

# MGIC

## Investor Presentation Q2 2018

MGIC Investment Corporation (NYSE: MTG)



## Forward Looking Statements

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.

This presentation may contain forward looking statements. Our actual results could be affected by the risk factors that are summarized and appear at the end of this presentation. These risk factors may also cause actual results to differ materially from the results contemplated by any forward looking statements that we may make.

Forward looking statements consist of statements which relate to matters other than historical fact, including matters that inherently refer to future events. Among others, statements that include words such as “believe,” “anticipate,” “will” or “expect,” or words of similar import, are forward looking statements.

We are not undertaking any obligation to update any forward looking statements or other statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. No investor should rely on the fact that such statements are current at any time other than the time at which this presentation was prepared in August 2018.



# MGIC Investment Corporation

## Key Financial Metrics

Q2 2018



- \$186.8 million GAAP net income in Q2 18; \$189.2 million adjusted net operating income<sup>(1)</sup> in Q2 18
  - Benefited from positive primary loss reserve development, lower new notice activity and lower claim rate on those notices, and reduced federal tax rate
- \$0.49 net income per diluted share
- 23.1% annualized return on beginning shareholders' equity in Q2 18
- Incurred losses down 149% y/o/y due primarily to positive primary loss reserve development, fewer delinquent notices and lower assumed claim rate on those notices (9.5% v. 11%)
- \$50 million in dividends paid from MGIC to HoldCo in Q2 18
- Repurchased 9.2 million shares at a weighted average price of \$10.88

	3 Months Ending		% Change
	Jun -17	Jun - 18	y/o/y
(All Amounts Shown in Millions Except Where Indicated)			
Total Revenues	\$263	\$282	7.1%
Incurred Losses, Net	\$27	(\$13)	(149.2)%
<b>Net Income</b>	<b>\$119</b>	<b>\$187</b>	57.5%
Adjusted Net Operating Income (1)	\$119	\$189	58.7%
<b>Primary Delinquent Inventory (# of Units)</b>	<b>41,317</b>	<b>36,037</b>	(12.8)%
<b>Key Operating Metrics</b>			
Loss Ratio (%)	11.8	(5.4)	
Expense Ratio (%)	15.6	16.4	
<b>Statutory Risk to Capital - MGIC</b>	<b>10.2:1</b>	<b>9.1:1</b>	

1. We present this non-GAAP financial measure "Adjusted Net Operating Income" to increase the comparability between periods of our financial results. See Page 27 for reconciliation of GAAP net income to adjusted net operating income.

