tax benefit (expense)	**874**	(1,017)
Net of taxes	**(3,290)**	3,824
Reclassification adjustment related to benefit plan assets and obligations [(2)]	**(8,932)**	(498)
Income tax benefit (expense)	**1,876**	105
Net of taxes	**(7,056)**	(393)
Total reclassifications	**(13,096)**	4,343
Income tax benefit (expense)	**2,750**	(912)
Total reclassifications, net of tax	**$ (10,346)**	$ 3,431

(1) Increases (decreases) Net realized investment gains (losses) on the consolidated statements of operations.

(2) Decreases (increases) Other underwriting and operating expenses, net on the consolidated statements of operations.

A rollforward of AOCI for the three months ended March 31, 2023, including amounts reclassified from AOCI, are included in table 9.3 below.

Rollforward of AOCI
Table 9.3

	Three Months Ended March 31, 2023		
(In thousands)	Net unrealized gains and (losses) on available-for-sale securities	Net benefit plan assets and (obligations) recognized in shareholders' equity	Total accumulated other comprehensive income (loss)
Balance at December 31, 2022, net of tax	$ (408,496)	$ (73,015)	$ (481,511)
Other comprehensive income (loss) before reclassifications	77,369	(1,703)	75,666
Less: Amounts reclassified from AOCI	(3,290)	(7,056)	(10,346)
Balance, March 31, 2023, net of tax	**$ (327,837)**	**$ (67,662)**	**$ (395,499)**

Note 10. Benefit Plans

Table 10.1 provides the components of net periodic benefit cost for our pension, supplemental executive retirement and other postretirement benefit plans for the three months ended March 31, 2023 and 2022.

Components of net periodic benefit cost

Table 10.1

	Three Months Ended March 31,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefit Plans	
(In thousands)	2023	2022	2023	2022
Company service cost	**$ —**	$ 1,757	**$ 386**	$ 348
Interest cost	**3,682**	2,877	**398**	177
Expected return on plan assets	**(3,581)**	(4,952)	**(2,063)**	(2,625)
Amortization of:				
Net actuarial losses (gains)	**597**	1,183	**(64)**	(754)
Prior service cost (credit)	**86**	(53)	**465**	122
Cost of settlements and curtailments	**7,847**	—	**—**	—
Net periodic benefit cost (benefit)	**$ 8,631**	$ 812	**$ (878)**	$ (2,732)

Effective January 1, 2023, the defined benefit pension plan and supplemental executive retirement plan are frozen (no future benefits will be accrued for participants due to employment and no new participants will be added). Participants in these plans are fully vested in their benefits.

Note 11. Loss Reserves

We establish case reserves and LAE reserves on delinquent loans that were reported to us as two or more payments past due and have not become current or resulted in a claim payment. Such loans are referred to as being in our delinquency inventory. Case reserves are established by estimating the number of loans in our delinquency 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.

IBNR reserves are established for estimated losses from delinquencies we estimate have occurred prior to the close of an accounting period, but have not yet been reported to us. IBNR reserves are also established using estimated claim rates and claim severities.

Estimation of losses is inherently judgmental. Even in a stable environment, changes to our estimates could result in a material impact to our consolidated results of operations and financial position. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment and the current and future strength of local housing markets; exposure on insured loans; the amount of time between delinquency and claim filing (all else being equal, the longer the period between delinquency and claim filing, the greater the severity); and curtailments and rescissions. 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, the impact of past and future government initiatives and actions taken by the GSEs (including mortgage forbearance programs and foreclosure moratoriums), and a drop in housing values which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Loss reserves in future periods will also be dependent on the number of loans reported to us as delinquent.

Changes to our estimates could result in a material impact to our consolidated results of operations and financial position, even in a stable economic environment. Given the uncertainty of the macroeconomic environment, including the effectiveness of loss mitigation efforts, change in home prices, and changes in unemployment, our loss reserve estimates may continue to be impacted.

In considering the potential sensitivity of the factors underlying our estimate of loss reserves, it is possible that even a relatively small change in our estimated claim rate or claim severity could have a material impact on loss reserves and, correspondingly, on our consolidated results of operations even in a stable economic environment. For example, as of March 31, 2023, assuming all other factors remain constant, a $1,000 increase/decrease in the average severity reserve factor would change the loss reserve amount by approximately +/- $9 million. A one percentage point increase/decrease in the average claim rate reserve factor would change the loss reserve amount by approximately +/- $15 million.

The "Losses incurred" section of table 11.1 below shows losses incurred on delinquencies that occurred in the current year and in prior years. The amount of losses incurred relating to delinquencies that occurred in the current year represents the estimated amount to be ultimately paid on such delinquencies. The amount of losses incurred relating to delinquencies that occurred in prior years represents the difference between the actual claim rate and claim severity associated with those delinquencies resolved in the current year compared to the estimated claim rate and claim severity at the prior year-end, as well as a re-estimation of amounts to be ultimately paid on delinquencies continuing from the end of the prior year. This re-estimation of the claim rate and claim severity is the result of our review of current trends in the delinquency inventory, such as percentages of delinquencies that have resulted in a claim, the amount of the claims relative to the average loan exposure, changes in the relative level of delinquencies by geography and changes in average loan exposure.

Losses incurred on delinquencies that occurred in the current year increased for the three months ended March 31, 2023, compared to the same period last year. The increase is primarily due to an increase in estimated severity on current year delinquencies.

For the three months ended March 31, 2023 and March 31, 2022 we experienced favorable loss development of $40.8 million and $55.7 million, respectively, on previously received delinquencies. The favorable development for both periods primarily resulted from a decrease in the expected claim rate on previously received delinquencies. Home price appreciation experienced in recent years has allowed borrowers to cure their delinquencies through the sale of their property.

The “Losses paid” section of table 11.1 below shows the amount of losses paid on delinquencies that occurred in the current year and losses paid on delinquencies that occurred in prior years. Foreclosure moratoriums and forbearance plans in place have increased the average time it takes to receive a claim.

Table 11.1 provides a reconciliation of beginning and ending loss reserves as of and for the three months ended March 31, 2023 and 2022.

Development of reserves for losses and loss adjustment expenses

Table 11.1

	Three Months Ended March 31,	
(In thousands)	**2023**	2022
Reserve at beginning of period	**$ 557,988**	$ 883,522
Less reinsurance recoverable	**28,240**	66,905
Net reserve at beginning of period	**529,748**	816,617
Losses incurred:		
Losses and LAE incurred in respect of delinquency notices received in:		
Current year	**47,212**	36,344
Prior years [1]	**(40,766)**	(55,658)
Total losses incurred	**6,446**	(19,314)
Losses paid:		
Losses and LAE paid in respect of delinquency notices received in:		
Current year	**—**	—
Prior years	**10,440**	10,748
Total losses paid	**10,440**	10,748
Net reserve at end of period	**525,754**	786,555
Plus reinsurance recoverable	**32,761**	64,717
Reserve at end of period	**$ 558,515**	$ 851,272

(1) A positive number for prior year loss reserve development indicates a deficiency of prior year reserves. A negative number for prior year loss reserve development indicates a redundancy of prior year loss reserves. See the following table for more information about prior year loss reserve development.

The prior year loss reserve development for the three months of March 31, 2023 and 2022 is shown in table 11.2 below.

Reserve development on previously received delinquencies

Table 11.2

	Three Months Ended March 31,	
(In thousands)	**2023**	2022
Increase (decrease) in estimated claim rate on primary defaults	**$ (43,431)**	$ (55,777)
Change in estimates related to severity on primary defaults, pool reserves, LAE reserves, reinsurance, and other	**2,665**	119
Total prior year loss development [1]	**$ (40,766)**	$ (55,658)

(1) A positive number for prior year loss reserve development indicates a deficiency of prior year loss reserves. A negative number for prior year loss reserve development indicates a redundancy of prior year loss reserves.

Delinquency inventory

A rollforward of our primary delinquency inventory for the three months ended March 31, 2023 and 2022 appears in table 11.3 below. The information concerning new notices and cures is compiled from monthly reports received from loan servicers. The level of new notice and cure activity reported in a particular month can be influenced by, among other things, the date on which a servicer generates its report, the number of business days in a month and transfers of servicing between loan servicers.

Delinquency inventory rollforward

Table 11.3

	Three Months Ended March 31,	
	2023	2022
Delinquency inventory at beginning of period	**26,387**	33,290
New notices	**11,297**	10,703
Cures	**(12,607)**	(13,200)
Paid claims	**(311)**	(322)
Rescissions and denials	**(9)**	(9)
Delinquency inventory at end of period	**24,757**	30,462

Table 11.4 below shows the number of consecutive months a borrower is delinquent. Historically as a delinquency ages it is more likely to result in a claim.

Primary delinquency inventory - consecutive months delinquent

Table 11.4

	March 31, 2023	December 31, 2022	March 31, 2022
3 months or less	**7,573**	8,820	7,382
4-11 months	**8,563**	8,217	8,131
12 months or more [(1)]	**8,621**	9,350	14,949
Total	**24,757**	26,387	30,462
3 months or less	**31 %**	33 %	24 %
4-11 months	**34 %**	31 %	27 %
12 months or more	**35 %**	36 %	49 %
Total	**100 %**	100 %	100 %
Primary claims received inventory included in ending delinquent inventory	**296**	267	217

(1) Approximately 38%, 36%, and 23% of the primary delinquency inventory delinquent for 12 consecutive months or more has been delinquent for at least 36 consecutive months as of March 31, 2023, December 31, 2022, and March 31, 2022, respectively.

Premium refunds

Our estimate of premiums to be refunded on expected claim payments is accrued for separately in “Other Liabilities” on our consolidated balance sheets and approximated $24.2 million and $25.5 million at March 31, 2023 and December 31, 2022, respectively.

Note 12. Shareholders' Equity

Share repurchase programs

Repurchases of our common stock may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. In the first three months of 2023, we repurchased 5.8 million shares at an average cost of $13.43 per share, which included commissions. In 2022, we repurchased approximately 27.8 million shares of our common stock, at an average cost of $13.89 per share, which included commissions. At March 31, 2023, we had $36 million remaining under a share repurchase program approved by our Board of Directors in 2021 that expires at year end 2023. In April 2023, we repurchased an additional 1.7 million shares totaling $24.4 million under the remaining authorization. Also in April 2023, our board of directors approved a share repurchase program, authorizing us to repurchase an additional $500 million of common stock at any time prior to July 1, 2025.

Cash dividends

In the first quarter of 2023, we paid quarterly cash dividends of $0.10 per share which totaled $29.6 million. On April 27, 2023, the Board of Directors declared a quarterly cash dividend to holders of the company's common stock of $0.10 per share to shareholders of record on May 11, 2023, payable on May 25, 2023.

Note 13. Share-Based Compensation

We have certain share-based compensation plans. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period which generally corresponds to the vesting period. Awards under our plans generally vest over periods ranging from one to three years, although awards to our non-employee directors vest immediately.

Table 13.1 shows the number of restricted stock units (RSUs) granted to employees and non-employee directors and the weighted average fair value per share during the periods presented (shares in thousands).

Restricted stock unit grants

Table 13.1

	Three months ended March 31,			
	2023		2022	
	RSUs Granted *(in thousands)*	**Weighted Average Share Fair Value**	RSUs Granted *(in thousands)*	Weighted Average Share Fair Value
RSUs subject to performance conditions (1)	**949**	**$ 14.17**	848	$ 15.46
RSUs subject only to service conditions	**354**	**14.17**	316	15.46
Non-employee director RSUs	**106**	**14.17**	97	15.46

(1) Shares granted are subject to performance conditions under which the target number of shares granted may vest up to 200%.

Note 14. Statutory Information

Statutory Capital Requirements

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the RIF (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the “State Capital Requirements” and, together with the GSE Financial Requirements, as the “Financial Requirements.” While they vary among jurisdictions, the most common State Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if (i) the percentage decrease in capital exceeds the percentage decrease in insured risk, or (ii) the percentage increase in capital is less than the percentage increase in insured risk. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position (“MPP”). MGIC’s “policyholder position” includes its net worth or surplus, and its contingency loss reserve.

At March 31, 2023, MGIC’s risk-to-capital ratio was 9.7 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $3.7 billion above the required MPP of $2.1 billion. The calculation of our risk-to-capital ratio and MPP reflect credit for the risk ceded under our reinsurance transactions. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the financial requirements of the PMIERs, MGIC may terminate the reinsurance agreements without penalty.

Dividend restrictions

MGIC is subject to statutory regulations as to payment of dividends. The maximum amount of dividends that MGIC may pay in any twelve-month period without regulatory approval by the OCI is the lesser of adjusted statutory net income or 10% of statutory policyholders’ surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years. The maximum dividend that could be paid is reduced by dividends paid in the twelve months preceding the dividend payment date. Before making any dividend payments, we will notify the OCI to ensure it does not object. In May 2023, MGIC paid a $300 million dividend to our holding company.

The OCI recognizes only statutory accounting principles prescribed, or practices permitted by the State of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company. The OCI has adopted certain prescribed accounting practices that differ from those found in other states. Specifically, Wisconsin domiciled companies record changes in the contingency loss reserves through their income statement as a change in underwriting deduction. As a result, in periods in which MGIC is increasing contingency loss reserves, statutory net income is reduced.

Statutory Financial Information

The statutory net income, policyholders’ surplus, and contingency reserve liability of our insurance subsidiaries, including MGIC, are shown in table 14.1.

Financial information of our insurance subsidiaries (including MGIC)
Table 14.1

	As of and for the Three Months Ended March 31,	
(In thousands)	**2023**	2022
Statutory net income	**$ 54,612**	$ 96,018
Statutory policyholders' surplus	**992,075**	1,319,633
Contingency reserve	**4,803,752**	4,263,599

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following is management’s discussion and analysis of the financial condition and results of operations of MGIC Investment Corporation for the first quarter of 2023. As used below, “we” and “our” refer to MGIC Investment Corporation’s consolidated operations. This form 10-Q should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2022. See the “Glossary of terms and acronyms” for definitions and descriptions of terms used throughout this MD&A. Our revenues and losses could be affected by the Risk Factors referred to under “Forward Looking Statements and Risk Factors” below and they are an integral part of the MD&A.

Forward Looking and Other Statements

As discussed under “Forward Looking Statements and Risk Factors” below, actual results may differ materially from the results contemplated by forward looking statements. These forward looking statements speak only as of the date of this filing and are subject to change without notice. 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 current as of any time other than the time at which this document was filed with the Securities and Exchange Commission.

Overview

Summary financial results of MGIC Investment Corporation

	Three Months Ended March 31,		
(In millions, except per share data, unaudited)	**2023**	2022	% Change
Selected statement of operations data			
Net premiums earned	**$ 242.0**	$ 255.2	(5)
Investment income, net of expenses	**49.2**	38.3	28
Losses incurred, net	**6.4**	(19.3)	N/M
Other underwriting and operating expenses, net	**70.1**	54.7	28
Loss on debt extinguishment	**—**	22.1	N/M
Income before tax	**195.6**	219.4	(11)
Provision for income taxes	**41.1**	44.4	(7)
Net income	**154.5**	175.0	(12)
Diluted income per share	**$ 0.53**	$ 0.54	(2)
Non-GAAP Financial Measures [(1)]			
Adjusted pre-tax operating income	**$ 199.7**	$ 242.1	(18)
Adjusted net operating income	**157.8**	192.9	(18)
Adjusted net operating income per diluted share	**$ 0.54**	$ 0.60	(10)

[(1)] See “Explanation and reconciliation of our use of Non-GAAP financial measures.”

Summary of first quarter 2023 results

Comparative quarterly results

We recorded first quarter 2023 net income of $154.5 million, or $0.53 per diluted share. Net income decreased by $20.5 million from net income of $175.0 million in the prior year. The decrease is primarily due to increases in losses incurred and other underwriting and operating expenses, and a decrease in net premiums earned. This was partially offset by decreases in loss on debt extinguishment and an increase in investment income, net of expenses. Diluted income per share decreased primarily due to a decrease in net income, partially offset by a decrease in the number of diluted weighted shared outstanding.

Adjusted net operating income for the first quarter 2023 was $157.8 million (Q1 2022: $192.9 million) and adjusted net operating income per diluted share was $0.54 (Q1 2022: $0.60). The decrease in 2023 adjusted net operating income and adjusted net operating income per diluted share compared to 2022 primarily reflects a decrease in adjusted net operating income, partially offset by a decrease in the number of diluted weighted shared outstanding.

Premiums earned for the three months ended March 31, 2023 were $242.0 million, compared with $255.2 million, for the same period last year. The decrease in premiums earned for the three months ended March 31, 2023, compared with the prior year is primarily due to an increase in ceded premiums.

Net investment income in the three months ended March 31, 2023 was $49.2 million, compared with $38.3 million, in the prior year. Net investment income was impacted by higher average investment yields, partially offset by a decrease in the investment portfolio.

Losses incurred, net for the first quarter of 2023 were $6.4 million, an increase of $25.8 million compared to the first quarter of 2022 losses incurred, net of $(19.3) million. For the three months ended March 31, 2023, new delinquency notices added approximately $47.2 million, offset by our re-estimation of loss reserves on previously received delinquency notices resulting in favorable development of approximately $40.8 million. For the three months ended March 31, 2022, new delinquency notices added approximately $36.3 million, offset by our re-estimation of loss reserves on previously received delinquency notices resulting in favorable development of approximately $55.7 million. The favorable development for both periods primarily resulted from a decrease in the expected claim rate on previously received delinquencies. Home price appreciation experienced in recent years has allowed borrowers to cure their delinquencies through the sale of their property.

Underwriting and other expenses, net for the three months ended March 31, 2023 and 2022, were $70.1 million and $54.7 million, respectively. Underwriting and other expenses, net increased during the three months ended March 31, 2023 compared with the same period in the prior year primarily due to an increase in pension expenses as a result of settlement accounting charges recognized in the first quarter of 2023 and an increase in performed based employee compensation.

For the three months ended March 31, 2022, we recorded a loss on debt extinguishment of $22.1 million, related to the repurchase of a portion our 9% Debenture, and the repayment of the outstanding principal balance of the FHLB Advance. We did not repurchase any of our outstanding debt obligations in 2023.

Capital

MGIC dividend payments to our holding company

The ability of MGIC to pay dividends is restricted by insurance regulation. Amounts in excess of prescribed limits are deemed “extraordinary” and may not be paid if disapproved by the OCI. A dividend is extraordinary when the proposed dividend amount, plus dividends paid in the twelve months preceding the dividend payment date exceed the ordinary dividend level. In 2023, MGIC can pay $92 million of ordinary dividends without OCI approval, before taking into consideration dividends paid in the preceding twelve months. We did not make dividend payments to the holding company during the three months ended March 31, 2023 and 2022, respectively. Future dividend payments to the holding company will continue to be determined in consultation with the board.

Share repurchase programs

Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. In the three months of 2023, we repurchased 5.8 million shares of common stock, using approximately $77.8 million of holding company resources. As of March 31, 2023, we had $36 million of authorization remaining to repurchase our common stock through the end of 2023 under a share repurchase program approved by our Board of Directors in October 2021. In April 2023, our board of directors approved a share repurchase program, authorizing us to repurchase an additional $500 million of common stock at any time prior to July 1, 2025. As of March 31, 2023, we had approximately 288 million shares of common stock outstanding. We repurchased 8.5 million shares during the three months ended March 31, 2022.

Dividends to shareholders

In the first quarter of 2023, we paid quarterly cash dividends of $0.10 per share which totaled $29.6 million. On April 27, 2023, the Board of Directors declared a quarterly cash dividend to holders of the company’s common stock of $0.10 per share to shareholders of record on May 11, 2023, payable on May 25, 2023.

GSEs

We must comply with a GSE’s PMIERs to be eligible to insure loans delivered to or purchased by that GSE. The PMIERs include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERs require a mortgage insurer’s "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book of risk in force, calculated from tables of factors with several risk dimensions, reduced for credit given for risk ceded under reinsurance transactions, and subject to a floor amount). Based on our application of the PMIERs as of March 31, 2023, MGIC’s Available Assets totaled $5.9 billion, or $2.4 billion in excess of its Minimum Required Assets.

The PMIERs generally require us to hold significantly more Minimum Required Assets for delinquent loans than for performing loans and the Minimum Required Assets required to be held increases as the number of payments missed on a delinquent loan increases.

If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our NIW, the substantial majority of which is for loans delivered to or purchased by the GSEs. In addition to the increase in Minimum Required Assets associated with delinquent loans, factors that may negatively impact MGIC’s ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs may make the PMIERs more onerous in the future. The PMIERs provide that the factors that determine Minimum Required Assets will be updated periodically, or as needed if there is a significant change in macroeconomic conditions or loan performance. We do not anticipate that the regular periodic updates will occur more frequently than once every two years. The PMIERs state that the GSEs will provide notice 180 days prior to the effective date of updates to the factors; however, the GSEs may amend any portion of the PMIERs at any time.
- The PMIERS may be changed in response to the final regulatory capital framework for the GSEs which was established in February 2022.
- Our future operating results may be negatively impacted by the matters discussed in our Risk Factors. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby creating a shortfall in Available Assets.
- Should capital be needed by MGIC in the future, capital contributions from our holding company may not be available due to competing demands on holding company resources, including for repayment of debt.

Our reinsurance transactions enable us to earn higher returns on our business than we would without them because they reduce the Minimum Required Assets, we must hold under PMIERs. However, reinsurance may not always be available to us; or available on similar terms, and our reinsurance subjects us to counterparty credit risk. Our access to reinsurance may be disrupted and the terms under which we are able to obtain reinsurance may be less attractive than in the past due to volatility stemming from circumstances such as higher interest rates, increased inflation, global events such as the Russia-Ukraine war, and other factors. In 2023, execution of transactions for XOL reinsurance through the ILN market has been more challenging, with increased pricing, transactions being down-sized, and generally fewer transactions being executed by mortgage insurers.

The calculated credit for XOL Transactions under PMIERs is generally based on the PMIERs requirement of the covered loans and the attachment and detachment point of the coverage. PMIERs credit is generally not given for the reinsured risk above the PMIERs requirement. Our existing reinsurance transactions are subject to periodic review by the GSEs and there is a risk we will not receive our current level of credit in future periods for the risk ceded under them. In addition, we may not receive the same level of credit under future transactions that we receive under existing transactions. If MGIC is not allowed certain levels of credit under the PMIERs, under certain circumstances, MGIC may terminate the reinsurance transactions without penalties.

GSE reform

The FHFA has been the conservator of the GSEs since 2008 and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential housing finance system through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change, including through administrative action, in ways that have a material adverse effect on us and that the charters of the GSEs are changed by new federal legislation.

It is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the residential housing finance system in the future. The timing and impact on our business of any resulting changes is uncertain. Many of the proposed changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

For additional information about the business practices of the GSEs, see our 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.”

State Regulations

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to its RIF (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the “State Capital Requirements.” While they vary among jurisdictions, the most common State Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if (i) the percentage decrease in capital exceeds the percentage decrease in insured risk, or (ii) the percentage increase in capital is less than the percentage increase in insured risk. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires an MPP. MGIC’s “policyholder position” includes its net worth or surplus and its contingency reserve.

At March 31, 2023, MGIC’s risk-to-capital ratio was 9.7 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $3.7 billion above the required MPP of $2.1 billion. The calculation of our risk-to-capital ratio and MPP reflect full credit for the risk ceded under our reinsurance transactions. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded under such transactions. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance transactions, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, refer to our risk factor titled “State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” for more information about matters that could negatively impact our compliance with State Capital Requirements.

The NAIC previously announced plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. In 2019, a working group of state regulators released an exposure draft of a revised Mortgage Guaranty Insurance Model Act and a risk-based capital framework to establish capital requirements for mortgage insurers, although certain items were not completely addressed by the framework, including the treatment of ceded risk and minimum capital floors. In October 2022, the NAIC working group released a revised exposure draft of the Mortgage Guaranty Insurance Model Act that does not include changes to the capital requirements of the existing Model Act. The working group has continued to revise the draft Model Act and in March 2023 indicated that a final version is expected to be approved by the NAIC sometime during 2023, but it is not expected that the final version will include substantive changes to the capital requirements of the existing Model Act. It is uncertain when the revised Model Act will be adopted in any jurisdiction and whether any changes will be made by legislatures prior to such adoption.

Factors affecting our results

Our current and future business, results of operations and financial condition are impacted by macroeconomic conditions, such as rising interest rates, home prices, housing demand, level of employment, inflation, pandemics, restrictions and costs on mortgage credit, and other factors. For additional information on how on our business may be impacted see our Risk Factor titled “Downturns in the domestic economy or declines in home prices may result in more homeowners defaulting and our losses increasing, with a corresponding decrease in our returns.”

The future effects of changing climatic conditions on our business are uncertain. For information about possible effects, please refer to our Risk Factor titled “Pandemics, hurricanes and other natural disasters may impact our incurred losses, the amount and timing of paid claims, our inventory of notices of default and our Minimum Required Assets under PMIERs.”

Our results of operations are affected by:

Premiums written and earned

Premiums written and earned in a year are influenced by:

- NIW, which increases IIF. Many factors affect NIW, including the volume of low down payment home mortgage originations and competition to provide credit enhancement on those mortgages from the FHA, the VA, other mortgage insurers, and other alternatives to mortgage insurance, including GSE programs that may reduce or eliminate the demand for mortgage insurance. NIW does not include loans previously insured by us that are modified, such as loans modified under HARP.

- Cancellations, which reduce IIF. 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, current home values compared to values when the loans in the in force book were insured and the terms on which mortgage credit is available. Home price appreciation can give homeowners the right to cancel mortgage insurance on their loans if sufficient home equity is achieved. Cancellations also result from policy rescissions, which require us to return any premiums received on the rescinded policies and claim payments, which require us to return any premium received on the related policies from the date of default on the insured loans. Cancellations of single premium policies, which are generally non-refundable, result in immediate recognition of any remaining unearned premium.

- Premium rates, which are affected by product type, competitive pressures, the risk characteristics of the insured loans, the percentage of coverage on the insured loans, and PMIERs capital requirements. The substantial majority of our monthly and annual mortgage insurance premiums are under premium plans for which, for the first ten years of the policy, the amount of premium is determined by multiplying the initial premium rate by the original loan balance; thereafter, the premium rate resets to a lower rate used for the remaining life of the policy. The remainder of our monthly and annual premiums are under premium plans for which premiums are determined by a fixed percentage of the loan's amortizing balance over the life of the policy.

- Premiums ceded, net of profit commission, under our QSR Transactions and premiums ceded under our XOL Transactions are primarily affected by the percentage of our IIF subject to our reinsurance transactions. The profit commission under our QSR Transactions also varies inversely with the level of ceded losses incurred on a "dollar for dollar" basis and can be eliminated at ceded loss levels higher than what we have experienced on our QSR Transactions. As a result, lower levels of losses incurred result in a higher profit commission and less benefit from ceded losses incurred; higher levels of losses incurred result in more benefit from ceded losses incurred and a lower profit commission (or for certain levels of accident year loss ratios, its elimination). (See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance transactions.)

Premiums earned are generated by the insurance that is in force during all or a portion of the period. A change in the average IIF 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 the factors discussed above.

Investment income

Our investment portfolio is composed principally of investment grade fixed income securities. 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 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 written, investment income, net claim payments and expenses, and cash provided by (or used for) non-operating activities, such as debt or stock issuances or repurchases, and dividends.

Losses incurred

Losses incurred are the current expense that reflects claim payments, costs of settling claims, and changes in our estimates of payments that will ultimately be made as a result of delinquencies on insured loans. As explained under "Critical Accounting Estimates" in our 2022 10-K MD&A, except in the case of a premium deficiency reserve, we recognize an estimate of this expense only for delinquent loans. Prior to the COVID-19 pandemic, 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. The state of the economy, local housing markets and various other factors, including the COVID-19 pandemic, may result in delinquencies not following the typical pattern. 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 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 incurred losses.

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

- The rate at which we rescind policies or curtail claims. Our estimated loss reserves incorporate our estimates of future rescissions of policies and curtailments of claims, and reversals of rescissions and curtailments. We collectively refer to such rescissions and denials as "rescissions" and variations of this term. We call reductions to claims "curtailments."

- The distribution of claims over the life of a book. Historically, the first few 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 value declines can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. See further information under "Mortgage insurance earnings and cash flow cycle" below.

- Losses ceded under reinsurance transactions. See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance transactions.

Underwriting and other expenses

Underwriting and other expenses includes items such as employee compensation, fees for professional and consulting services, depreciation and maintenance expense, and premium taxes, and are reported net of ceding commissions associated with our QSR Transactions. Employee compensation expenses are variable due to share-based compensation, changes in benefits, and changes in headcount (which can fluctuate due to volume of NIW). See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of ceding commission on our QSR Transactions.

Interest expense

Interest expense reflects the interest associated with our consolidated outstanding debt obligations discussed in Note 3 - "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" below.

Other

Certain activities that we do not consider being part of our fundamental operating activities may also impact our results of operations and are described below.

Gains (losses) on investments and other financial instruments

- Fixed income securities. Investment gains and losses reflect the difference between the amount received on the sale of a fixed income security and the fixed income security's cost basis, as well as any credit allowances and any impairments on securities we intend to sell prior to recovery of its amortized cost basis. The amount received on the 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.

- Equity securities. Investment gains and losses are accounted for as a function of the periodic change in fair value.

- Financial instruments. Investment gains and losses on the embedded derivative on our Home Re Transactions reflect the present value impact of the variation in investment income on assets on the insurance-linked notes held by the reinsurance trusts and the contractual reference rate used to calculate the reinsurance premiums we estimate we will pay over the estimated remaining life.

Loss on debt extinguishment

Gains and losses on debt extinguishment result from discretionary activities that are undertaken to enhance our capital position, improve our debt profile, and/or reduce potential dilution from our outstanding convertible debt. Extinguishing our outstanding debt obligations early through these discretionary activities may result in losses primarily driven by the payment of consideration in excess of our carrying value, and the write off of unamortized debt issuance costs on the extinguished portion of the debt.

Refer to "Explanation and reconciliation of our use of Non-GAAP financial measures" below to understand how these items impact our evaluation of our core financial performance.

Mortgage insurance earnings and cash flow cycle

In general, the majority of any underwriting profit 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 following the year the book was written. Subsequent years of a book may result in either underwriting profit or underwriting losses. This pattern of results typically occurs because relatively few of the incurred losses on delinquencies 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. The typical pattern is also a function of premium rates generally resetting to lower levels after ten years. The state of the economy, local housing markets and various other factors may result in delinquencies not following the typical pattern.

Cybersecurity

As part of our business, we maintain large amounts of confidential and proprietary information, including personal information of consumers and employees, on our servers and those of cloud computing services. Federal and state laws designed to promote the protection of such information require businesses that collect or maintain personal information to adopt information security programs, and to notify individuals, and in some jurisdictions, regulatory authorities, of security breaches involving personally identifiable information. All information technology systems are potentially vulnerable to damage or interruption from a variety of sources, including by cyber attacks, such as those involving ransomware. The Company discovers vulnerabilities and regularly blocks a high volume of attempts to gain unauthorized access to its systems. Globally, attacks are expected to continue accelerating in both frequency and sophistication with increasing use by actors of tools and techniques that will hinder the Company's ability to identify, investigate and recover from incidents. Such attacks may also increase as a result of retaliation by Russia in response to actions taken by the U.S. and other countries in connection with Russia's military invasion of Ukraine. The Company operates under a hybrid workforce model and such model may be more vulnerable to security breaches.

While we have information security policies and systems in place to secure our information technology systems and to prevent unauthorized access to or disclosure of sensitive information, there can be no assurance with respect to our systems and those of our third-party vendors that unauthorized access to the systems or disclosure of the sensitive information, either through the actions of third parties or employees, will not occur. Due to our reliance on information technology systems, including ours and those of our customers and third-party service providers, and to the sensitivity of the information that we maintain, unauthorized access to the systems or disclosure of the information could adversely affect our reputation, severely disrupt our operations, result in a loss of business and expose us to material claims for damages and may require that we provide free credit monitoring services to individuals affected by a security breach.

Explanation and reconciliation of our use of non-GAAP financial measures

Non-GAAP financial measures

We believe that use of the Non-GAAP financial measures of adjusted pre-tax operating income (loss), adjusted net operating income (loss) and adjusted net operating income (loss) per diluted share facilitate the evaluation of the company's core financial performance thereby providing relevant information to investors. These measures are not recognized in accordance with GAAP and should not be viewed as alternatives to GAAP measures of performance.

Adjusted pre-tax operating income (loss) is defined as GAAP income (loss) before tax, excluding the effects of net realized investment gains (losses), gain and losses on debt extinguishment, and infrequent or unusual non-operating items where applicable.

Adjusted net operating income (loss) is defined as GAAP net income (loss) excluding the after-tax effects of net realized investment gains (losses), gain and losses on debt extinguishment and infrequent or unusual non-operating items where applicable. The amounts of adjustments to components of pre-tax operating income (loss) are tax effected using a federal statutory tax rate of 21%.

Adjusted net operating income (loss) per diluted share is calculated in a manner consistent with the accounting standard regarding earnings per share by dividing (i) adjusted net operating income (loss) after making adjustments for interest expense on convertible debt, whenever the impact is dilutive by (ii) diluted weighted average common shares outstanding, which reflects share dilution from unvested restricted stock units and from convertible debt when dilutive under the "if-converted" method.

Although adjusted pre-tax operating income (loss) and adjusted net operating income (loss) exclude certain items that have occurred in the past and are expected to occur in the future, the excluded items represent items that are: (1) not viewed as part of the operating performance of our primary activities; or (2) impacted by both discretionary and other economic or regulatory factors and are not necessarily indicative of operating trends, or both. These adjustments, along with the reasons for their treatment, are described below. Trends in the profitability of our fundamental operating activities can be more clearly identified without the fluctuations of these adjustments. Other companies may calculate these measures differently. Therefore, their measures may not be comparable to those used by us.

(1) *Net realized investment gains (losses).* The recognition of net realized investment gains or losses can vary significantly across periods as the timing of individual securities sales is highly discretionary and is influenced by such factors as market opportunities, our tax and capital profile, and overall market cycles.

(2) *Gains and losses on debt extinguishment.* Gains and losses on debt extinguishment result from discretionary activities that are undertaken to enhance our capital position, improve our debt profile, and/or reduce potential dilution from our outstanding convertible debt.

(3) *Infrequent or unusual non-operating items*. Items that are non-recurring in nature and are not part of our primary operating activities.

Non-GAAP reconciliations

Reconciliation of Income before tax / Net income to Adjusted pre-tax operating income / Adjusted net operating income

	Three Months Ended March 31,					
	2023			2022		
(In thousands, except per share amounts)	**Pre-tax**	**Tax effect**	**Net (after-tax)**	Pre-tax	Tax effect	Net (after-tax)
Income before tax / Net income	**$ 195,604**	**41,057**	**$ 154,547**	$ 219,439	44,426	$ 175,013
Adjustments:						
Loss on debt extinguishment	**—**	**—**	**—**	22,107	4,642	17,465
Net realized investment (gains) losses	**4,068**	**854**	**3,214**	511	107	404
Adjusted pre-tax operating income / Adjusted net operating income	**$ 199,672**	**$ 41,911**	**$ 157,761**	$ 242,057	$ 49,175	$ 192,882

Reconciliation of Net income per diluted share to Adjusted net operating income per diluted share

	2023	2022	
Weighted average diluted shares outstanding	**294,712**	324,538	
Net income per diluted share	**$ 0.53**	$ 0.54	
Loss on debt extinguishment	**—**	0.05	
Net realized investment (gains) losses	**0.01**	—	
Adjusted net operating income per diluted share	**$ 0.54**	$ 0.60	(1)

(1) Does not foot due to rounding.

Mortgage Insurance Portfolio

Mortgage originations

The total amount of mortgage originations is generally influenced by the level of home sales, interest rates, the percentage of homes purchased for cash, and the level of refinance activity. PMI market share of total mortgage originations is influenced by the mix of purchase and refinance originations. PMI market share is also impacted by the market share of total originations of the FHA, VA, USDA, and other alternatives to mortgage insurance, including GSE programs that may reduce or eliminate the demand for mortgage insurance.

NIW for the first quarter of 2023 was $8.2 billion (Q1 2022: $19.6 billion). We expect the decrease is reflective of a smaller origination market and our market position in the current year compared with the same period in the prior year. For the remainder of the year, we expect a smaller origination market to drive a decrease in our NIW compared to 2022.

The following tables present characteristics of our primary NIW for the three months ended March 31, 2023 and 2022.

The housing market for the three months ended March 31, 2023 had significantly higher mortgage rates and a higher concentration of purchase transactions compared to the three months ended March 31, 2022. Consistent with changes in the housing market, the percentage of our NIW with DTI ratios over 45% and LTV's over 95% increased for the three months ended March 31, 2023 when compared with the same period last year.

Primary NIW by FICO score

	Three Months Ended March 31,	
(% of primary NIW)	**2023**	2022
760 and greater	**44.8 %**	43.4 %
740 - 759	**19.0 %**	19.0 %
720 - 739	**14.8 %**	14.6 %
700 - 719	**10.4 %**	10.7 %
680 - 699	**6.0 %**	7.2 %
660 - 679	**3.0 %**	3.2 %
640 - 659	**1.4 %**	1.4 %
639 and less	**0.6 %**	0.5 %

Primary NIW by loan-to-value

	Three Months Ended March 31,	
(% of primary NIW)	**2023**	2022
95.01% and above	**12.5 %**	11.4 %
90.01% to 95.00%	**46.8 %**	52.1 %
85.01% to 90.00%	**29.3 %**	26.6 %
80.01% to 85.00%	**11.4 %**	9.9 %

Primary NIW by debt-to-income ratio

	Three Months Ended March 31,	
(% of primary NIW)	**2023**	2022
45.01% and above	**22.7 %**	17.2 %
38.01% to 45.00%	**33.8 %**	31.6 %
38.00% and below	**43.5 %**	51.2 %

Primary NIW by policy payment type

	Three Months Ended March 31,	
(% of primary NIW)	**2023**	2022
Monthly premiums	**96.2 %**	93.3 %
Single premiums	**3.7 %**	6.6 %
Annual premiums	**0.1 %**	0.1 %

Primary NIW by type of mortgage

	Three Months Ended March 31,	
(% of primary NIW)	**2023**	2022
Purchases	**97.7 %**	94.2 %
Refinances	**2.3 %**	5.8 %

We consider a variety of loan characteristics when assessing the risk of a loan. The following tables provides information about loans with one or more of the following characteristics associated with our NIW: LTV ratios greater than 95%, mortgages with borrowers having FICO scores below 680, including those with borrowers having FICO scores of 620-679, mortgages with borrowers having DTI ratios greater than 45%, each attribute as determined at the time of loan origination.