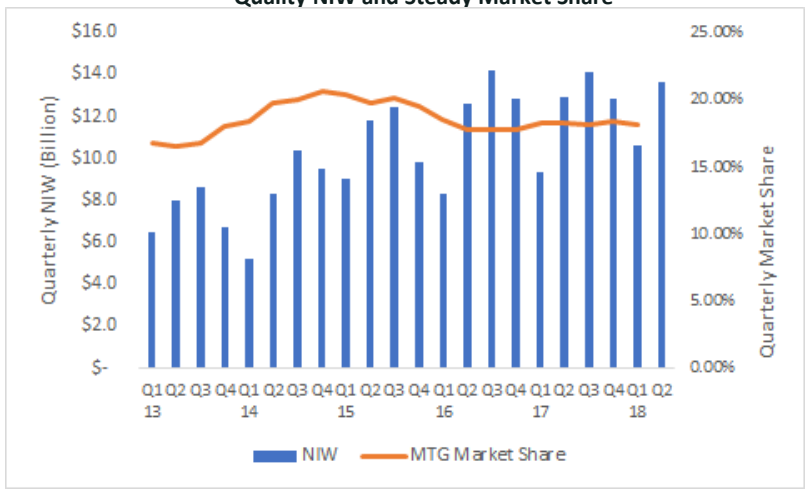


# MGIC Investment Corporation

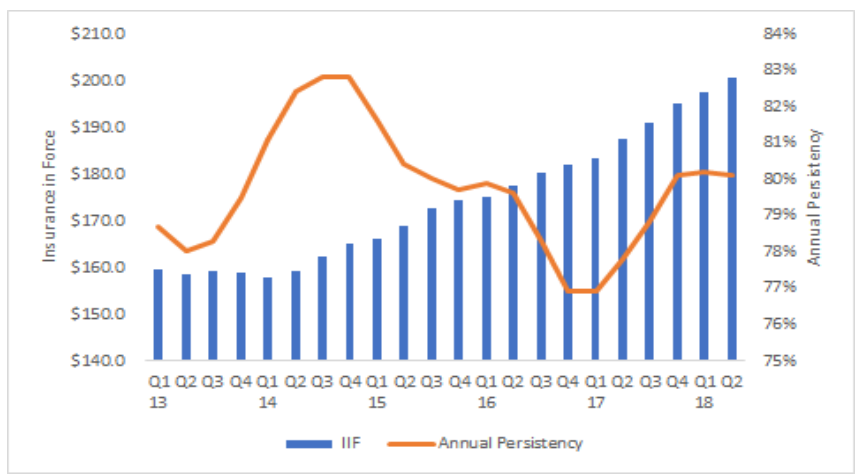
## Key Financial Metrics



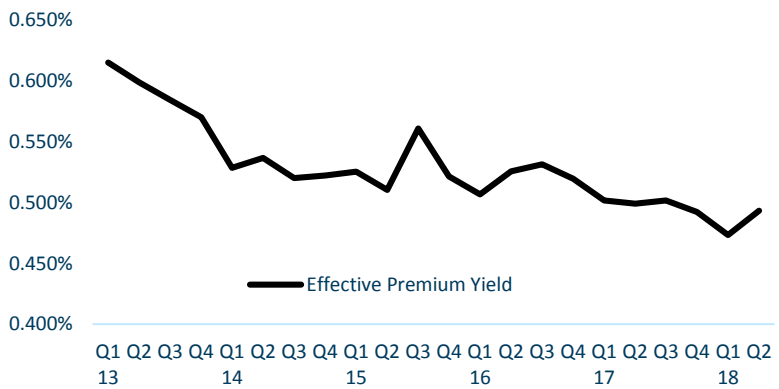
Quality NIW and Steady Market Share



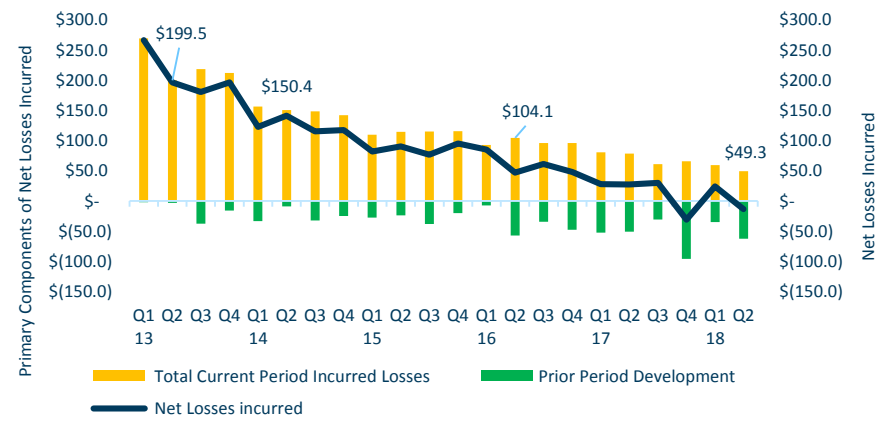
Increasing Persistency and Growing IIF



Net Premium Yield Declines as Higher Premium and Loss Content of Legacy Book is Replaced by Lower Premium Rates and Expected Lower Loss Content of >2008 NIW