Primary NIW by number of attributes discussed above

	Three Months Ended March 31,	
(% of primary NIW)	**2023**	2022
One	**32.5 %**	28.3 %
Two or more	**3.8 %**	2.8 %

Insurance and risk in force

The amount of our IIF and RIF is impacted by the amount of NIW and cancellations of primary IIF during the period. Cancellation activity is primarily due to refinancing activity, but is also impacted by rescissions, cancellations due to claim payment, and policies cancelled when borrowers achieve the required amount of home equity. Refinancing 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.

Persistency

Our persistency was 82.0% at March 31, 2023 compared to 79.8% at December 31, 2022 and 66.9% at March 31, 2022. 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. Our persistency rate is primarily affected by the level of current mortgage interest rates compared to the mortgage coupon rates on our IIF, which affects the vulnerability of the IIF to refinancing; and the current amount of equity that borrowers have in the homes underlying our IIF.

IIF and RIF

	Three Months Ended March 31,			
(In billions)	**2023**		2022	
NIW	**$**	**8.2**	$	19.6
Cancellations		**(11.1)**		(16.7)
Increase (decrease) in primary IIF	**$**	**(2.9)**	$	2.9
Direct primary IIF as of March 31,	**$**	**292.4**	$	277.3
Direct primary RIF as of March 31,	**$**	**76.0**	$	70.6

Credit profile of our primary RIF

Our 2009 and later books possess significantly improved risk characteristics when compared to our 2005-2008 books. Modification and refinance programs, such as HAMP and HARP, which expired at the end of 2016 and 2018, respectively, but have been replaced by other GSE modification programs, make outstanding loans more affordable to borrowers with the goal of reducing the number of foreclosures. As of March 31, 2023, loans associated with modification programs accounted for 4.1% of our total RIF, compared to 4.2% at December 31, 2022. Loans associated with 87.8% of all our modifications were current as of March 31, 2023.

The following table sets forth certain statistics associated with our primary IIF and RIF as of March 31, 2023:

Primary insurance in force and risk in force by policy year

(in billions)	Insurance in Force [1]			Risk In Force [1]			Weighted Avg. Interest Rate	Delinquency Rate	Cede Rate % [2]	% of Original Remaining
Policy Year		Total	% of Total		Total	% of Total				
2004 and prior	$	1.4	0.5 %	$	0.4	0.5 %	7.4 %	12.3 %	— %	NM
2005-2008		11.1	3.8 %		3.0	3.9 %	7.0 %	10.3 %	— %	4.6 %
2009-2015		6.0	2.0 %		1.6	2.1 %	4.3 %	4.5 %	— %	3.4 %
2016		5.9	2.0 %		1.6	2.1 %	3.9 %	3.1 %	— %	12.2 %
2017		7.5	2.6 %		2.0	2.6 %	4.2 %	3.6 %	— %	15.1 %
2018		7.8	2.7 %		2.0	2.6 %	4.8 %	4.1 %	— %	15.5 %
2019		16.5	5.7 %		4.3	5.6 %	4.1 %	2.0 %	1.5 %	25.4 %
2020		60.9	20.8 %		15.4	20.3 %	3.2 %	1.0 %	28.9 %	53.3 %
2021		97.9	33.5 %		25.4	33.4 %	3.1 %	1.0 %	29.3 %	83.1 %
2022		70.3	24.0 %		18.6	24.5 %	4.9 %	0.6 %	30.4 %	94.8 %
2023		7.1	2.4 %		1.9	2.4 %	6.1 %	0.0 %	26.5 %	99.4 %
Total	**$**	**292.4**	**100.0 %**	**$**	**76.0**	**100.0 %**				

(1) May not foot due to rounding

(2) Cede Rate % is calculated as the risk in force ceded to our QSR transactions divided by the total risk in force.

Pool and other insurance

MGIC has written no new pool insurance since 2008; however, for a variety of reasons, including responding to capital market alternatives to PMI and customer demands, MGIC may write pool risk in the future. Our direct pool risk in force was $267 million ($189 million on pool policies with aggregate loss limits and $78 million on pool policies without aggregate loss limits) at March 31, 2023 compared to $276 million ($196 million on pool policies with aggregate loss limits and $80 million on pool policies without aggregate loss limits) at December 31, 2022. If claim payments associated with a specific pool reach the aggregate loss limit, the remaining IIF within the pool would be cancelled and any remaining delinquencies under the pool would be removed from our delinquency inventory.

In connection with the GSEs' CRT programs, an insurance subsidiary of MGIC provides insurance and reinsurance covering portions of the credit risk related to certain reference pools of mortgages acquired by the GSEs. Our RIF, as reported to us, related to these programs was approximately $265 million and $226 million as of March 31, 2023 and December 31, 2022, respectively.

Consolidated Results of Operations

The following section of the MD&A provides a comparative discussion of MGIC Investment Corporation's Consolidated Results of Operations for the three months ended March 31, 2023 and 2022.

Revenues

	Three Months Ended March 31,		
(in millions)	**2023**	2022	% Change
Net premiums written	**$ 230.2**	$ 242.7	(5)
Net premiums earned	**$ 242.0**	$ 255.2	(5)
Investment income, net of expenses	**49.2**	38.3	28
Net gains (losses) on investments and other financial instruments	**(7.7)**	(0.8)	N/M
Other revenue	**0.4**	1.9	N/M
Total revenues [1]	**$ 284.0**	$ 294.6	(4)

[1] May not foot due to rounding

Net premiums written and earned

Comparative quarterly results

Premiums earned for the three months ended March 31, 2023 were $242.0 million, compared with $255.2 million, for the same period last year. Net premiums written for three months ended March 31, 2023 were $230.2 million, compared with $242.7 million, for the same comparable period last year.

The decrease in premiums written and earned for the three months ended March 31, 2023, compared with the prior year period is primarily due to an increase in ceded premiums.

See "Overview - Factors Affecting Our Results" above for additional factors that influenced the amount of net premiums written and earned during the periods. See "Reinsurance Transactions" below for discussion of our ceded premiums written and earned.

Premium yields

Net premium yield is net premiums earned divided by average IIF during the period. The following table presents the key drivers of our net premium yield for each of the three months ended March 31, 2023 and March 31, 2022.

Premium Yield

		Three Months Ended March 31,	
(in basis points)		**2023**	2022
In force portfolio yield	(1)	**38.7**	40.0
Premium refunds		**(0.1)**	(0.2)
Accelerated earnings on single premium policies		**0.3**	1.7
Total direct premium yield		**38.9**	41.5
Ceded premiums earned, net of profit commission and assumed premiums	(2)	**(6.0)**	(4.6)
Net premium yield		**32.9**	36.9

(1) Total direct premiums earned, excluding premium refunds and accelerated premiums from single premium policy cancellations divided by average primary insurance in force.

(2) Assumed premiums include those from our participation in GSE CRT programs, of which the impact on the net premium yield was 0.4 bps for the three months ended March 31, 2023 compared to 0.3 bps for the three months ended March 31, 2022.

Changes in the net premium yield for the three months ended March 31, 2023 compared to the three months ended March 31, 2022 reflect the following:

In force Portfolio Yield

- A larger percentage of our IIF from book years with lower premium rates due to a decline in premium rates in recent years resulting from pricing competition, an in force book with lower risk characteristics, lower required capital, the availability of reinsurance, and certain policies undergoing premium rate resets on their ten-year anniversaries.

Premium Refunds
è Premium refunds are primarily driven by claim activity and our estimate of refundable premiums on our delinquency inventory. The low level of claims received have resulted in a lower level of premium refunds. Our estimate of refundable premium on our delinquency inventory fluctuates with changes in our delinquency inventory and our estimate of the number of loans in our delinquency inventory that will result in a claim.
Accelerated earnings on single premium policies
è The lower level of refinance transactions have reduced the benefit from accelerated earned premium from cancellation of single premium policies prior to their estimated policy life.
Ceded premiums earned, net of profit commission and assumed premiums
è Ceded premiums earned, net of profit commission adversely impact our net premium yield. Ceded premiums earned, net of profit commission, are associated with the QSR Transactions and the XOL Transactions. Assumed premiums consists primarily of premiums from GSE CRT programs. See "Reinsurance Transactions" below for further discussion on our reinsurance transactions.

As discussed in our Risk Factor titled "Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and / or increase our losses," the private mortgage insurance industry is highly competitive and premium rates have declined over the past several years. With the smaller origination market, higher persistency rate, and continued high credit quality for NIW expected in 2023, we expect our in force portfolio premium yield to remain relatively flat during 2023.

Reinsurance Transactions

Quota share reinsurance

Our quota share reinsurance affects various lines of our statements of operations and therefore we believe it should be analyzed by reviewing its total effect on our pre-tax income, described as follows.

- è We cede a fixed percentage of premiums on insurance covered by the agreements.
- è We receive the benefit of a profit commission through a reduction in the premiums we cede. The profit commission varies inversely with the level of losses incurred on a "dollar for dollar" basis and can be eliminated at loss levels higher than what we are currently experiencing. As a result, lower levels of ceded losses incurred result in less benefit from ceded losses incurred and a higher profit commission; higher levels of ceded losses incurred result in more benefit from ceded losses incurred and a lower profit commission (or for certain levels of accident year loss ratios, its elimination).
- è We receive the benefit of a ceding commission through a reduction in underwriting expenses equal to 20% of premiums ceded (before the effect of the profit commission).
- è We cede a fixed percentage of losses incurred on insurance covered by the agreements.

The following table provides information related to our QSR Transactions for each of the three months ended March 31, 2023 and March 31, 2022.

Quota Share Reinsurance

	Three Months Ended March 31,	
(Dollars in thousands)	**2023**	2022
Ceded premiums written and earned, net of profit commission	**$29,877**	$22,378
% of direct premiums written	**11%**	8%
% of direct premiums earned	**10%**	8%
Profit commission	**$31,711**	$38,980
Ceding commissions	**$12,318**	$12,272
Ceded losses incurred	**$4,681**	$(1,985)
Mortgage insurance portfolio:		
Ceded RIF (Dollars in millions)		
2015 QSR	**$—**	$785
2019 QSR	**—**	1,398
2020 QSR	**3,747**	4,522
2021 QSR	**6,669**	7,288
2022 QSR	**4,952**	1,364
2023 QSR	**439**	—
Credit Union QSR	**2,316**	1,723
Total ceded RIF	**$18,123**	$17,080

Ceded premiums written, and earned net of profit commission decreased in the three months ended March 31, 2023 when compared with the prior year primarily due to a decrease in the profit commission, which increases ceded premiums written and earned. The decrease in profit commission was driven by the increase in losses incurred.

We terminated our 2015 and 2019 QSR Transactions effective December 31, 2022.

Covered risk

The percentages of our NIW, new risk written, IIF, and RIF subject to our QSR Transactions as shown in the following table will vary from period to period in part due to the mix of our risk written during the period and the number of active QSR Transactions.

Quota Share Reinsurance

	Three Months Ended March 31,	
	2023	2022
NIW subject to QSR Transactions	**86.4 %**	87.5 %
New Risk Written subject to QSR Transactions	**92.5 %**	93.1 %
IIF subject to QSR Transactions	**69.3 %**	73.6 %
RIF subject to QSR Transactions	**74.2 %**	79.8 %

The decrease in IIF and RIF subject to quota share reinsurance increased for the three months ended March 31, 2023 compared to March 31, 2022, primarily due to the termination of our 2015 and 2019 QSR Transactions at December 31, 2022.

As of March 31, 2023, the weighted average coverage percentage of our QSR transactions was 32% based on RIF.

Excess of loss reinsurance

We have Excess-of-loss transactions (“XOL Transactions”) with a panel of unaffiliated reinsurers executed through the traditional reinsurance market (“Traditional XOL Transaction”) and with unaffiliated special purpose insurers (“Home Re Transactions”).

The 2022 Traditional XOL Transaction provides $142.6 million of reinsurance coverage on eligible NIW in 2022. The 2022 Traditional XOL Transaction has contractual termination date after approximately ten years, with an optional termination date after seven years and quarterly thereafter. For the covered policies, we retain the first layer of the aggregate losses paid, and the reinsurers will then provide second layer coverage up to the outstanding reinsurance coverage amount. We retain losses paid in excess of the outstanding reinsurance coverage amount. The reinsurance coverage is subject to adjustment based on the risk characteristics of the covered loans. The reinsurance premiums ceded to the 2022 Traditional XOL Transaction are based off the remaining reinsurance coverage levels.

The Home Re Transactions are executed with unaffiliated special purpose entities (“Home Re Entities”) through the issuance of insurance linked notes (“ILNs”). As of March 31, 2023 our Home Re Transactions provided $1.5 billion of loss coverage on a portfolio of policies having an in force date from July 1, 2016 through March 31, 2019, and from January 1, 2020 through December 31, 2021; all dates inclusive. For this reinsurance coverage, we retain the first layer of the respective aggregate losses paid, and a Home Re Entity will then provide second layer coverage up to the outstanding reinsurance amount.

As discussed in our risk factor titled "The Company may be adversely impacted by the transition from LIBOR as a reference rate," the ICE Benchmark Administration, the administrator of LIBOR, will cease publishing all USD LIBOR tenors on June 30, 2023. As of March 31, 2023 the premiums under most of our Home Re Transactions from 2018-2021 reference the one-month LIBOR rate. These Home Re Transactions will be transitioned to SOFR when the one-month LIBOR rate is no longer published.

The current attachment, current detachment, and PMIERs required asset credit for each of our XOL Transactions as of March 31, 2023, are as follows.

($ In thousands)	**Initial Attachment % (1)**	**Initial Detachment % (2)**	**Current Attachment % (1)**	**Current Detachment % (2)**	**PMIERs Required Asset Credit**
Home Re 2018-1	2.25%	6.50%	12.46%	21.65%	$ —
Home Re 2019-1	2.50%	6.75%	15.47%	33.03%	—
Home Re 2020-1	3.00%	7.50%	6.55%	8.76%	—
Home Re 2021-1	2.25%	6.50%	3.46%	7.58%	156,392
Home Re 2021-2	2.10%	6.50%	2.69%	7.31%	274,862
Home Re 2022-1	2.75%	6.75%	3.00%	7.37%	453,460
2022 Traditional XOL	2.60%	7.10%	2.64%	7.22%	137,937

(1) The percentage represents the cumulative losses as a percentage of adjusted risk in force that MGIC retains prior to the XOL taking losses.

(2) The percentage represents the cumulative losses as a percentage of adjusted risk in force that must be reached before MGIC begins absorbing losses after the XOL layer

We ceded premiums on our XOL Transactions were $16.9 million for the three months ended March 31, 2023, and $11.8 million for the three months ended March 31, 2022. The increase, when compared to the prior period, is primarily due to the addition of premiums ceded on our 2022 Traditional XOL and Home Re 2022-1 in the first quarter of 2023.

See Note 4 - “Reinsurance" to our consolidated financial statements for additional discussion of our QSR and XOL Transactions.

Investment income

Comparative quarterly results

Net investment income in the three months ended March 31, 2023 was $49.2 million, compared with $38.3 million, in the prior year. Net investment income was impacted by higher average investment yields, partially offset by a decrease in the investment portfolio.

Losses and expenses

	Three Months Ended March 31,		
(In millions)	**2023**	2022	% Change
Losses incurred, net	**$ 6.4**	$ (19.3)	133
Amortization of deferred policy acquisition costs	**2.5**	2.7	(7)
Other underwriting and operating expenses, net	**70.1**	54.7	28
Loss on debt extinguishment	**—**	22.1	N/M
Interest expense	**9.4**	14.9	(37)
Total losses and expenses	**$ 88.4**	$ 75.1	18

Losses incurred, net

As discussed in “Critical Accounting Estimates” in our 2022 10-K MD&A, we establish case loss reserves for future claims on delinquent loans that were reported to us as two payments past due and have not become current or resulted in a claim payment. Such loans are referred to as being in our delinquency inventory. Case loss reserves are established based on estimating the number of loans in our delinquency 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.

IBNR reserves are established for estimated losses from delinquencies we estimate have occurred prior to the close of an accounting period, but have not yet been reported to us. IBNR reserves are also established using estimated claim rates and claim severities.

Estimation of losses is inherently judgmental. Even in a stable environment, changes to our estimates could result in a material impact to our consolidated results of operations and financial position. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment and the current and future strength of local housing markets; exposure on insured loans; the amount of time between delinquency and claim filing (all else being equal, the longer the period between delinquency and claim filing, the greater the severity); and curtailments and rescissions. 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, the impact of past and future government initiatives and actions taken by the GSEs (including mortgage forbearance programs and foreclosure moratoriums), and a drop in housing values which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Loss reserves in future periods will also be dependent on the number of loans reported to us as delinquent.

Prior to the COVID-19 pandemic, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new notice activity and a lower cure rate. The state of the economy, local housing markets and various other factors, may result in delinquencies not following the typical pattern.

For information on how pandemics and other natural disasters could affect losses incurred, net see our Risk Factors titled “Pandemics, hurricanes and other natural disasters may impact our incurred losses, the amount and timing of paid claims, our inventory of notices of default and our Minimum Required Assets under PMIERs". As discussed in our Risk Factor titled “Because we establish loss reserves only upon a loan delinquency rather than based on estimates of our ultimate losses on risk in force, losses may have a disproportionate adverse effect on our earnings in certain periods” if we have not received a notice of delinquency with respect to a loan and if we have not estimated the loan to be delinquent as of March 31, 2023 through our IBNR reserve, then we have not yet recorded an incurred loss with respect to that loan.

Our estimates are also affected by any agreements we enter into regarding our claims paying practices.

Comparative quarterly results

Losses incurred, net for the first quarter of 2023 were $6.4 million, an increase of $25.8 million compared to the first quarter of 2022 losses incurred, net of $(19.3) million. For the three months ended March 31, 2023, new delinquency notices added approximately $47.2 million, offset by our re-estimation of loss reserves on previously received delinquency notices resulting in favorable development of approximately $40.8 million. For the three months ended March 31, 2022, new delinquency notices added approximately $36.3 million, offset by our re-estimation of loss reserves on previously received delinquency notices resulting in favorable development of approximately $55.7 million. The favorable development for both periods primarily resulted from a decrease in the expected claim rate on previously received delinquencies. Home price appreciation experienced in recent years has allowed borrowers to cure their delinquencies through the sale of their property.

Composition of losses incurred

	Three Months Ended March 31,	
(in millions)	**2023**	2022
Current year / New notices	**$47.2**	$36.3
Prior year reserve development	**(40.8)**	(55.7)
Losses incurred, net	**$6.4**	$(19.3)

Loss ratio

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 was 2.7% for the three months ended March 31, 2023, compared with (7.6)%, in the prior year. The increase in the loss ratio for the three months ended March 31, 2023 compared to the respective prior year period was primarily due to the increase in losses incurred discussed above.

New notice claim rate

The table below presents our new delinquency notices received, delinquency inventory, and the average number of missed payments for the loans in our delinquency inventory by policy year:

New notices and delinquency inventory during the three months ended and as of:

March 31, 2023			
Policy Year	New Notices for the Three Months Ended	Delinquency Inventory	Avg. Number of Missed Payments of Delinquency Inventory
2004 and prior	843	2,247	19
2005-2008	2,700	7,647	20
2009-2015	700	1,762	12
2016	492	1,080	10
2017	628	1,547	10
2018	786	1,855	10
2019	787	1,659	9
2020	1,267	2,355	7
2021	2,056	3,366	5
2022	1,038	1,239	4
2023	—	—	0
Total	**11,297**	**24,757**	**13**
Claim rate on new notices [1]	**8 %**		

March 31, 2022			
Policy Year	New Notices for the Three Months Ended	Delinquency Inventory	Avg. Number of Missed Payments of Delinquency Inventory
2004 and prior	1,002	2,745	19
2005-2008	3,127	10,171	19
2009-2015	860	2,886	13
2016	555	1,724	12
2017	719	2,419	12
2018	815	2,844	12
2019	862	2,790	11
2020	1,315	3,079	8
2021	1,448	1,804	4
2022	—	—	0
Total	**10,703**	**30,462**	**14**
Claim rate on new notices [1]	8 %		

(1) Claim rate is the respective quarter to date weighted average rate and is rounded to the nearest whole percent.

Claims severity

Factors that impact claim severity include:

è	economic conditions at time of claim filing, including home prices compared to home prices at the time of placement of coverage,
è	exposure of the loan, which is the unpaid principal balance of the loan times our insurance coverage percentage,
è	length of time between delinquency and claim filing (which impacts the amount of interest and expenses, with a longer time between default and claim filing generally increasing severity), and
è	curtailments.

As discussed in Note 11 - "Loss Reserves," our loss reserves estimates take into consideration trends over time, because the development of the delinquencies may vary from period to period without establishing a meaningful trend. An increase in loss mitigation activities, primarily third party acquisitions (sometimes referred to as "short sales"), has resulted in a decrease in the average claim paid and the average claim paid as a percentage of exposure in recent years. At the start of the COVID-19 pandemic, the level of claims received decreased. Claim activity and the average claims paid as a percentage of exposure has not yet returned to pre-COVID-19 levels. The magnitude and timing of the increases are uncertain.

The majority of loans insured prior to 2009 (which represent 40% of the loans in the delinquency inventory) are covered by master policy terms that, except under certain circumstances, do not limit the number of years that an insured can include interest when filing a claim. Under our current master policy terms, an insured can include accumulated interest when filing a claim only for the first three years the loan is delinquent. In each case, the insured must comply with its obligations under the terms of the applicable master policy.

Claims severity trend for claims paid during the period

Period	Average exposure on claim paid	Average claim paid	% Paid to exposure	Average number of missed payments at claim received date
Q1 2023	**37,412**	**28,227**	**75.4 %**	**42**
Q4 2022	38,903	28,492	73.2 %	41
Q3 2022	37,625	23,461	62.4 %	46
Q2 2022	44,106	27,374	62.1 %	41
Q1 2022	38,009	27,662	72.8 %	45

Note: Table excludes material settlements. Settlements include amounts paid in settlement disputes for claims paying practices and/or commutations of policies.

The length of time a loan is in the delinquency inventory (see Note 11 - "Loss Reserves," table 11.4) can differ from the number of payments that the borrower has not made or is considered delinquent. These differences typically result from a borrower making monthly payments that do not result in the loan becoming fully current. Generally, a defaulted loan with more missed payments is more likely to result in a claim. The number of payments that a borrower is delinquent is shown in the following table.

Delinquency inventory - number of payments delinquent

	March 31, 2023	December 31, 2022	March 31, 2022
3 payments or less	**10,453**	11,484	9,586
4-11 payments	**8,016**	8,026	8,803
12 payments or more (1)	**6,288**	6,877	12,073
Total	**24,757**	26,387	30,462
3 payments or less	**42 %**	44 %	31 %
4-11 payments	**33 %**	30 %	29 %
12 payments or more	**25 %**	26 %	40 %
Total	**100 %**	100 %	100 %

(1) Approximately 32%, 28%, and 16% of the primary delinquency inventory with 12 payments or more delinquent has at least 36 payments delinquent as of March 31, 2023, December 31, 2022, and March 31, 2022, respectively.

Net losses and LAE paid

Net losses and LAE paid in the three months ended March 31, 2023 were consistent with the same period in the prior year. Our claims paid activity slowed at the start of the COVID-19 pandemic primarily due to forbearance and foreclosure moratoriums put in place. We expect net losses and LAE paid to increase, however, the magnitude and timing of the increases are uncertain.

The following table presents our net losses and LAE paid for the three months ended March 31, 2023 and 2022.

Net losses and LAE paid

	Three Months Ended March 31,	
(In millions)	**2023**	2022
Total primary (excluding settlements)	**$ 9**	$ 9
Pool	**—**	—
Direct losses paid	**9**	9
Reinsurance	**—**	—
Net losses paid	**9**	9
LAE	**1**	2
Net losses and LAE paid	**$ 10**	$ 11
Average Claim Paid	**$ 28,227**	$ 27,662

The primary average claim paid can vary materially from period to period based upon a variety of factors, including the local market conditions, average loan amount, average coverage percentage, the amount of time between delinquency and claim filing, and our loss mitigation efforts on loans for which claims are paid.

The primary average RIF on delinquent loans at March 31, 2023, December 31, 2022 and March 31, 2022 for the top 5 jurisdictions (based on the March 31, 2023 delinquency inventory) appears in the following table.

Primary average RIF - delinquent loans

	March 31, 2023	December 31, 2022	March 31, 2022
Florida	**$ 60,334**	$ 59,515	$ 56,088
Texas	**54,718**	53,364	51,212
Illinois	**42,325**	41,640	40,997
Pennsylvania	**42,418**	40,993	39,719
New York	**75,952**	74,760	74,374
All other jurisdictions	**53,480**	51,693	50,968
All jurisdictions	**$ 54,032**	$ 52,511	$ 51,423

The primary average RIF on all loans was $65,314, $64,784, and $60,945 at March 31, 2023, December 31, 2022, and March 31, 2022, respectively.

Loss reserves

The gross reserves at March 31, 2023, December 31, 2022, and March 31, 2022 appear in the table below.

Gross reserves

	March 31, 2023		December 31, 2022		March 31, 2022	
Primary:						
Direct case loss reserves (in millions)	**$ 498**		$ 498		$ 766	
Direct IBNR and LAE reserves	**57**		56		79	
Total primary direct loss reserves	**$ 555**		$ 554		$ 845	
Ending delinquent inventory		**24,757**		26,387		30,462
Percentage of loans delinquent (delinquency rate)		**2.12 %**		2.22 %		2.61 %
Average total primary loss reserves per delinquency		**$ 22,423**		$ 20,994		$ 27,538
Primary claims received inventory included in ending delinquent inventory		**296**		267		217
Other gross reserves [(1)] (in millions)	**$ 4**		$ 4		$ 6	

(1) Other Gross Reserves includes direct and assumed reserves that are not included within our primary loss reserves.

The primary delinquency inventory for the top 15 jurisdictions (based on March 31, 2023 delinquency inventory) at March 31, 2023, December 31, 2022 and March 31, 2022 appears in the following table.

Primary delinquency inventory by jurisdiction

	March 31, 2023	December 31, 2022	March 31, 2022
Florida *	**2,125**	2,414	2,576
Texas	**1,852**	1,935	2,314
Illinois *	**1,575**	1,640	1,929
Pennsylvania *	**1,442**	1,525	1,579
New York *	**1,350**	1,399	1,586
California	**1,335**	1,336	1,617
Ohio *	**1,235**	1,322	1,373
Michigan	**936**	965	1,041
Georgia	**915**	954	1,167
New Jersey *	**784**	841	1,056
Maryland	**678**	719	893
North Carolina	**654**	753	881
Indiana	**604**	622	680
Minnesota	**551**	573	712
Wisconsin	**515**	542	620
All other jurisdictions	**8,206**	8,847	10,438
Total	**24,757**	26,387	30,462

Note: Asterisk denotes jurisdictions in the table above that predominately use a judicial foreclosure process, which generally increases the amount of time it takes for a foreclosure to be completed.

The primary delinquency inventory by policy year at March 31, 2023, December 31, 2022 and March 31, 2022 appears in the following table.

Primary delinquency inventory by policy year

	March 31, 2023	December 31, 2022	March 31, 2022
Policy year:			
2004 and prior	**2,247**	2,471	2,745
2004 and prior %	***9 %***	*9 %*	*9 %*
2005	**1,365**	1,438	1,644
2006	**2,201**	2,388	2,763
2007	**3,333**	3,680	4,607
2008	**748**	811	1,157
2005 - 2008 %	***31 %***	*32 %*	*33 %*
2009	**55**	51	75
2010	**33**	31	57
2011	**30**	43	68
2012	**68**	72	111
2013	**195**	243	394
2014	**560**	633	894
2015	**821**	944	1,287
2009 - 2015 %	***7 %***	*8 %*	*10 %*
2016	**1,080**	1,249	1,724
2017	**1,547**	1,719	2,419
2018	**1,855**	2,060	2,844
2019	**1,659**	1,823	2,790
2020	**2,355**	2,558	3,079
2021	**3,366**	3,307	1,804
2022	**1,239**	866	—
2023	**—**	—	—
2016 and later %	***53 %***	*51 %*	*48 %*
Total	**24,757**	26,387	30,462

On our primary business, the highest claim frequency years have typically been the third and fourth year after loan origination. However, the pattern of claim frequency can be affected by many factors, including persistency and deteriorating economic conditions. Deteriorating economic conditions can result in increasing claims following a period of declining claims. As of March 31, 2023, 60% of our primary RIF was written subsequent to December 31, 2020, 81% of our primary RIF was written subsequent to December 31, 2019, and 86% of our primary RIF was written subsequent to December 31, 2018.

Underwriting and other expenses, net

Underwriting and other expenses includes items such as employee compensation costs, fees for professional and consulting services, depreciation and maintenance expense, and premium taxes, and are reported net of ceding commissions.

Underwriting and other expenses, net for the three months ended March 31, 2023 and 2022, were $70.1 million and $54.7 million, respectively. Underwriting and other expenses, net increased during the three months ended March 31, 2023 compared with the same period in the prior year primarily due to an increase in pension expenses as a result of settlement accounting charges as a result of lump sum settlements and an increase in performance based employee compensation. We will incur additional settlement accounting charges during the remainder of 2023, however, the magnitude and timing is uncertain.

	Three Months Ended March 31,	
	2023	2022
Underwriting expense ratio	**31.1 %**	23.0 %

The underwriting expense ratio is the ratio, expressed as a percentage, of the underwriting and operating expenses, net and amortization of DAC of our combined insurance operations (which excludes underwriting and operating expenses of our non-insurance subsidiaries) to net premiums written. The underwriting expense ratio in the three months ended March 31, 2023 increased compared with the same period in the prior year primarily due to an increase in underwriting expenses and a decrease in net premiums written.

Loss on debt extinguishment

For the three months ended March 31, 2022, we recorded a loss on debt extinguishment of $22.1 million, related to the repurchase of a portion our 9% Debenture, and the repayment of the outstanding principal balance of the FHLB Advance. We did not repurchase any of our outstanding debt obligations in 2023.

Provision for income taxes and effective tax rate

Income tax provision and effective tax rate

	Three Months Ended March 31,	
(In millions, except rate)	**2023**	2022
Income before tax	**$ 195.6**	$ 219.4
Provision for income taxes	**$ 41.1**	$ 44.4
Effective tax rate	**21.0 %**	20.2 %

Our effective tax rate for the three months ended March 31, 2023 and 2022 approximated the statutory tax rate of 21%.

Balance Sheet Review

The following sections mainly focus on the major developments on our Consolidated Balance Sheet since December 31, 2022.

Consolidated balance sheets - Assets

(in thousands)	**March 31, 2023**	December 31, 2022	% Change
Investments	**$ 5,579,426**	$ 5,424,688	3
Cash and cash equivalents	**358,214**	327,384	9
Premiums receivable	**57,375**	58,000	(1)
Reinsurance recoverable on loss reserves	**32,761**	28,240	16
Reinsurance recoverable on paid losses	**145**	18,081	(99)
Deferred incomes taxes, net	**100,174**	124,769	(20)
Other assets	**224,193**	232,631	(4)
Total Assets	**$ 6,352,288**	$ 6,213,793	2

Investments - Our investments increased to $5.6 billion as of March 31, 2023 from $5.4 billion as of December 31, 2022. The increase is primarily due to an improvement in the unrealized loss on our investment portfolio in the first quarter of 2023.

The average duration and investment yield of our investment portfolio as of March 31, 2023 and December 31, 2022 are shown in the table below.

Portfolio duration and embedded investment yield

	March 31, 2023	December 31, 2022
Duration (in years)	**4.1**	4.3
Pre-tax yield (1)	**3.2%**	3.0%
After-tax yield (1)	**2.6%**	2.5%

(1) Embedded investment yield is calculated on a yield-to-worst basis.

The security ratings of our fixed income investments as of March 31, 2023 and December 31, 2022 are shown in the following table.

Fixed income security ratings

	Security Ratings (1)			
Period	**AAA**	**AA**	**A**	**BBB**
March 31, 2023	**20%**	**29%**	**33%**	**18%**
December 31, 2022	18%	28%	34%	20%

(1) Ratings are provided by one or more of: Moody's, Standard & Poor's and Fitch Ratings. If three ratings are available, the middle rating is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used.

Cash and cash equivalents - Our cash and cash equivalents balance increased to $358.2 million as of March 31, 2023, from $327.4 million as of December 31, 2022, as net cash generated from operating activities was only partially offset by cash used in investing and financing activities.

Reinsurance recoverable on paid losses - Reinsurance recoverable on paid losses decreased to $0.1 million at March 31, 2023, from $18.1 million at December 31, 2022. At December 31, 2022 the reinsurance recoverable on paid losses is primarily due from the losses recoverable from reinsurers at time of termination of the 2015 and 2019 QSR Transactions. In a reinsurance termination, amounts for any incurred but unpaid losses are due to us from the reinsurers.

Income Taxes - Our current income tax liability was $34.2 million at March 31, 2023 and is included as a component of other liabilities in our consolidated balance sheets. Our current income tax receivable was $5.3 million at December 31, 2022 and is included as a component of other assets in our consolidated balance sheets. The increase in our current income tax liability was primarily due to our first quarter estimated income tax payment not being due until the second quarter of 2023. Our deferred tax asset was $100.2 million and $124.8 million at March 31, 2023 and December 31, 2022, respectively. The change in our deferred income tax asset was primarily due to the tax effect of unrealized gains generated by the investment portfolio during the first three months of 2023. We owned $661.7 million of tax and loss bonds at March 31, 2023 and December 31, 2022.

Consolidated balance sheets - Liabilities and equity

(in thousands)		**March 31, 2023**		December 31, 2022	% Change
Loss reserves	**$**	**558,515**	$	557,988	—
Unearned premiums		**183,467**		195,289	(6)
Long-term debt		**663,178**		662,810	—
Other liabilities		**169,484**		154,966	9
Total Liabilities	**$**	**1,574,644**	$	1,571,053	—
Common stock		**371,353**		371,353	—
Paid-in capital		**1,791,609**		1,798,842	—
Treasury stock		**(1,119,048)**		(1,050,238)	7
Accumulated other comprehensive income (loss), net of tax		**(395,499)**		(481,511)	18
Retained earnings		**4,129,229**		4,004,294	3
Shareholders' equity	**$**	**4,777,644**	$	4,642,740	3

Loss reserves and Reinsurance recoverable on loss reserves - Our loss reserves include estimates of losses and settlement expenses on (1) loans in our delinquency inventory (known as case reserves), (2) IBNR delinquencies, and (3) LAE. Our gross reserves are reduced by reinsurance recoverable on loss reserves to calculate a net reserve balance. Loss reserves remained flat at $558.5 million as of March 31, 2023, from $558.0 million as of December 31, 2022 as loss reserves established on new notices and IBNR delinquencies were offset by favorable development on prior year delinquencies. Reinsurance recoverables on loss reserves were $32.8 million and $28.2 million as of March 31, 2023 and December 31, 2022, respectively.

Unearned premiums - Our unearned premium decreased to $183.5 million as of March 31, 2023 from $195.3 million as of December 31, 2022 primarily due to the run-off of our existing portfolio of single premium policies outpacing the level of NIW from single premium policies.

Shareholder's equity - The increase in shareholders' equity represents an improvement in the unrealized loss on our investments portfolio and net income, partially offset by repurchases of our common stock and dividends paid in the first three months of 2023.

Liquidity and Capital Resources

Consolidated Cash Flow Analysis

We have three primary types of cash flows: (1) operating cash flows, which consist mainly of cash generated by our insurance operations and income earned on our investment portfolio, less amounts paid for claims, interest expense and operating expenses, (2) investing cash flows related to the purchase, sale and maturity of investments and purchases of property and equipment and (3) financing cash flows generally from activities that impact our capital structure, such as changes in debt and shares outstanding, and dividend payments. The following table summarizes our consolidated cash flows from operating, investing and financing activities:

Summary of consolidated cash flows

	Three Months Ended March 31,	
(In thousands)	**2023**	2022
Total cash provided by (used in):		
Operating activities	**$ 212,286**	$ 228,011
Investing activities	**(65,181)**	349,440
Financing activities	**(113,446)**	(392,512)
Increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	**$ 33,659**	$ 184,939

Net cash provided by operating activities for the three months ended March 31, 2023 decreased when compared with the same period of 2022 primarily due to an increase in losses paid, net of the reinsurance recoverable on paid losses.

We also have purchase obligations totaling approximately $21.6 million which consist primarily of contracts related to our continued investment in our information technology infrastructure in the normal course of business. The majority of these obligations are under contracts that give us cancellation rights with notice. In the next twelve months we anticipate we will pay approximately $16.7 million for our purchase obligations.

Net cash used in investing activities for the three months ended March 31, 2023 primarily reflects purchases of fixed income and equity securities during the period that exceeded sales and maturities of fixed income and equity securities during the period as cash from operations was available for additional investment. Net cash provided by investing activities for the three months ended March 31, 2022 primarily reflects sales and maturities of fixed income and equity securities during the period that exceeded purchases as proceeds were used in financing activities.