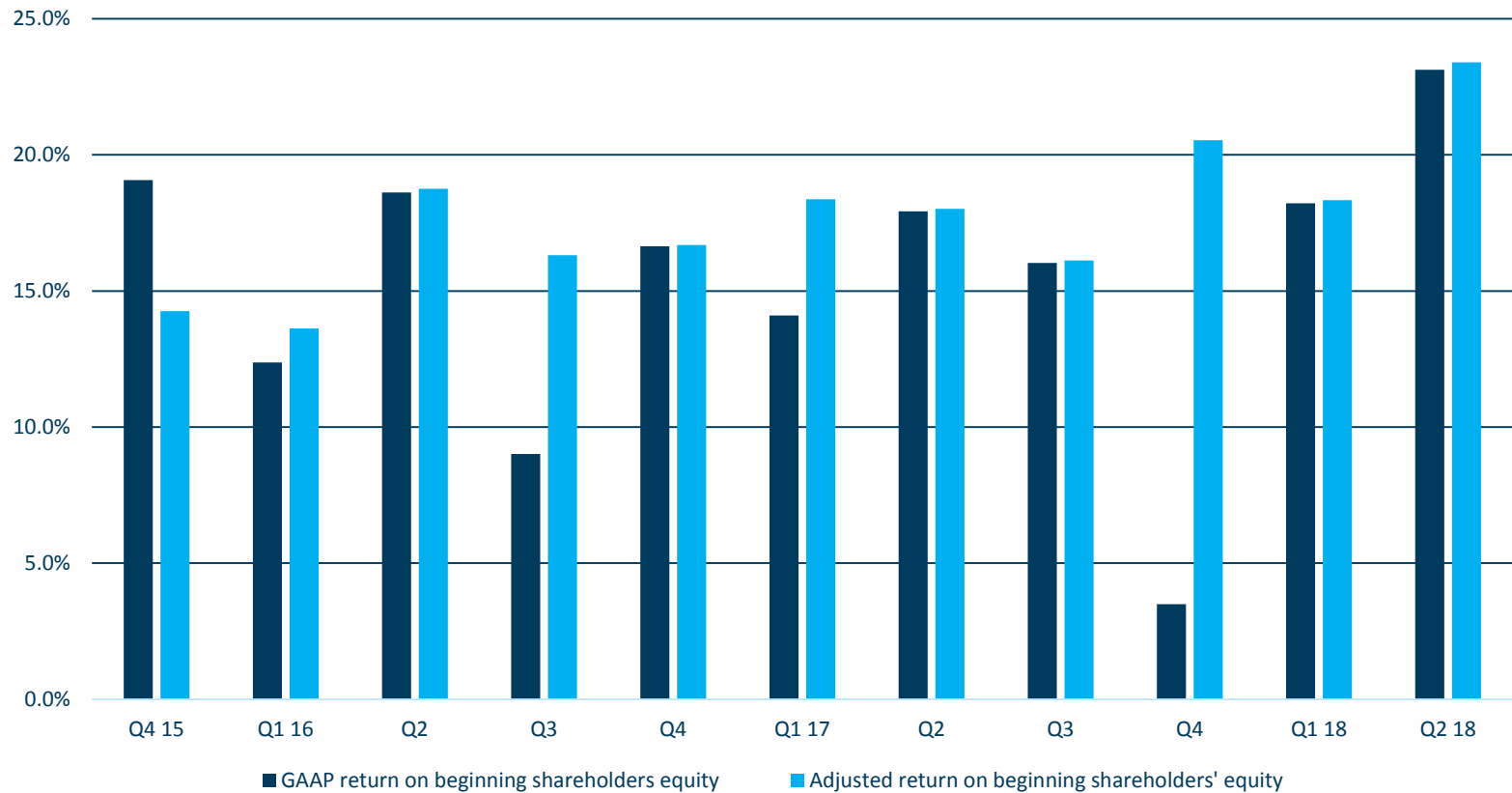
Favorable Trends for New Delinquent Notices Received and A Steady Improvement in the Cure Rates of Previously Received Notices Has Resulted in Lower Net Losses Incurred



1. Effective premium yield is the ratio of net premiums earned / average insurance in force for each period shown. The effective premium yield reported each period can be effected by changes in estimates for premium refunds, accelerated recognition of single premiums, change in reinsurance contract terms, premium rates on NIW, premium resets, and cancellation of remaining insurance in force.