Net cash used in financing activities for the three months ended March 31, 2023 primarily reflects repurchases of our common stock, dividends to shareholders and the payment of withholding taxes related to share-based compensation net share settlement. Net cash used in financing activities for the three months ended March 31, 2022 primarily reflects repayment of our FHLB Advance, repurchases of our common stock, the repurchase of a portion of our 9% Debentures and dividends to shareholders.

Capitalization

Debt - holding company

As of March 31, 2023, our holding company's debt obligations were $671.1 million in aggregate principal amount consisting of our 5.25% Notes and 9% Debentures.

Liquidity analysis - holding company

As of March 31, 2023, we had approximately $582.0 million in cash and investments at our holding company. These resources are maintained primarily to service our debt interest expense, pay debt maturities, repurchase shares, repurchase debt, pay dividends to shareholders, and to settle intercompany obligations. While these assets are held, we generate investment income that serves to offset a portion of our cash requirements. The payment of dividends from MGIC are the principal sources of holding company cash inflow and their payment is restricted by insurance regulation. See Note 14 - "Statutory Information" to our consolidated financial statement for additional information about MGIC's dividend restrictions. The payment of dividends from MGIC is also influenced by our view of the appropriate level of PMIERs Available Assets to maintain in excess of Minimum Required Assets. Other sources of holding company liquidity include raising capital in the public markets. The ability to raise capital in the public markets is subject to prevailing market conditions, investor demand for the securities to be issued, and our deemed creditworthiness.

In the first three months of 2023, we paid $29.6 million in dividends to shareholders. On April 27, 2023, the Board of Directors declared a quarterly cash dividend to holders of the company's common stock of $0.10 per share to shareholders of record on May 11, 2023, payable on May 25, 2023.

In the first three months of 2023, our holding company cash and investments decreased by $64.9 million. The net unrealized losses on our holding company investment portfolio were approximately $9.7 million at March 31, 2023 and the portfolio had a modified duration of approximately 0.8 years.

Significant cash and investments *inflows at our holding company* during the first three months:

- $42.8 million intercompany tax receipts, and
- $5.0 million of investment income.

Significant cash *outflows at our holding company* during the first three months:

- $76.2 million of net share repurchase transactions,
- $30.1 million of cash dividends paid to shareholders, and
- $17.1 million of interest payments on our 5.25% Notes.

MGIC did not pay dividends to our holding company in the three months ended March 31, 2023. Future dividend payments from MGIC to the holding company will be determined in consultation with the board, and after considering any updated estimates about our business. We ask the Wisconsin OCI not to object before MGIC pays dividends to the holding company. In May, 2023, MGIC paid a $300 million dividend to our holding company.

In the first three months of 2023, we repurchased 5.8 million shares of our common stock using $77.8 million of holding company cash. As of March 31, 2023 we had remaining authorization to repurchase $36.1 million of our common stock through the end of 2023 under a share repurchase program approved by our Board of Directors in October 2021. In April 2023, we repurchased an additional 1.7 million shares totaling $24.4 million under the remaining authorization. Also in April 2023, our board of directors approved a share repurchase program, authorizing us to repurchase an additional $500 million of common stock at any time prior to July 1, 2025.

Scheduled debt maturities beyond the next twelve months include $650.0 million of our 5.25% Notes in 2028, and $21.1 million of our 9% Debentures in 2063. Subject to certain limitations and restrictions, holders of each of the 9% Debentures may convert their notes into shares of our common stock at their option under the terms of their issuance, in which case our corresponding obligation will be eliminated.

See Note 7 – "Debt" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2022 for additional information about the conversion terms of our 9% Debentures and the terms of our indebtedness, including our option to defer interest on our 9% Debentures. The description in Note 7 - "Debt" to our consolidated financial statements in our Annual Report on Form 10-K is qualified in its entirety by the terms of the notes and debentures.

Over the next twelve months the principal demand on our holding company resources will be interest payments on our 5.25% Notes and 9% Debentures approximating $36.0 million and dividends to shareholders. We believe our holding company has sufficient sources of liquidity to meet its payment obligations for the foreseeable future.

We may also use additional holding company cash to repurchase additional shares or to repurchase our outstanding debt obligations. Such repurchases may be material, may be made for cash (funded by debt) and/or exchanges for other securities, and may be made in open market purchases (including through 10b5-1 plans), privately negotiated acquisitions or other transactions. See "Overview-Capital" of this MD&A for a discussion of our share repurchase programs.

Debt at subsidiaries

MGIC did not have any outstanding debt obligations at March 31, 2023. MGIC is a member of the FHLB, which provides MGIC access to an additional source of liquidity via a secured lending facility. We may borrow from the FHLB at any time.

Capital Adequacy

PMIERs

As of March 31, 2023, MGIC's Available Assets under the PMIERs totaled approximately $5.9 billion, an excess of approximately $2.4 billion over its Minimum Required Assets; and MGIC is in compliance with the requirements of the PMIERs and eligible to insure loans delivered to or purchased by the GSEs. Our reinsurance transactions provided an aggregate of approximately $2.3 billion of capital credit under the PMIERs as of March 31, 2023. Refer to Note 4 - "Reinsurance" to our consolidated financial statements for additional information on our reinsurance transactions.

The PMIERs generally require us to hold significantly more Minimum Required Assets for delinquent loans than for performing loans and the Minimum Required Assets required to be held increases as the number of payments missed on a delinquent loan increases.

Refer to "Overview - Capital - GSEs" of this MD&A and our risk factor titled "We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility" for further discussion of PMIERs.

Risk-to-capital

We compute our risk-to-capital ratio on a separate company statutory basis, as well as on a combined insurance operations basis. The risk-to-capital ratio is our net RIF divided by our policyholders' position. Our net RIF includes both primary and pool risk in force, net of reinsurance and excludes risk on policies that are currently in default and for which case loss reserves have been established and the risk covered by reinsurance. The risk amount includes pools of loans with contractual aggregate loss limits and without these limits. MGIC's policyholders' position consists primarily of statutory policyholders' surplus (which increases as a result of statutory net income and decreases as a result of statutory net loss and dividends paid), plus the statutory contingency reserve. The statutory contingency reserve is reported as a liability on the statutory balance sheet. A mortgage insurance company is required to make annual additions to a contingency reserve of approximately 50% of earned premiums. These contributions must generally be maintained for a period of ten years. However, with regulatory approval a mortgage insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of earned premiums in a calendar year.

The table below presents our risk-to-capital calculation:

Risk-to-capital - MGIC

(In millions, except ratio)		**March 31, 2023**		December 31, 2022
RIF - net [1]		**55,687**	$	56,292
Statutory policyholders' surplus		**988**		921
Statutory contingency reserve		**4,732**		4,597
Statutory policyholders' position	**$**	**5,720**	$	5,518
Risk-to-capital		**9.7:1**		10.2:1

(1) RIF – net, as shown in the table above is net of reinsurance and exposure on policies currently delinquent ($1.5 billion at March 31, 2023 and $1.4 billion December 31, 2022) for which loss reserves have been established.

For additional information regarding regulatory capital see Note 14 – "Statutory Information" to our consolidated financial statements as well as our Risk Factor titled "State Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."

Financial Strength Ratings

MGIC financial strength ratings

Rating Agency	**Rating**	**Outlook**
Moody's Investor Services	A3	Stable
Standard and Poor's Rating Services	BBB+	Stable
A.M. Best	A-	Stable

MAC financial strength ratings

Rating Agency	**Rating**	**Outlook**
A.M. Best	A-	Stable

For further information about the importance of MGIC's ratings, see our Risk Factor titled "Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and / or increase our losses."

Forward Looking Statements and Risk Factors

General: Our business, results of operations, and financial condition could be affected by the Risk Factors referred to under “Location of Risk Factors” below. These Risk Factors are an integral part of Management’s Discussion and Analysis.

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. Among others, statements that include words such as we “believe,” “anticipate” or “expect,” or words of similar import, are forward looking statements. These Risk Factors speak only as of the date of this filing and are subject to change without notice as the Company cannot predict all risks relating to this evolving set of events. We are not undertaking any obligation to update any forward looking statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements were made. Therefore, no reader of this document should rely on these statements being current as of any time other than the time at which this document was filed with the Securities and Exchange Commission.

While we communicate with security analysts from time to time, it is against our policy to disclose to them any material non-public information or other confidential information. Accordingly, investors should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report, and such reports are not our responsibility.

Location of Risk Factors: The Risk Factors are in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2022, as supplemented by Part II, Item 1 A of this Quarterly Report on Form 10-Q. The Risk Factors in the 10-K, as supplemented by this 10-Q and through updating of various statistical and other information, are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our investment portfolio is essentially a fixed income portfolio and is exposed to market risk. Important drivers of the market risk are credit spread risk and interest rate risk.

Credit spread risk is the risk that we will incur a loss due to adverse changes in credit spreads. Credit spread is the additional yield on fixed income securities above the risk-free rate (typically referenced as the yield on U.S. Treasury securities) that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks.

We manage credit risk via our investment policy guidelines which primarily place our investments in investment grade securities and limit the amount of our credit exposure to any one issue, issuer and type of instrument. Guideline and investment portfolio detail is available in "Business – Section E, Investment Portfolio" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2022.

Interest rate risk is the risk that we will incur a loss due to adverse changes in interest rates relative to the characteristics of our interest bearing assets.

One of the measures used to quantify this exposure is modified duration. Modified duration measures the price sensitivity of the assets to the changes in spreads. At March 31, 2023, the modified duration of our fixed income investment portfolio was 4.1 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 4.1% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. See Note 7 – “Investments” to our consolidated financial statements for additional disclosure surrounding our investment portfolio.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures were effective as of the end of such period. There was no change in our internal control over financial reporting that occurred during the first quarter of 2023 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Certain legal proceedings arising in the ordinary course of business may be filed or pending against us from time to time. For information about such legal proceedings, you should review Note 5 - "Litigation and Contingencies" to our consolidated financial statements and our Risk Factor titled "We are subject to the risk of legal proceedings in the future" in Exhibit 99.

Item 1 A. Risk Factors

With the exception of the changes described and set forth below, there have been no material changes in our Risk Factors from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. The risk factors in the 10-K, as supplemented by this 10-Q and through updating of various statistical and other information, are reproduced in their entirety in Exhibit 99 to this Quarterly Report on Form 10-Q.

Risk Factors Relating to the Mortgage Insurance Industry and its Regulation

Changes in the business practices of Fannie Mae and Freddie Mac's ("the GSEs"), federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses.

The substantial majority of our new insurance written ("NIW") is for loans purchased by the GSEs; therefore, the business practices of the GSEs greatly impact our business. In 2022 the GSEs each published Equitable Housing Finance Plans. Updated Plans were subsequently published by each GSE in April 2023. The Plans seek to advance equity in housing finance over a three year period and include potential changes to the GSEs' business practices and policies. Specifically relating to mortgage insurance, (1) Fannie Mae's Plan includes the creation of special purchase credit program(s) ("SPCPs") targeted to historically underserved borrowers with a goal of lowering costs for such borrowers through lower than standard mortgage insurance requirements; and (2) Freddie Mac's Plan includes plans to work with mortgage insurers to look for ways to lower mortgage costs, the creation of SPCPs targeted to historically underserved borrowers, and the planned purchase of loans originated through lender-created SPCPs. To the extent the business practices and policies of the GSEs regarding mortgage insurance coverage, costs and cancellation change, including more broadly than through SPCPs, such changes may negatively impact the mortgage insurance industry.

Other business practices of the GSEs that affect the mortgage insurance industry include:

- The GSEs' private mortgage insurer eligibility requirements ("PMIERs"), the financial requirements of which are discussed in our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*
- The capital and collateral requirements for participants in the GSEs' alternative forms of credit enhancement discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*
- The level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters, when private mortgage insurance is used as the required credit enhancement on low down payment mortgages (the GSEs generally require a level of mortgage insurance coverage that is higher than the level of coverage required by their charters; any change in the required level of coverage will impact our new risk written).
- The amount of loan level price adjustments and guaranty fees (which result in higher costs to borrowers) that the GSEs assess on loans that require private mortgage insurance. The requirements of the new GSE capital framework may lead the GSEs to increase their guaranty fees. In addition, the FHFA has indicated that it is reviewing the GSEs' pricing in connection with preparing them to exit conservatorship and to ensure that pricing subsidies benefit only affordable housing activities.
- Whether the GSEs select or influence the mortgage lender's selection of the mortgage insurer providing coverage.
- The underwriting standards that determine which 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 business practices associated with such cancellations. For more information, see the above discussion of the GSEs' Equitable Housing Plans and our risk factor titled "*Changes in interest rates, house prices or mortgage insurance cancellation requirements may change the length of time that our policies remain in force*."
- The programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs.
- The terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase, including limitations on the rescission rights of mortgage insurers.

- The extent to which the GSEs intervene in mortgage insurers' claims paying practices, rescission practices or rescission settlement practices with lenders.

- The maximum loan limits of the GSEs compared to those of the Federal Housing Administration ("FHA") and other investors.

- The benchmarks established by the FHFA for loans to be purchased by the GSEs, which can affect the loans available to be insured. In December 2021, the FHFA established the benchmark levels for 2022-2024 purchases of low-income home mortgages, very low-income home mortgages and low-income refinance mortgages, each of which exceeded the 2021 benchmarks. The FHFA also established two new sub-goals: one targeting minority communities and the other targeting low-income neighborhoods.

The FHFA has been the conservator of the GSEs since 2008 and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential housing finance system through the GSE conservatorships may increase the likelihood that the business practices of the GSEs change, including through administrative action, in ways that have a material adverse effect on us and that the charters of the GSEs are changed by new federal legislation.

It is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the residential housing finance system in the future. The timing and impact on our business of any resulting changes are uncertain. Many of the proposed changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

Reinsurance may not always be available or its cost may increase.

We have in place QSR and XOL reinsurance transactions providing various amounts of coverage on 85% of our risk in force as of March 31, 2023. Refer to Part 1, Note 4 – "Reinsurance" and Part 1, Item 2 "Consolidated Results of Operations – Reinsurance Transactions" of our Quarterly Report on Form 10-Q, for more information about coverage under our reinsurance transactions. The reinsurance transactions reduce the tail-risk associated with stress scenarios. As a result, they reduce the capital that we are required to hold to support the risk and they allow us to earn higher returns on our business than we would without them. However, reinsurance may not always be available to us or available on similar terms, the reinsurance transactions subject us to counterparty credit risk, and the GSEs may change the credit they allow under the PMIERs for risk ceded under our reinsurance transactions. Our access to reinsurance may be disrupted and the terms under which we are able to obtain reinsurance may be less attractive than in the past due to volatility stemming from circumstances such as higher interest rates, increased inflation, global events such as the Russia-Ukraine war, and other factors.

Most of our XOL transactions were entered into in capital market transactions with special purpose insurers that issued notes linked to the reinsurance coverage ("Insurance Linked Notes" or "ILNs"). In 2022, execution of transactions for XOL reinsurance through the ILN market was more challenging, with increased pricing, down-sized transactions, and generally fewer transactions executed by mortgage insurers. There were no XOL transactions through the ILN market during the first quarter of 2023. Additionally, in January 2023, the Securities Exchange Commission proposed a rule pursuant to Section 27B of the Securities Act of 1933, as amended, that if adopted as proposed may impact our ability to enter into future ILN transactions. If we are unable to obtain reinsurance for our insurance written, the capital required to support our insurance written will not be reduced as discussed above and our returns may decrease absent an increase in our premium rates. An increase in our premium rates may lead to a decrease in our NIW.

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

Alternatives to private mortgage insurance include:

- investors using risk mitigation and credit risk transfer techniques other than private mortgage insurance, or accepting credit risk without credit enhancement,

- lenders and other investors holding mortgages in portfolio and self-insuring,

- lenders using FHA, U.S. Department of Veterans Affairs ("VA") and other government mortgage insurance programs, and

- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ("LTV") ratio and a second mortgage with a 10%, 15% or 20% LTV ratio rather than a first mortgage with a 90%, 95% or 100% LTV ratio that has private mortgage insurance.

The GSEs' charters generally require credit enhancement for a low down payment mortgage loan (a loan in an amount that exceeds 80% of a home's value) in order for such loan to be eligible for purchase by the GSEs. Private mortgage insurance generally has been purchased by lenders in primary mortgage market transactions to satisfy this credit enhancement requirement. In 2018, the GSEs initiated secondary mortgage market programs with loan level mortgage default coverage provided by various (re)insurers that are not mortgage insurers governed by PMIERs, and that are not selected by the lenders. These programs, which currently account for a small percentage of the low down payment market, compete with traditional private mortgage insurance and, due to differences in policy terms, they may offer premium rates that are below prevalent single premium lender-paid mortgage insurance ("LPMI") rates. We participate in these programs from time to time. See our risk factor titled "*Changes in the business practices of Fannie Mae and Freddie Mac's ("the GSEs"), federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our* *losses"* for a discussion of various business practices of the GSEs that may be changed, including through expansion or modification of these programs.

The GSEs (and other investors) have also used other forms of credit enhancement that did not involve traditional private mortgage insurance, such as engaging in credit-linked note transactions executed in the capital markets, or using other forms of debt issuances or securitizations that transfer credit risk directly to other investors, including competitors and an affiliate of MGIC; using other risk mitigation techniques in conjunction with reduced levels of private mortgage insurance coverage; or accepting credit risk without credit enhancement.

The FHA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 26.7% in 2022, 24.7% in 2021, and 23.4% in 2020. Beginning in 2012, the FHA's share has been as low as 23.4% (in 2020) and as high as 42.1% (in 2012). Factors that influence the FHA's market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; changes to the GSEs' business practices; lenders' perceptions of legal risks under FHA versus GSE programs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns expected to be obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to the GSEs for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. On February 22, 2023, the FHA announced a 30-basis point decrease in its mortgage insurance premium rates. This rate reduction will negatively impact our NIW; however, given the many factors that influence the FHA's market share, it is difficult to predict the extent of the impact. In addition, we cannot predict how the factors that affect the FHA's share of NIW will change in the future.

The VA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 24.5% in 2022, 30.2% in 2021, and 30.9% in 2020. Beginning in 2012, the VA's share has been as low as 22.8% (in 2013) and as high as 30.9% (in 2020). We believe that the VA's market share grows as the number of borrowers that are eligible for the VA's program increases, and when eligible borrowers opt to use the VA program when refinancing their mortgages. The VA program offers 100% LTV ratio loans and charges a one-time funding fee that can be included in the loan amount.

Risk Factors Relating to Our Business Generally

Actual or perceived instability in the financial services industry or non-performance by financial institutions or transactional counterparties could materially impact our business.

Limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry with which we do business, or concerns or rumors about the possibility of such events, have in the past and may in the future lead to market-wide liquidity problems. Such conditions may negatively impact our results and/or financial condition. While we are unable to predict the full impact of these conditions, they may lead to among other things: disruption to the mortgage market, delayed access to deposits or other financial assets; losses of deposits in excess of federally-insured levels; reduced access to, or increased costs associated with, funding sources and other credit arrangements adequate to finance our current or future operations; increased regulatory pressure; the inability of our counterparties and/or customers to meet their obligations to us; economic downturn; and rising unemployment levels. Refer to our risk factor titled "*Downturns in the domestic economy or declines in home prices may result in more homeowners defaulting and our losses increasing, with a corresponding decrease in our returns*" for more information about the potential effects of a deterioration of economic conditions on our business.

We routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, reinsurers, and our customers. Many of these transactions expose us to credit risk and losses in the event of a default by a counterparty or customer. Any such losses could have a material adverse effect on our financial condition and results of operations.

We are subject to the risk of legal proceedings.

Before paying an insurance claim, generally we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage or deny a claim on the loan (both referred to herein as "rescissions"). In addition, our insurance policies generally provide that we can reduce a claim if the servicer did not comply with its obligations under our insurance policy (such reduction referred to as a "curtailment"). In recent years, an immaterial percentage of claims received have been resolved by rescissions. In the first quarter of 2023 and in 2022, curtailments reduced our average claim paid by approximately 8.5% and 6.3%, respectively. The COVID-19-related foreclosure moratoriums and forbearance plans, along with increased home prices, resulted in decreased claims paid activity beginning in the second quarter of 2020. It is difficult to predict the level of curtailments once foreclosure activity returns to a more typical level. Our loss reserving methodology incorporates our estimates of future rescissions, curtailments, and reversals of rescissions and curtailments. A variance between ultimate actual rescission, curtailment and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

When the insured disputes our right to rescind coverage or curtail claims, we generally engage in discussions in an attempt to settle the dispute. If we are unable to reach a settlement, the outcome of a dispute ultimately may be determined by legal proceedings. Under ASC 450-20, until a loss associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss.

When we determine that a loss is probable and can be reasonably estimated, we record our best estimate of our probable loss. In those cases, until settlement negotiations or legal proceedings are concluded (including the receipt of any necessary GSE approvals), it is possible that we will record an additional loss.

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

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table provides information about purchases of MGIC Investment Corporation common stock by us during the three months ended March 31, 2023.

Share repurchases

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the programs [1]
January 1, 2023	January 31, 2023	2,056,537	$ 13.44	2,056,537	$ 86,646,562
February 1 2023	February 28, 2023	1,537,642	13.97	1,537,642	65,165,804
March 1 2023	March 31, 2023	2,201,428	13.05	2,201,428	$ 36,440,296
		5,795,607	$ 13.43	5,795,607	

[1] In October 2021, our Board of Directors authorized a share repurchase program under which as of March 31, 2023, we may repurchase up to an additional $36 million of our common stock through the end of 2023. Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time. In April 2023, our Board of Directors approved a share repurchase program, authorizing us to repurchase an additional $500 million of common stock at any time prior to July 1, 2025.

Item 6. Exhibits

The accompanying Index to Exhibits is incorporated by reference in answer to this portion of this Item, and except as otherwise indicated in the next sentence, the Exhibits listed in such Index are filed as part of this Form 10-Q. Exhibit 32 is not filed as part of this Form 10-Q but accompanies this Form 10-Q.

(Part II, Item 6)

Index to exhibits

Exhibit Number	Description of Exhibit	Form	Exhibit(s)	Filing Date
31.1	Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002 †			
31.2	Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002 †			
32	Certification of CEO and CFO under Section 906 of Sarbanes-Oxley Act of 2002 (as indicated in Item 6 of Part II, this Exhibit is not being "filed") ††			
99	Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2023 and through updating of various statistical and other information †			
101.INS	Inline XBRL Instance Document			
101.SCH	Inline XBRL Taxonomy Extension Schema Document			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document			
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)			

* Denotes a management contract or compensatory plan.
† Filed herewith.
†† Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on May 3, 2023.

MGIC INVESTMENT CORPORATION

/s/ Nathaniel H. Colson
Nathaniel H. Colson
Executive Vice President and
Chief Financial Officer

/s/ Julie K. Sperber
Julie K. Sperber
Vice President, Controller and Chief Accounting Officer

Exhibit 31.1
CERTIFICATIONS

I, Timothy J. Mattke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGIC Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2023

/s/ Timothy J. Mattke
Timothy J. Mattke
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Nathan H. Colson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGIC Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2023

/s/ Nathan H. Colson
Nathan H. Colson
Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATIONS

The undersigned, Timothy J. Mattke, Chief Executive Officer of MGIC Investment Corporation (the "Company"), and Nathan H. Colson, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S. C. Section 1350, that to our knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the three months ended March 31, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2023

/s/ Timothy J. Mattke
Timothy J. Mattke
Chief Executive Officer

/s/ Nathan H. Colson
Nathan H. Colson
Chief Financial Officer

Exhibit 99

Risk Factors

Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2023, and through updating of various statistical and other information.

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

Risk Factors Relating to Global Events

The Russia-Ukraine war and/or other global events may adversely affect the U.S. economy and our business.

Russia's invasion of Ukraine has increased the already-elevated inflation rate, added more pressure to strained supply chains, and has increased volatility in the domestic and global financial markets. The war has impacted, and may impact, our business in various ways, including the following which are described in more detail in the remainder of these risk factors:

- The terms under which we are able to obtain excess-of-loss ("XOL") reinsurance through the insurance-linked notes ("ILN") market and the traditional reinsurance market have been negatively impacted and terms under which we are able to access those markets in the future may be limited or less attractive.
- The risk of a cybersecurity incident that affects our company may have increased.
- An extended or broadened war may negatively impact the domestic economy, which may increase unemployment and inflation, or decrease home prices, in each case leading to an increase in loan delinquencies.
- The volatility in the financial markets may impact the performance of our investment portfolio and our investment portfolio may include investments in companies or securities that are negatively impacted by the war.

Risk Factors Relating to the Mortgage Insurance Industry and its Regulation

Downturns in the domestic economy or declines in home prices may result in more homeowners defaulting and our losses increasing, with a corresponding decrease in our returns.

Losses result from events that reduce a borrower’s ability or willingness to make mortgage payments, such as unemployment, health issues, changes in family status, and decreases in home prices that result in the borrower's mortgage balance exceeding the net value of the home. A deterioration in economic conditions, including an increase in unemployment, generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect home prices.

High levels of unemployment may result in an increasing number of loan delinquencies and an increasing number of insurance claims; however, unemployment is difficult to predict given the uncertainty in the current market environment, including as a result of global events such as the COVID-19 pandemic, the Russia-Ukraine war, instability in the financial services industry, and the possibility of an economic recession. Since the beginning of 2021, inflation has increased dramatically. The impact that higher inflation rates will have on loan delinquencies is unknown.

The seasonally-adjusted Purchase-Only U.S. Home Price Index of the Federal Housing Finance Agency (the “FHFA”), which is based on single-family properties whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac, indicates that home prices increased 0.5% nationwide in February, 2023 compared to January, 2023. Although the 12 month change in home prices recently reached historically high rates, the rate of growth is moderating: it increased by 0.6% in the first two months of 2023, after increasing 6.7%, 18.0%, and 11.8% in 2022, 2021 and 2020, respectively. The national average price-to-income ratio exceeds its historical average, in part as a result of recent home price appreciation outpacing increases in income. Affordability issues and the significant increase in interest rates has put downward pressure on home prices. Recent third-party forecasts predict that home prices will decline. This decline may occur even absent a deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers’ perceptions of the potential for future appreciation, restrictions on and the cost of mortgage credit due to more stringent underwriting standards, higher interest rates, changes to the tax deductibility of mortgage interest, decreases in the rate of household formations, or other factors.

Changes in the business practices of Fannie Mae and Freddie Mac's ("the GSEs"), federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses.

The substantial majority of our new insurance written ("NIW") is for loans purchased by the GSEs; therefore, the business practices of the GSEs greatly impact our business. In 2022 the GSEs each published Equitable Housing Finance Plans. Updated Plans were subsequently published by each GSE in April 2023. The Plans seek to advance equity in housing finance over a three year period and include potential changes to the GSEs’ business practices and policies. Specifically relating to mortgage insurance, (1) Fannie Mae’s Plan includes the creation of special purchase credit program(s) ("SPCPs") targeted to historically underserved borrowers with a goal of lowering costs for such borrowers through lower than standard mortgage insurance requirements; and (2) Freddie Mac’s Plan includes plans to work with mortgage insurers to look for ways to lower mortgage costs, the creation of SPCPs targeted to historically underserved borrowers, and the planned purchase of loans originated through lender-created SPCPs. To the extent the business practices and policies of the GSEs regarding mortgage insurance coverage, costs and cancellation change, including more broadly than through SPCPs, such changes may negatively impact the mortgage insurance industry.

Other business practices of the GSEs that affect the mortgage insurance industry include:

- The GSEs' private mortgage insurer eligibility requirements ("PMIERs"), the financial requirements of which are discussed in our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*

- The capital and collateral requirements for participants in the GSEs' alternative forms of credit enhancement discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*

- The level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters, when private mortgage insurance is used as the required credit enhancement on low down payment mortgages (the GSEs generally require a level of mortgage insurance coverage that is higher than the level of coverage required by their charters; any change in the required level of coverage will impact our new risk written).

- The amount of loan level price adjustments and guaranty fees (which result in higher costs to borrowers) that the GSEs assess on loans that require private mortgage insurance. The requirements of the new GSE capital framework may lead the GSEs to increase their guaranty fees. In addition, the FHFA has indicated that it is reviewing the GSEs' pricing in connection with preparing them to exit conservatorship and to ensure that pricing subsidies benefit only affordable housing activities.

- Whether the GSEs select or influence the mortgage lender's selection of the mortgage insurer providing coverage.

- The underwriting standards that determine which 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 business practices associated with such cancellations. For more information, see the above discussion of the GSEs' Equitable Housing Plans and our risk factor titled "*Changes in interest rates, house prices or mortgage insurance cancellation requirements may change the length of time that our policies remain in force*."

- The programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs.

- The terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase, including limitations on the rescission rights of mortgage insurers.

- The extent to which the GSEs intervene in mortgage insurers' claims paying practices, rescission practices or rescission settlement practices with lenders.

- The maximum loan limits of the GSEs compared to those of the Federal Housing Administration ("FHA") and other investors.

- The benchmarks established by the FHFA for loans to be purchased by the GSEs, which can affect the loans available to be insured. In December 2021, the FHFA established the benchmark levels for 2022-2024 purchases of low-income home mortgages, very low-income home mortgages and low-income refinance mortgages, each of which exceeded the 2021 benchmarks. The FHFA also established two new sub-goals: one targeting minority communities and the other targeting low-income neighborhoods.

The FHFA has been the conservator of the GSEs since 2008 and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential housing finance system through the GSE conservatorships may increase the likelihood that the business practices of the GSEs change, including through administrative action, in ways that have a material adverse effect on us and that the charters of the GSEs are changed by new federal legislation.

It is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the residential housing finance system in the future. The timing and impact on our business of any resulting changes are uncertain. Many of the proposed changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility.

We must comply with a GSE's PMIERs to be eligible to insure loans delivered to or purchased by that GSE. The PMIERs include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERs require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its “Minimum Required Assets” (which are generally based on an insurer’s book of risk in force and calculated from tables of factors with several risk dimensions, reduced for credit given for risk ceded under reinsurance agreements).

Based on our interpretation of the PMIERs, as of March 31, 2023, MGIC’s Available Assets totaled $5.9 billion, or $2.4 billion in excess of its Minimum Required Assets. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs. Our "Minimum Required Assets" reflect a credit for risk ceded under our quota share reinsurance ("QSR") and XOL reinsurance transactions, which are discussed in our risk factor titled *"The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring."* The calculated credit for XOL reinsurance transactions under PMIERs is generally based on the PMIERs requirement of the covered loans and the attachment and detachment points of the coverage, all of which fluctuate over time. PMIERs credit is generally not given for the reinsured risk above the PMIERs requirement. The GSEs have discretion to further limit reinsurance credit under the PMIERs. Refer to “Consolidated Results of Operations – Reinsurance Transactions” in Part I, Item 2 of our Quarterly Report on Form 10-Q for information about the calculated PMIERs credit for our XOL transactions. There is a risk we will not receive our current level of credit in future periods for ceded risk. In addition, we may not receive the same level of credit under future reinsurance transactions that we receive under existing transactions. If MGIC is not allowed certain levels of credit under the PMIERs, under certain circumstances, MGIC may terminate the reinsurance transactions without penalty.

The PMIERs generally require us to hold significantly more Minimum Required Assets for delinquent loans than for performing loans and the Minimum Required Assets required to be held increases as the number of payments missed on a delinquent loan increases. If the number of loan delinquencies increases for reasons discussed in these risk factors, or otherwise, it may cause our Minimum Required Assets to exceed our Available Assets. We are unable to predict the ultimate number of loans that will become delinquent.

If our Available Assets fall below our Minimum Required Assets, we would not be in compliance with the PMIERs. The PMIERs provide a list of remediation actions for a mortgage insurer's non-compliance, with additional actions possible in the GSEs' discretion. At the extreme, the GSEs may suspend or terminate our eligibility to insure loans purchased by them. Such suspension or termination would significantly reduce the volume of our NIW, the substantial majority of which is for loans delivered to or purchased by the GSEs. In addition to the increase in Minimum Required Assets associated with delinquent loans, factors that may negatively impact MGIC’s ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs may make the PMIERs more onerous in the future. The PMIERs provide that the factors that determine Minimum Required Assets will be updated periodically, or as needed if there is a significant change in macroeconomic conditions or loan performance. We do not anticipate that the regular periodic updates will occur more frequently than once every two years. The PMIERs state that the GSEs will provide notice 180 days prior to the effective date of updates to the factors; however, the GSEs may amend the PMIERs at any time, including by imposing restrictions specific to our company.

- The PMIERs may be changed in response to the final regulatory capital framework for the GSEs that was published in February 2022.

- Our future operating results may be negatively impacted by the matters discussed in the rest of these risk factors. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby creating a shortfall in Available Assets.

Should capital be needed by MGIC in the future, capital contributions from our holding company may not be available due to competing demands on holding company resources, including for repayment of debt.

Because loss reserve estimates are subject to uncertainties, paid claims may be substantially different than our loss reserves.

When we establish case reserves, we estimate our ultimate loss on delinquent loans by estimating the number of such loans that will result in a claim payment (the "claim rate"), and further estimating the amount of the claim payment (the "claim severity"). Changes to our claim rate and claim severity estimates could have a material impact on our future results, even in a stable economic environment. Our estimates incorporate anticipated cures, loss mitigation activity, rescissions and curtailments. The establishment of loss reserves is subject to inherent uncertainty and requires significant judgment by management. Our actual claim payments may differ substantially from our loss reserve estimates. Our estimates could be affected by several factors, including a change in regional or national economic conditions as discussed in these risk factors and a change in the length of time loans are delinquent before claims are received. Generally, the longer a loan is delinquent before a claim is received, the greater the severity. Foreclosure moratoriums and forbearance programs increase the average time it takes to receive claims. Economic conditions may differ from region to region. Information about the geographic dispersion of our risk in force and delinquency inventory can be found in our Annual Reports on Form 10-K and our Quarterly Reports on Form 10-Q. Prior to the COVID-19 pandemic, losses incurred generally followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new default notice activity and a lower cure rate.

We are subject to comprehensive regulation and other requirements, which we may fail to satisfy.

We are subject to comprehensive regulation, including by state insurance departments. Many regulations are designed for the protection of our insured policyholders and consumers, rather than for the benefit of investors. Mortgage insurers, including MGIC, have in the past been involved in litigation and regulatory actions related to alleged violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act ("RESPA"), and the notice provisions of the Fair Credit Reporting Act ("FCRA"). While these proceedings in the aggregate did not result in material liability for MGIC, there can be no assurance that the outcome of future proceedings, if any, under these laws or others would not have a material adverse effect on us. To the extent that we are construed to make independent credit decisions in connection with our contract underwriting activities, we also could be subject to increased regulatory requirements under the Equal Credit Opportunity Act ("ECOA"), FCRA, and other laws. Under relevant laws, examination may also be made of whether a mortgage insurer's underwriting decisions have a disparate impact on persons belonging to a protected class in violation of the law.

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, including payment for the referral of insurance business, premium rates and discrimination in pricing, and minimum capital requirements. The increased use, by the private mortgage insurance industry, of risk-based pricing systems that establish premium rates based on more attributes than previously considered, and of algorithms, artificial intelligence and data and analytics, has led to additional regulatory scrutiny of premium rates and of other matters such as discrimination in pricing and underwriting, data privacy and access to insurance. For more information about state capital requirements, see our risk factor titled "*State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis*." For information about regulation of data privacy, see our risk factor titled "*We could be materially adversely affected by a cyber security breach or failure of information security controls*." For more details about the various ways in which our subsidiaries are regulated, see "Business - Regulation" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2022.

While we have established policies and procedures to comply with applicable laws and regulations, many such laws and regulations are complex and it is not possible to predict the eventual scope, duration or outcome of any reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

Pandemics, hurricanes and other natural disasters may impact our incurred losses, the amount and timing of paid claims, our inventory of notices of default and our Minimum Required Assets under PMIERs.

Pandemics and other natural disasters, such as hurricanes, tornadoes, earthquakes, wildfires and floods, or other events related to changing climatic conditions, could trigger an economic downturn in the affected areas, or in areas with similar risks, which could result in a decline in our business and an increased claim rate on policies in those areas. Natural disasters, rising sea levels and/or fresh water shortages could lead to a decrease in home prices in the affected areas, or in areas with similar risks, which could result in an increase in claim severity on policies in those areas. In addition, the inability of a borrower to obtain hazard and/or flood insurance, or the increased cost of such insurance, could lead to an increase in delinquencies or a decrease in home prices in the affected areas. If we were to attempt to limit our new insurance written in affected areas, lenders may be unwilling to procure insurance from us anywhere.

Pandemics and other natural disasters could also lead to increased reinsurance rates or reduced availability of reinsurance. This may cause us to retain more risk than we otherwise would retain and could negatively affect our compliance with the financial requirements of State Capital Requirements and the PMIERs.

The PMIERs require us to maintain significantly more "Minimum Required Assets" for delinquent loans than for performing loans. See our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*

In 2021, the FHFA issued a Request for Input ("RFI") regarding Climate and Natural Disaster Risk Management at the Regulated Entities (i.e., the GSEs and the Federal Home Loan Banks). In response to RFI comments received, the FHFA indicated that it would be developing approaches to assess climate and natural disaster risks to the housing finance system and enhance its supervisory and regulatory framework in response to such risks. The FHFA has also instructed the GSEs to designate climate change as a priority concern and actively consider its effects in their decision making. It is possible that efforts to manage these risks by the FHFA, GSEs (including through GSE guideline or mortgage insurance policy changes) or others could materially impact the volume and characteristics of our NIW (including its policy terms), home prices in certain areas and defaults by borrowers in certain areas.