## Return on Equity Being Driven by Quality NIW, Growing IIF and Improved Credit Profile



1. GAAP return on no beginning shareholders' equity is the ratio of GAAP net income for each period shown x 4 divided by beginning shareholders' equity for each period.
2. Adjusted return on beginning shareholders' equity is the ratio of adjusted net operating income for each period shown x 4 divided by beginning shareholders' equity for each period. See Page 27 for reconciliation of GAAP net income to adjusted net operating income.



## Capital Management Objectives



- Enhance holding company liquidity;
- Target low to mid 20s leverage ratio;
- Retain flexibility to pursue new business opportunities;
- Continue positive ratings trajectory;
- Cover claim obligations arising from our underlying mortgage insurance activities;
- Maintain compliance with the financial requirements of regulators and PMIERS;
- Size the level of capital to balance competitive needs, handle contingencies, and create shareholder value; and
- Continue to build and invest in the business through the cycle and in stressed environments.



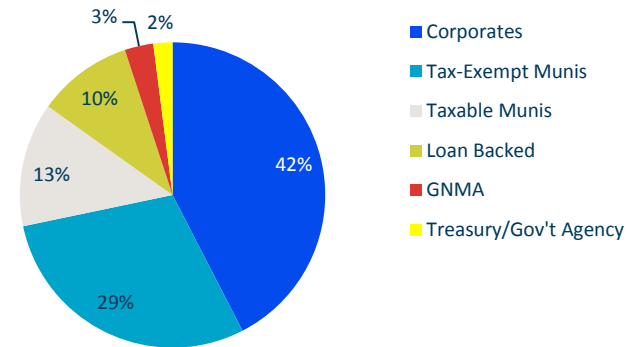
# Strong Balance Sheet Investment Portfolio Overview At June 30, 2018



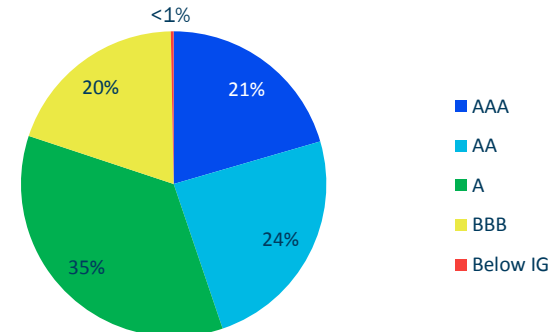
## Commentary

- \$5.1 billion of cash and investments (consolidated)
  - Includes \$191 million at holding company
- 99.7% Investment Grade
  - ~80% with an underlying rating of “A” or better
- Effective Duration of 4.2 years (excludes cash and cash equivalents)
- Embedded pre-tax yield, based on book value, is 2.91%

## Invested Assets By Type



## Fixed Maturity Security Ratings

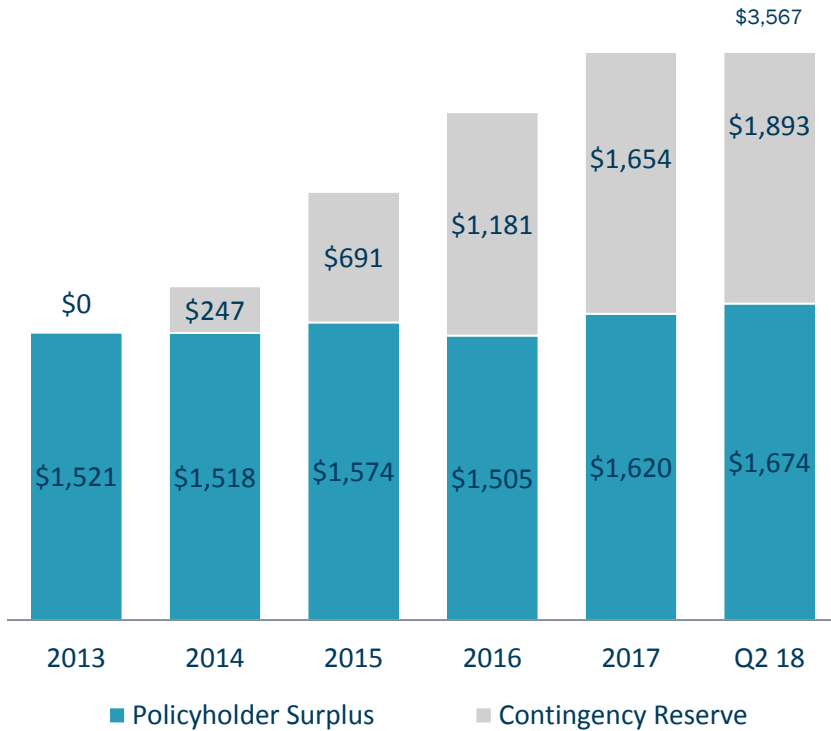




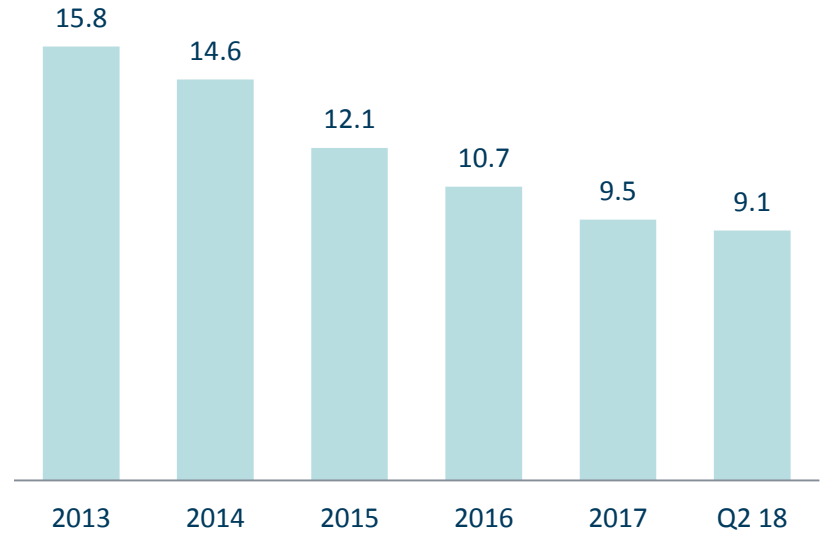
# Strong Statutory Capital Position



MGIC Statutory Capital (in millions)



MGIC Risk-to-Capital Ratio  
(for periods ending)



- Solid capital position enhanced by a 30% quota share reinsurance agreement
- \$2.4 billion of statutory capital in excess of state requirement