Reinsurance may not always be available or its cost may increase.

We have in place QSR and XOL reinsurance transactions providing various amounts of coverage on 85% of our risk in force as of March 31, 2023. Refer to Part 1, Note 4 – "Reinsurance" and Part 1, Item 2 "Consolidated Results of Operations – Reinsurance Transactions" of our Quarterly Report on Form 10-Q, for more information about coverage under our reinsurance transactions. The reinsurance transactions reduce the tail-risk associated with stress scenarios. As a result, they reduce the capital that we are required to hold to support the risk and they allow us to earn higher returns on our business than we would without them. However, reinsurance may not always be available to us or available on similar terms, the reinsurance transactions subject us to counterparty credit risk, and the GSEs may change the credit they allow under the PMIERs for risk ceded under our reinsurance transactions. Our access to reinsurance may be disrupted and the terms under which we are able to obtain reinsurance may be less attractive than in the past due to volatility stemming from circumstances such as higher interest rates, increased inflation, global events such as the Russia-Ukraine war, and other factors.

Most of our XOL transactions were entered into in capital market transactions with special purpose insurers that issued notes linked to the reinsurance coverage ("Insurance Linked Notes" or "ILNs"). In 2022, execution of transactions for XOL reinsurance through the ILN market was more challenging, with increased pricing, down-sized transactions, and generally fewer transactions executed by mortgage insurers. There were no XOL transactions through the ILN market during the first quarter of 2023. Additionally, in January 2023, the Securities Exchange Commission proposed a rule pursuant to Section 27B of the Securities Act of 1933, as amended, that if adopted as proposed may impact our ability to enter into future ILN transactions. If we are unable to obtain reinsurance for our insurance written, the capital required to support our insurance written will not be reduced as discussed above and our returns may decrease absent an increase in our premium rates. An increase in our premium rates may lead to a decrease in our NIW.

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

In accordance with accounting principles generally accepted in the United States, we establish case reserves for insurance losses and loss adjustment expenses only when delinquency notices are received for insured loans that are two or more payments past due and for loans we estimate are delinquent but for which delinquency notices have not yet been received (which we include in "IBNR"). Losses that may occur from loans that are not delinquent are not reflected in our financial statements, except when a "premium deficiency" is recorded. A premium deficiency would be recorded if the present value of expected future losses and expenses exceeds the present value of expected future premiums and already established loss reserves on the applicable loans. As a result, future losses incurred on loans that are not currently delinquent may have a material impact on future results as delinquencies emerge. As of March 31, 2023, we had established case reserves and reported losses incurred for 24,757 loans in our delinquency inventory and our IBNR reserve totaled $22 million. The number of loans in our delinquency inventory may increase from that level as a result of economic conditions relating to current global events or other factors and our losses incurred may increase.

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

The insurance laws of 16 jurisdictions, including Wisconsin, MGIC's domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to its risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the "State Capital Requirements." While they vary among jurisdictions, the most common State Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if (i) the percentage decrease in capital exceeds the percentage decrease in insured risk, or (ii) the percentage increase in capital is less than the percentage increase in insured risk. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position ("MPP"). MGIC's "policyholder position" includes its net worth or surplus, and its contingency reserve.

At March 31, 2023 MGIC's risk-to-capital ratio was 9.7 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $3.7 billion above the required MPP of $2.1 billion. Our risk-to-capital ratio and MPP reflect full credit for the risk ceded under our quota share reinsurance and excess of loss transactions in the ILN market and traditional reinsurance market with unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded under such transactions. If MGIC is not allowed an agreed level of credit under the State Capital Requirements, MGIC may terminate the reinsurance transactions, without penalty.

The NAIC previously announced plans to revise the State Capital Requirements that are provided for in its Mortgage Guaranty Insurance Model Act. In December 2019, a working group of state regulators released an exposure draft of a revised Mortgage Guaranty Insurance Model Act and a risk-based capital framework to establish capital requirements for mortgage insurers, although certain items were not completely addressed by the framework, including the treatment of ceded risk and minimum capital floors. In October 2022, the NAIC working group released a revised exposure draft of the Mortgage Guaranty Insurance Model Act that does not include changes to the capital requirements of the existing Model Act. The working group has continued to revise the draft Model Act and in March 2023 indicated that a final version is expected to be approved by the NAIC sometime during 2023, but it is not expected that the final version will include substantive changes to the capital requirements of the existing Model Act. It is uncertain when the revised Model Act will be adopted in any jurisdiction and whether any changes will be made by legislatures prior to such adoption.

While MGIC currently meets the State Capital Requirements of Wisconsin and all other jurisdictions, it could be prevented from writing new business in the future in all jurisdictions if it fails to meet the State Capital Requirements of Wisconsin, or it could be prevented from writing new business in a particular jurisdiction if it fails to meet the State Capital Requirements of that jurisdiction, and in each case if MGIC does not obtain a waiver of such requirements. It is possible that regulatory action by one or more jurisdictions, including those that do not have specific State Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions. If we are unable to write business in a particular jurisdiction, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the future ability of our insurance operations to meet the State Capital Requirements or the PMIERs may affect its willingness to procure insurance from us. In this regard, see our risk factor titled *"Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or increase our losses."* A possible future failure by MGIC to meet the State Capital Requirements or the PMIERs will not necessarily mean that MGIC lacks sufficient resources to pay claims on its insurance liabilities. You should read the rest of these risk factors for information about matters that could negatively affect MGIC's compliance with State Capital Requirements and its claims paying resources.

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

The factors that may affect the volume of low down payment mortgage originations include the health of the U.S. economy; conditions in regional and local economies and the level of consumer confidence; the health and stability of the financial services industry; restrictions on mortgage credit due to more stringent underwriting standards, liquidity issues or risk-retention and/or capital requirements affecting lenders; the level of home mortgage interest rates; housing affordability; new and existing housing availability; the rate of household formation, which is influenced, in part, by population and immigration trends; homeownership rates; the rate of home price appreciation, which in times of heavy refinancing can affect whether refinanced loans have LTV 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 and limit our NIW. For other factors that could decrease the demand for mortgage insurance, see our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*

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

Alternatives to private mortgage insurance include:

- investors using risk mitigation and credit risk transfer techniques other than private mortgage insurance, or accepting credit risk without credit enhancement,
- lenders and other investors holding mortgages in portfolio and self-insuring,
- lenders using FHA, U.S. Department of Veterans Affairs ("VA") and other government mortgage insurance programs, and
- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ("LTV") ratio and a second mortgage with a 10%, 15% or 20% LTV ratio rather than a first mortgage with a 90%, 95% or 100% LTV ratio that has private mortgage insurance.

The GSEs' charters generally require credit enhancement for a low down payment mortgage loan (a loan in an amount that exceeds 80% of a home's value) in order for such loan to be eligible for purchase by the GSEs. Private mortgage insurance generally has been purchased by lenders in primary mortgage market transactions to satisfy this credit enhancement requirement. In 2018, the GSEs initiated secondary mortgage market programs with loan level mortgage default coverage provided by various (re)insurers that are not mortgage insurers governed by PMIERs, and that are not selected by the lenders. These programs, which currently account for a small percentage of the low down payment market, compete with traditional private mortgage insurance and, due to differences in policy terms, they may offer premium rates that are below prevalent single premium lender-paid mortgage insurance ("LPMI") rates. We participate in these programs from time to time. See our risk factor titled "*Changes in the business practices of Fannie Mae and Freddie Mac's ("the GSEs"), federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses"* for a discussion of various business practices of the GSEs that may be changed, including through expansion or modification of these programs.

The GSEs (and other investors) have also used other forms of credit enhancement that did not involve traditional private mortgage insurance, such as engaging in credit-linked note transactions executed in the capital markets, or using other forms of debt issuances or securitizations that transfer credit risk directly to other investors, including competitors and an affiliate of MGIC; using other risk mitigation techniques in conjunction with reduced levels of private mortgage insurance coverage; or accepting credit risk without credit enhancement.

The FHA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 26.7% in 2022, 24.7% in 2021, and 23.4% in 2020. Beginning in 2012, the FHA's share has been as low as 23.4% (in 2020) and as high as 42.1% (in 2012). Factors that influence the FHA's market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; changes to the GSEs' business practices; lenders' perceptions of legal risks under FHA versus GSE programs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns expected to be obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to the GSEs for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. On February 22, 2023, the FHA announced a 30-basis point decrease in its mortgage insurance premium rates. This rate reduction will negatively impact our NIW; however, given the many factors that influence the FHA's market share, it is difficult to predict the extent of the impact. In addition, we cannot predict how the factors that affect the FHA's share of NIW will change in the future.

The VA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 24.5% in 2022, 30.2% in 2021, and 30.9% in 2020. Beginning in 2012, the VA's share has been as low as 22.8% (in 2013) and as high as 30.9% (in 2020). We believe that the VA's market share grows as the number of borrowers that are eligible for the VA's program increases, and when eligible borrowers opt to use the VA program when refinancing their mortgages. The VA program offers 100% LTV ratio loans and charges a one-time funding fee that can be included in the loan amount.

Changes in interest rates, house prices or mortgage insurance cancellation requirements may change the length of time that our policies remain in force.

The premium from a single premium policy is collected upfront and generally earned over the estimated life of the policy. In contrast, premiums from monthly and annual premium policies are received each month or year, as applicable, and earned each month over the life of the policy. In each year, most of our premiums earned are from insurance that has been written in prior years. As a result, the length of time insurance remains in force, which is generally measured by persistency (the percentage of our insurance remaining in force from one year prior), is a significant determinant of our revenues. A higher than expected persistency rate may decrease the profitability from single premium policies because they will remain in force longer and may increase the incidence of claims that was estimated when the policies were written. A low persistency rate on monthly and annual premium policies will reduce future premiums but may also reduce the incidence of claims, while a high persistency on those policies will increase future premiums but may increase the incidence of claims.

Our persistency rate was 82.0% at March 31, 2023, 79.8% at December 31, 2022, and 62.6% at December 31, 2021. 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. Our persistency rate is primarily affected by the level of current mortgage interest rates compared to the mortgage coupon rates on our insurance in force, which affects the vulnerability of the insurance in force to refinancing; and the current amount of equity that borrowers have in the homes underlying our insurance in force. The amount of equity affects persistency in the following ways:

- Borrowers with significant equity may be able to refinance their loans without requiring mortgage insurance.
- The Homeowners Protection Act (“HOPA”) requires servicers to cancel mortgage insurance when a borrower’s LTV ratio meets or is scheduled to meet certain levels, generally based on the original value of the home and subject to various conditions.
- The GSEs’ mortgage insurance cancellation guidelines apply more broadly than HOPA and also consider a home’s current value. For more information about the GSEs guidelines and business practices, and how they may change, see our risk factor titled “*Changes in the business practices of Fannie Mae and Freddie Mac's ("the GSEs"), federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses.*”

We are susceptible to disruptions in the servicing of mortgage loans that we insure and we rely on third-party reporting for information regarding the mortgage loans we insure.

We depend on reliable, consistent third-party servicing of the loans that we insure. An increase in delinquent loans may result in liquidity issues for servicers. When a mortgage loan that is collateral for a mortgage backed security ("MBS") becomes delinquent, the servicer is usually required to continue to pay principal and interest to the MBS investors, generally for four months, even though the servicer is not receiving payments from borrowers. This may cause liquidity issues, especially for non-bank servicers (who service approximately 46% of the loans underlying our insurance in force as of March 31, 2023) because they do not have the same sources of liquidity that bank servicers have.

While there has been no disruption in our premium receipts through the end of March 2023, servicers who experience future liquidity issues may be less likely to advance premiums to us on policies covering delinquent loans or to remit premiums on policies covering loans that are not delinquent. Our policies generally allow us to cancel coverage on loans that are not delinquent if the premiums are not paid within a grace period.

An increase in delinquent loans or a transfer of servicing resulting from liquidity issues, may increase the operational burden on servicers, cause a disruption in the servicing of delinquent loans and reduce servicers’ abilities to undertake mitigation efforts that could help limit our losses.

The information presented in this report and on our website with respect to the mortgage loans we insure is based on information reported to us by third parties, including the servicers and originators of the mortgage loans, and information presented may be subject to lapses or inaccuracies in reporting from such third parties. In many cases, we may not be aware that information reported to us is incorrect until such time as a claim is made against us under the relevant insurance policy. We do not consistently receive monthly policy status information from servicers for single premium policies, and may not be aware that the mortgage loans insured by such policies have been repaid. We periodically attempt to determine if coverage is still in force on such policies by asking the last servicer of record or through the periodic reconciliation of loan information with certain servicers. It may be possible that our reports continue to reflect, as active, policies on mortgage loans that have been repaid.

Risk Factors Relating to Our Business Generally

If our risk management programs are not effective in identifying, or adequate in controlling or mitigating, the risks we face, or if the models used in our businesses are inaccurate, it could have a material adverse impact on our business, results of operations and financial condition.

Our enterprise risk management program, described in "Business - Our Products and Services - Risk Management" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2022, may not be effective in identifying, or adequate in controlling or mitigating, the risks we face in our business.

We employ proprietary and third-party models for a wide range of purposes, including the following: projecting losses, premiums, expenses, and returns; pricing products (through our risk-based pricing system); determining the techniques used to underwrite insurance; estimating reserves; evaluating risk; determining internal capital requirements; and performing stress testing. These models rely on estimates, projections, and assumptions that are inherently uncertain and may not always operate as intended. This can be especially true when extraordinary events occur, such as the COVID-19 pandemic, the Russia-Ukraine war, periods of extreme inflation, or environmental disasters related to changing climatic conditions. In addition, our models are being continuously updated over time. Changes in models or model assumptions could lead to material changes in our future expectations, returns, or financial results. The models we employ are complex, which could increase our risk of error in their design, implementation, or use. Also, the associated input data, assumptions, and calculations may not always be correct or accurate and the controls we have in place to mitigate these risks may not be effective in all cases. The risks related to our models may increase when we change assumptions, methodologies, or modeling platforms. Moreover, we may use information we receive through enhancements to refine or otherwise change existing assumptions and/or methodologies.

Information technology system failures or interruptions may materially impact our operations and adversely affect our financial results.

We are heavily dependent on our information technology systems to conduct our business. Our ability to efficiently operate our business depends significantly on the reliability and capacity of our systems and technology. The failure of our systems and technology to operate effectively could affect our ability to provide our products and services to customers, reduce efficiency, or cause delays in operations. Significant capital investments might be required to remediate any such problems. We are also dependent on our ongoing relationships with key technology providers, including provisioning of their products and technologies, and their ability to support those products and technologies. The inability of these providers to successfully provide and support those products could have an adverse impact on our business and results of operations.

We are in the process of upgrading certain information systems, and transforming and automating certain business processes, and we continue to enhance our risk-based pricing system and our system for evaluating risk. Certain information systems have been in place for a number of years and it has become increasingly difficult to support their operation. The implementation of technological and business process improvements, as well as their integration with customer and third-party systems when applicable, is complex, expensive and time consuming. If we fail to timely and successfully implement and integrate the new technology systems, if the third party providers upon which we are reliant do not perform as expected, if our legacy systems fail to operate as required, or if the upgraded systems and/or transformed and automated business processes do not operate as expected, it could have a material adverse impact on our business, business prospects and results of operations.

We could be materially adversely affected by a cyber security breach or failure of information security controls.

As part of our business, we maintain large amounts of confidential and proprietary information, including personal information of consumers and employees, on our servers and those of cloud computing services. Federal and state laws designed to promote the protection of such information require businesses that collect or maintain personal information to adopt information security programs, and to notify individuals, and in some jurisdictions, regulatory authorities, of security breaches involving personally identifiable information. All information technology systems are potentially vulnerable to damage or interruption from a variety of sources, including by cyber attacks, such as those involving ransomware. The Company discovers vulnerabilities and regularly blocks a high volume of attempts to gain unauthorized access to its systems. Globally, attacks are expected to continue accelerating in both frequency and sophistication with increasing use by actors of tools and techniques that will hinder the Company’s ability to identify, investigate and recover from incidents. Such attacks may also increase as a result of retaliation by Russia in response to actions taken by the U.S. and other countries in connection with Russia's military invasion of Ukraine. The Company operates under a hybrid workforce model and such model may be more vulnerable to security breaches.

While we have information security policies and systems in place to secure our information technology systems and to prevent unauthorized access to or disclosure of sensitive information, there can be no assurance with respect to our systems and those of our third-party vendors that unauthorized access to the systems or disclosure of the sensitive information, either through the actions of third parties or employees, will not occur. Due to our reliance on information technology systems, including ours and those of our customers and third-party service providers, and to the sensitivity of the information that we maintain, unauthorized access to the systems or disclosure of the information could adversely affect our reputation, severely disrupt our operations, result in a loss of business and expose us to material claims for damages and may require that we provide free credit monitoring services to individuals affected by a security breach.

Should we experience an unauthorized disclosure of information or a cyber attack, including those involving ransomware, some of the costs we incur may not be recoverable through insurance, or legal or other processes, and this may have a material adverse effect on our results of operations.

The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring.

The Minimum Required Assets under the PMIERs are, in part, a function of the direct risk-in-force and the risk profile of the loans we insure, considering LTV ratio, credit score, vintage, Home Affordable Refinance Program ("HARP") status and delinquency status; and whether the loans were insured under lender-paid mortgage insurance policies or other policies that are not subject to automatic termination consistent with the Homeowners Protection Act requirements for borrower-paid mortgage insurance. Therefore, if our direct risk-in-force increases through increases in NIW, or if our mix of business changes to include loans with higher LTV ratios or lower FICO scores, for example, all other things equal, we will be required to hold more Available Assets in order to maintain GSE eligibility.

The percentage of our NIW from all single premium policies was 3.7% in the first quarter of 2023. This is less than the annual low of 4.3% for 2022. The annual high reached 19.0% in 2017. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life.

As discussed in our risk factor titled "*Reinsurance may not always be available or its cost may increase,"* we have in place various QSR transactions. Although the transactions reduce our premiums, they have a lesser impact on our overall results, as losses ceded under the transactions reduce our losses incurred and the ceding commissions we receive reduce our underwriting expenses. The effect of the QSR transactions on the various components of pre-tax income will vary from period to period, depending on the level of ceded losses incurred. We also have in place various XOL reinsurance transactions under which we cede premiums. Under the XOL reinsurance transactions, for the respective reinsurance coverage periods, we retain the first layer of aggregate losses and the reinsurers provide second layer coverage up to the outstanding reinsurance coverage amount.

In addition to the effect of reinsurance on our premiums, we expect a decline in our premium yield because an increasing percentage of our insurance in force is from recent book years whose premium rates had been trending lower.

Our ability to rescind insurance coverage became more limited for new insurance written beginning in mid-2012, and it became further limited for new insurance written under our revised master policy that became effective March 1, 2020. These limitations may result in higher losses paid than would be the case under our previous master policies. In addition, our rescission rights temporarily have become more limited due to accommodations we made in connection with the COVID-19 pandemic. We waived our rescission rights in certain circumstances where the failure to make payments was associated with a COVID-19 pandemic-related forbearance.