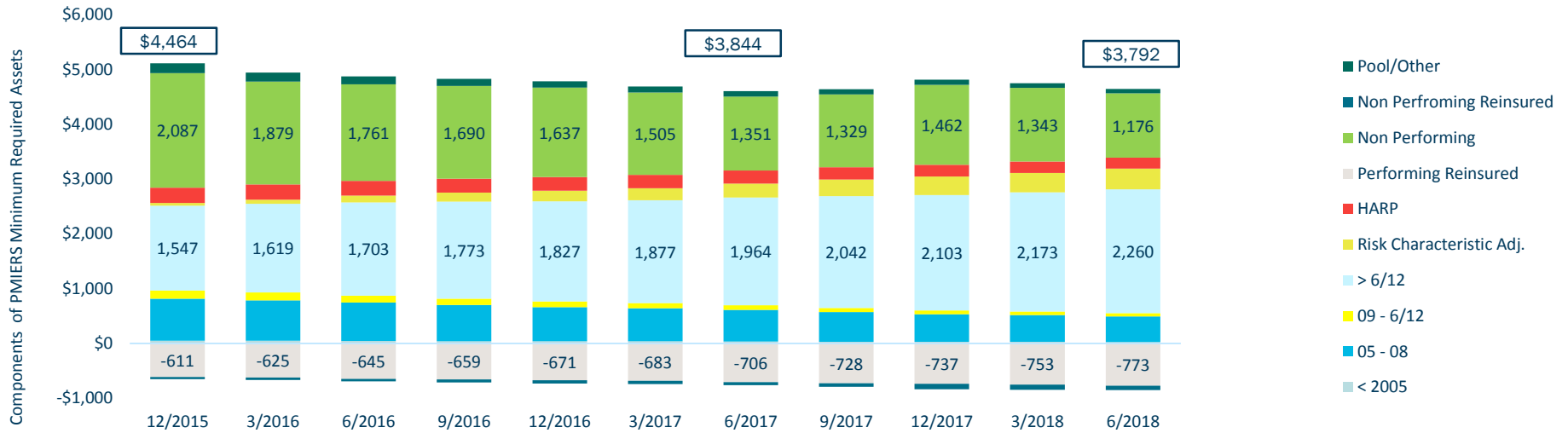


# PMIERS 1.0 Asset Trends

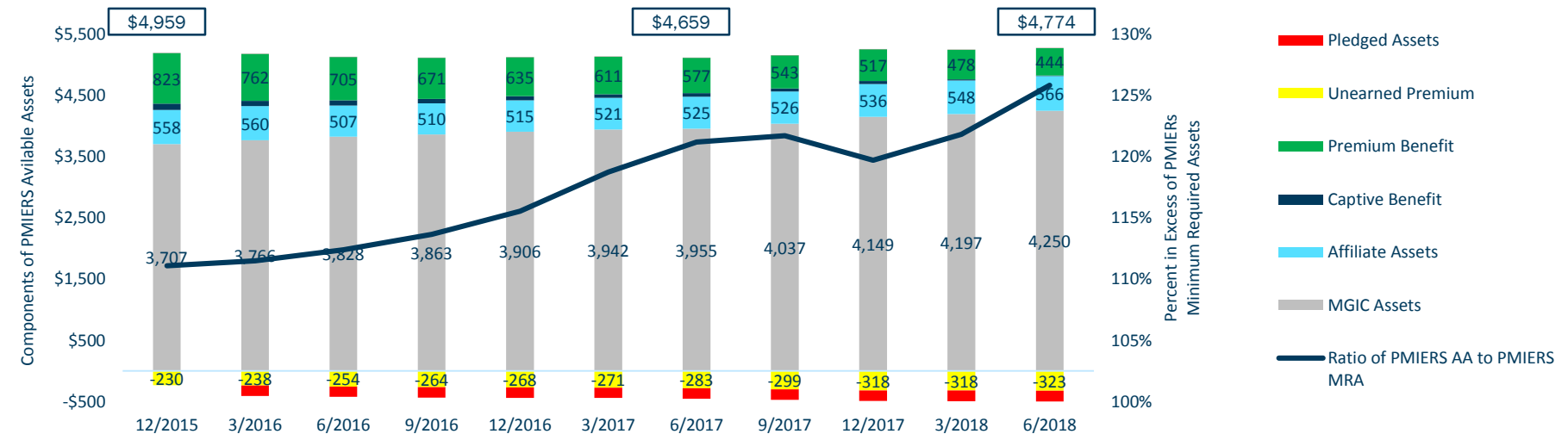
Declining Required Assets for Legacy and Non-Performing Risk Partially Offset by Increased Required Assets For NIW 2009 and >