From time to time, in response to market conditions, we change the types of loans that we insure. We also may change our underwriting guidelines, including by agreeing with certain approval recommendations from a GSE automated underwriting system. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html.

Even when home prices are stable or rising, mortgages with certain characteristics have higher probabilities of claims. As of March 31, 2023, mortgages with these characteristics in our primary risk in force included mortgages with LTV ratios greater than 95% (15%), mortgages with borrowers having FICO scores below 680 (7%), including those with borrowers having FICO scores of 620-679 (6%), mortgages with limited underwriting, including limited borrower documentation (1%), and mortgages with borrowers having DTI ratios greater than 45% (or where no ratio is available) (16%), each attribute as determined at the time of loan origination. Loans with more than one of these attributes accounted for 4% of our primary risk in force as of March 31, 2023, 4% of our primary risk in force as of December 31, 2022, and 4% of our primary risk in force as of December 31, 2021. When home prices increase, interest rates increase and/or the percentage of our NIW from purchase transactions increases, our NIW on mortgages with higher LTV ratios and higher DTI ratios may increase. Our NIW on mortgages with LTV ratios greater than 95% was 13% in the first quarter of 2023, 11% in the first quarter of 2022, and 12% for the full year of 2022. Our NIW on mortgages with DTI ratios greater than 45% was 23% in the first quarter of 2023, 17% for the first quarter of 2022, and 21% for the full year of 2022.

From time to time, we change the processes we use to underwrite loans. For example: we rely on information provided to us by lenders that was obtained from certain of the GSEs' automated appraisal and income verification tools, which may produce results that differ from the results that would have been determined using different methods; we accept GSE appraisal waivers for certain refinance loans, the numbers of which have increased significantly beginning in 2020; and we accept GSE appraisal flexibilities that allow property valuations in certain transactions to be based on appraisals that do not involve an onsite or interior inspection of the property. Our acceptance of automated GSE appraisal and income verification tools, GSE appraisal waivers and GSE appraisal flexibilities may affect our pricing and risk assessment. We also continue to further automate our underwriting processes and it is possible that our automated processes result in our insuring loans that we would not otherwise have insured under our prior processes.

Approximately 68% of our first quarter 2023 and 72% of our 2022 NIW was originated under delegated underwriting programs pursuant to which the loan originators had authority on our behalf to underwrite the loans for our mortgage insurance. For loans originated through a delegated underwriting program, we depend on the originators' compliance with our guidelines and rely on the originators' representations that the loans being insured satisfy the underwriting guidelines, eligibility criteria and other requirements. While we have established systems and processes to monitor whether certain aspects of our underwriting guidelines were being followed by the originators, such systems may not ensure that the guidelines were being strictly followed at the time the loans were originated.

The widespread use of risk-based pricing systems by the private mortgage insurance industry (discussed in our risk factor titled *"Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and / or increase our losses"*) makes it more difficult to compare our premium rates to those offered by our competitors. We may not be aware of industry rate changes until we observe that our mix of new insurance written has changed and our mix may fluctuate more as a result.

If state or federal regulations or statutes are changed in ways that ease mortgage lending standards and/or requirements, or if lenders seek ways to replace business in times of lower mortgage originations, it is possible that more mortgage loans could be originated with higher risk characteristics than are currently being originated, such as loans with lower FICO scores and higher DTI ratios. The focus of the new FHFA leadership on increasing homeownership opportunities for borrowers is likely to have this effect. Lenders could pressure mortgage insurers to insure such loans, which are expected to experience higher claim rates. Although we attempt to incorporate these higher expected claim rates into our underwriting and pricing models, there can be no assurance that the premiums earned and the associated investment income will be adequate to compensate for actual losses paid even under our current underwriting requirements.

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.

When we set our premiums at policy issuance, we have expectations regarding likely performance of the insured risks over the long term. Generally, we cannot cancel mortgage insurance coverage or adjust renewal premiums during the life of a 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. Our premiums are subject to approval by state regulatory agencies, which can delay or limit our ability to increase premiums on future policies. In addition, our customized rate plans may delay our ability to increase premiums on future policies covered by such plans. The premiums we charge, the investment income we earn and the amount of reinsurance we carry 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 anticipated when we set the premiums, could adversely affect our results of operations or financial condition. Our premium rates are also based in part on the amount of capital we are required to hold against the insured risk. If the amount of capital we are required to hold increases from the amount we were required to hold when we set the premiums, our returns may be lower than we assumed. For a discussion of the amount of capital we are required to hold, see our risk factor titled "*We may not continue to meet the GSEs’ private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility*."

Actual or perceived instability in the financial services industry or non-performance by financial institutions or transactional counterparties could materially impact our business.

Limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry with which we do business, or concerns or rumors about the possibility of such events, have in the past and may in the future lead to market-wide liquidity problems. Such conditions may negatively impact our results and/or financial condition. While we are unable to predict the full impact of these conditions, they may lead to among other things: disruption to the mortgage market, delayed access to deposits or other financial assets; losses of deposits in excess of federally-insured levels; reduced access to, or increased costs associated with, funding sources and other credit arrangements adequate to finance our current or future operations; increased regulatory pressure; the inability of our counterparties and/or customers to meet their obligations to us; economic downturn; and rising unemployment levels. Refer to our risk factor titled “*Downturns in the domestic economy or declines in home prices may result in more homeowners defaulting and our losses increasing, with a corresponding decrease in our returns*” for more information about the potential effects of a deterioration of economic conditions on our business.

We routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, reinsurers, and our customers. Many of these transactions expose us to credit risk and losses in the event of a default by a counterparty or customer. Any such losses could have a material adverse effect on our financial condition and results of operations.

We rely on our management team and our business could be harmed if we are unable to retain qualified personnel or successfully develop and/or recruit their replacements.

Our success depends, in part, on the skills, working relationships and continued services of our management team and other key personnel. The unexpected departure of key personnel could adversely affect the conduct of our business. In such event, we would be required to obtain other personnel to manage and operate our business. In addition, we will be required to replace the knowledge and expertise of our aging workforce as our workers retire. In either case, there can be no assurance that we would be able to develop or recruit suitable replacements for the departing individuals; that replacements could be hired, if necessary, on terms that are favorable to us; or that we can successfully transition such replacements in a timely manner. We currently have not entered into any employment agreements with our officers or key personnel. Volatility or lack of performance in our stock price may affect our ability to retain our key personnel or attract replacements should key personnel depart. Without a properly skilled and experienced workforce, our costs, including productivity costs and costs to replace employees may increase, and this could negatively impact our earnings.

Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and / or increase our losses.

The private mortgage insurance industry is highly competitive and is expected to remain so. We believe we currently compete with other private mortgage insurers based on premium rates, underwriting requirements, financial strength (including based on credit or financial strength ratings), customer relationships, name recognition, reputation, strength of management teams and field organizations, the ancillary products and services provided to lenders, and the effective use of technology and innovation in the delivery and servicing of our mortgage insurance products.

Our relationships with our customers, which may affect the amount of our NIW, could be adversely affected by a variety of factors, including if our premium rates are higher than those of our competitors, our underwriting requirements are more restrictive than those of our competitors, or our customers are dissatisfied with our claims-paying practices (including insurance policy rescissions and claim curtailments).

In recent years, the industry has materially reduced its use of standard rate cards, which were fairly consistent among competitors, and correspondingly increased its use of (i) pricing systems that use a spectrum of filed rates to allow for formulaic, risk-based pricing based on multiple attributes that may be quickly adjusted within certain parameters, and (ii) customized rate plans. The widespread use of risk-based pricing systems by the private mortgage insurance industry makes it more difficult to compare our rates to those offered by our competitors. We may not be aware of industry rate changes until we observe that our volume of NIW has changed. In addition, business under customized rate plans is awarded by certain customers for only limited periods of time. As a result, our NIW may fluctuate more than it had in the past. Regarding the concentration of our new business, our top ten customers accounted for approximately 34% and 34% in the twelve months ended March 31, 2023 and March 31, 2022, respectively.

We monitor various competitive and economic factors while seeking to balance both profitability and market share considerations in developing our pricing strategies. Premium rates on NIW will change our premium yield (net premiums earned divided by the average insurance in force) over time as older insurance policies run off and new insurance policies with premium rates that are generally lower are written.

Certain of our competitors have access to capital at a lower cost than we do (including, through off-shore intercompany reinsurance vehicles, which have tax advantages that may increase if U.S. corporate income taxes increase). As a result, they may be able to achieve higher after-tax rates of return on their NIW compared to us, which could allow them to leverage reduced premium rates to gain market share, and they may be better positioned to compete outside of traditional mortgage insurance, including by participating in alternative forms of credit enhancement pursued by the GSEs discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance*."

Although the current PMIERs of the GSEs do not require an insurer to maintain minimum financial strength ratings, our financial strength ratings can affect us in the ways set forth below. If we are unable to compete effectively in the current or any future markets as a result of the financial strength ratings assigned to our insurance subsidiaries, our future NIW could be negatively affected.

- A downgrade in our financial strength ratings could result in increased scrutiny of our financial condition by the GSEs and/or our customers, potentially resulting in a decrease in the amount of our NIW.

- Our ability to participate in the non-GSE residential mortgage-backed securities market (the size of which has been limited since 2008, but may grow in the future), could depend on our ability to maintain and improve our investment grade ratings for our insurance subsidiaries. We could be competitively disadvantaged with some market participants because the financial strength ratings of our insurance subsidiaries are lower than those of some competitors. MGIC's financial strength rating from A.M. Best is A- (with a stable outlook), from Moody's is A3 (with a stable outlook) and from Standard & Poor's is BBB+ (with a stable outlook).

- Financial strength ratings may also play a greater role if the GSEs no longer operate in their current capacities, for example, due to legislative or regulatory action. In addition, although the PMIERs do not require minimum financial strength ratings, the GSEs consider financial strength ratings to be important when using forms of credit enhancement other than traditional mortgage insurance, as discussed in our risk factor titled "*The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."* The final GSE capital framework provides more capital credit for transactions with higher rated counterparties, as well as those who are diversified. Although we are currently unaware of a direct impact on MGIC, this could potentially become a competitive disadvantage in the future.

Standard & Poor’s is considering changes to its rating methodologies for insurers, including mortgage insurers. It is uncertain what impact the changes will have, whether they will prompt similar moves at other rating agencies, or the extent to which they will impact how external parties evaluate the different rating levels.

We are subject to the risk of legal proceedings.

Before paying an insurance claim, generally we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage or deny a claim on the loan (both referred to herein as “rescissions”). In addition, our insurance policies generally provide that we can reduce a claim if the servicer did not comply with its obligations under our insurance policy (such reduction referred to as a “curtailment”). In recent years, an immaterial percentage of claims received have been resolved by rescissions. In the first quarter of 2023 and in 2022, curtailments reduced our average claim paid by approximately 8.5% and 6.3%, respectively. The COVID-19-related foreclosure moratoriums and forbearance plans, along with increased home prices, resulted in decreased claims paid activity beginning in the second quarter of 2020. It is difficult to predict the level of curtailments once foreclosure activity returns to a more typical level. Our loss reserving methodology incorporates our estimates of future rescissions, curtailments, and reversals of rescissions and curtailments. A variance between ultimate actual rescission, curtailment and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

When the insured disputes our right to rescind coverage or curtail claims, we generally engage in discussions in an attempt to settle the dispute. If we are unable to reach a settlement, the outcome of a dispute ultimately may be determined by legal proceedings. Under ASC 450-20, until a loss associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss. When we determine that a loss is probable and can be reasonably estimated, we record our best estimate of our probable loss. In those cases, until settlement negotiations or legal proceedings are concluded (including the receipt of any necessary GSE approvals), it is possible that we will record an additional loss.

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

The COVID-19 pandemic may materially impact our business and future financial condition.

The COVID-19 pandemic materially impacted our 2020 financial results. While the initial impact of COVID-19 on our business has moderated, the extent to which COVID-19 may materially impact our business and future financial condition is uncertain and cannot be predicted. The magnitude of any future impact could be influenced by various factors. The COVID-19 pandemic may impact our business in other ways, as described in more detail in these risk factors.

Forbearance for borrowers who were affected by COVID-19 allows mortgage payments to be suspended for a period of time. Historically, forbearance plans have reduced the incidence of our losses on affected loans. Whether a loan delinquency will cure, including through modification, when forbearance ends will depend on the economic circumstances of the borrower at that time. The severity of losses associated with delinquencies that do not cure will depend on economic conditions at that time, including home prices.

Our success depends, in part, on our ability to manage risks in our investment portfolio.

Our investment portfolio is an important source of revenue and is our primary source of claims paying resources. Although our investment portfolio consists mostly of highly-rated fixed income investments, our investment portfolio is affected by general economic conditions and tax policy, which may adversely affect the markets for credit and interest-rate-sensitive securities, including the extent and timing of investor participation in these markets, the level and volatility of interest rates and credit spreads and, consequently, the value of our fixed income securities. Prevailing market rates have increased for various reasons, including inflationary pressures, which has reduced the fair value of our investment portfolio holdings relative to their amortized cost. The value of our investment portfolio may also be adversely affected by ratings downgrades, increased bankruptcies, and credit spreads widening. In addition, the collectability and valuation of our municipal bond portfolio may be adversely affected by budget deficits, and declining tax bases and revenues experienced by state and local municipalities. Our investment portfolio also includes commercial mortgage-backed securities, collateralized loan obligations, and asset-backed securities, which could be adversely affected by declines in real estate valuations, increases in unemployment, geopolitical risks and/or financial market disruption, including more restrictive lending conditions and a heightened collection risk on the underlying loans. As a result of these matters, we may not achieve our investment objectives and a reduction in the market value of our investments could have an adverse effect on our liquidity, financial condition and results of operations.

For the significant portion of our investment portfolio that is held by MGIC, to receive full capital credit under insurance regulatory requirements and under the PMIERs, we generally are limited to investing in investment grade fixed income securities whose yields reflect their lower credit risk profile. Our investment income depends upon the size of the portfolio and its reinvestment at prevailing interest rates. A prolonged period of low investment yields would have an adverse impact on our investment income as would a decrease in the size of the portfolio.

We structure our investment portfolio to satisfy our expected liabilities, including claim payments in our mortgage insurance business. If we underestimate our liabilities or improperly structure our investments to meet these liabilities, we could have unexpected losses resulting from the forced liquidation of fixed income investments before their maturity, which could adversely affect our results of operations.

Our holding company debt obligations are material.

At March 31, 2023, we had approximately $582 million in cash and investments at our holding company and our holding company's long-term debt obligations were $671 million in aggregate principal amount. Annual debt service on the long-term debt obligations outstanding as of March 31, 2023, is approximately $36 million.

The long-term debt obligations are owed by our holding company, MGIC Investment Corporation, and not its subsidiaries. The payment of dividends from MGIC is the principal source of our holding company cash inflow. Other sources of holding company cash inflow include settlements under intercompany tax and expense sharing agreements, investment income and raising capital in the public markets. Although MGIC holds assets in excess of its minimum statutory capital requirements and its PMIERs financial requirements, the ability of MGIC to pay dividends is restricted by insurance regulation. In general, dividends in excess of prescribed limits are deemed "extraordinary" and may not be paid if disapproved by the OCI. In 2023, MGIC can pay $92 million of ordinary dividends without OCI approval, before taking into consideration dividends paid in the preceding twelve months. A dividend is extraordinary when the proposed dividend amount plus dividends paid in the last twelve months from the dividend payment date exceed the ordinary dividend level. In the twelve months ended March 31, 2023, MGIC paid $800 million in dividends to the holding company. Future dividend payments from MGIC to the holding company will be determined in consultation with the board of directors, and after considering any updated estimates about our business.

If any capital contributions to our subsidiaries are required, such contributions would decrease our holding company cash and investments.

Your ownership in our company may be diluted by additional capital that we raise.

As noted above under our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility,"* although we are currently in compliance with the requirements of the PMIERs, there can be no assurance that we would not seek to issue additional debt capital or to raise additional equity or equity-linked capital to manage our capital position under the PMIERs or for other purposes. Any future issuance of equity securities may dilute your ownership interest in our company. In addition, the market price of our common stock could decline as a result of sales of a large number of shares or similar securities in the market or the perception that such sales could occur.

The price of our common stock may fluctuate significantly, which may make it difficult for holders to resell common stock when they want or at a price they find attractive.

The market price for our common stock may fluctuate significantly. In addition to the risk factors described herein, the following factors may have an adverse impact on the market price for our common stock: changes in general conditions in the economy, the mortgage insurance industry or the financial stability of markets and financial services industry; announcements by us or our competitors of acquisitions or strategic initiatives; our actual or anticipated quarterly and annual operating results; changes in expectations of future financial performance (including incurred losses on our insurance in force); changes in estimates of securities analysts or rating agencies; actual or anticipated changes in our share repurchase program or dividends; changes in operating performance or market valuation of companies in the mortgage insurance industry; the addition or departure of key personnel; changes in tax law; and adverse press or news announcements affecting us or the industry. In addition, ownership by certain types of investors may affect the market price and trading volume of our common stock. For example, ownership in our common stock by investors such as index funds and exchange-traded funds can affect the stock's price when those investors must purchase or sell our common stock because the investors have experienced significant cash inflows or outflows, the index to which our common stock belongs has been rebalanced, or our common stock is added to and/or removed from an index (due to changes in our market capitalization, for example).

The Company may be adversely impacted by the transition from LIBOR as a reference rate.

The United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced that after 2021 it would no longer publish one-week and two-month tenor USD LIBOR and that after June 30, 2023, it would no longer publish all other USD LIBOR tenors. Efforts are underway to identify and transition to a set of alternative reference rates. The set of alternative rates includes the Secured Overnight Financing Rate (“SOFR”), which the Federal Reserve Bank of New York began publishing in 2018. Because SOFR is calculated based on different criteria than LIBOR, SOFR and LIBOR may diverge.

While it is not currently possible to determine precisely whether, or to what extent, the replacement of LIBOR would affect us, the implementation of alternative benchmark rates to LIBOR may have an adverse effect on our business, results of operations or financial condition. We have three primary types of transactions that involve financial instruments referencing LIBOR. First, as of March 31, 2023, approximately 6% of the fair value of our investment portfolio consisted of securities referencing LIBOR. Second, as of March 31, 2023, approximately $0.4 billion of our risk in force was on adjustable rate mortgages whose interest is referenced to one-month USD LIBOR. A change in reference rate associated with these loans may affect their principal balance, which may affect our risk-in-force and the amount of Minimum Required Assets we are required to maintain under PMIERs. A change in reference rate may also affect the amount of principal and/or accrued interest we are required to pay in the event of a claim payment. Third, the premiums under most of our 2018-2021 XOL reinsurance agreements executed through insurance linked noted transactions are determined, in part, by the difference between interest payable on the reinsurers’ notes which reference one-month USD LIBOR and earnings from a pool of securities receiving interest that may reference LIBOR (in the first quarter of 2023, our total premiums on such transactions were approximately $6.6 million).