PMIERS Minimum Required Assets



PMIERS Available Assets (Millions)





## Debt Outstanding As of June 30, 2018

# MGIC

- MGIC:
  - \$155 million 1.91% Fixed Rate Advance from FHLB due in Feb-2023
- MTG:
  - \$425 million of 5.75% Senior Notes due in Aug-2023
  - \$257 million 9% Convertible Junior Subordinated Debentures due in Apr-2063 <sup>(1)</sup>

**•Debt to Total Capital<sup>(2)</sup> ratio ~20% at June 30, 2018**

**•Debt service coverage at holding company > 3 year target**  
*(\$60 million annual debt service on a cash basis)*

1. Convertible Junior Debentures due 2063 are shown net of the \$133 million that is still outstanding and is owned by MGIC.  
2. Debt to Total Capital is the ratio of Debt Outstanding / (Debt Outstanding + Shareholders Equity)



# Key Drivers of MGIC's Strategy



## Continued MI Leadership

- Largest customer base in industry (~5,000 lenders/servicers)
- Established market player positioned to take advantage of current environment
- Exceptional customer service with industry-leading low expense ratio

## Risk & Capital Management

- Focus on increasing holding company capital allocation options
  - Utilized \$100 million of existing \$200 million share repurchase authorization (9.2mm shares)
- Reinsurance treaties cover ~79% of risk in force as of June 30, 2018
  - Provides both risk and capital relief
- Maintain PMIERS and state capital compliance with adequate ability to absorb reasonable economic shocks

## Continued Growth

- Promote prudent low down payment lending with lenders, policymakers and consumers
- Support efforts to right size the FHA's role in housing
- Participate in additional risk sharing opportunities with GSEs and lenders when returns add to shareholder value

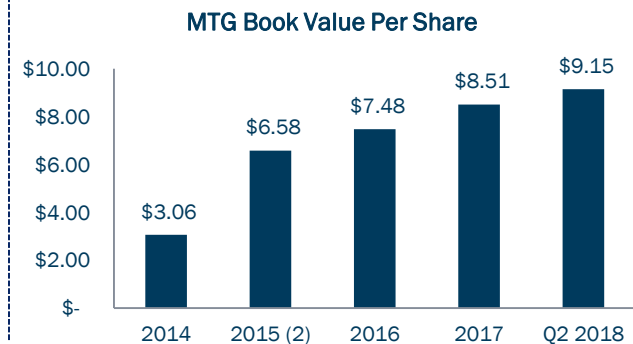
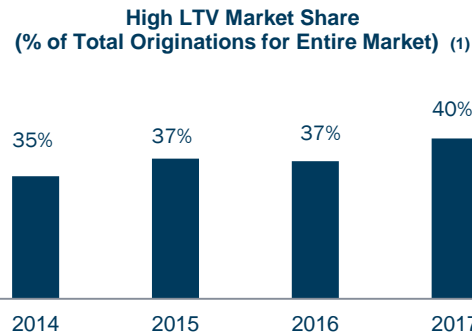
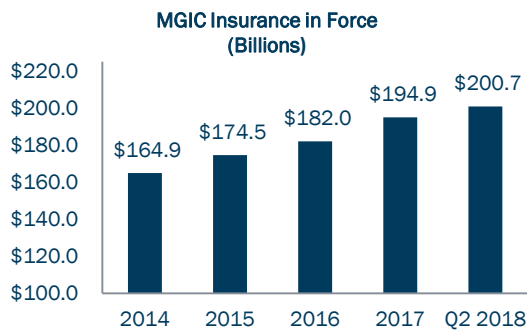


# Good Progress on Executing Business Strategies

At June 30, 2018



Prudently grow insurance in force	Pursue new business opportunities that leverage our core competencies	Preserve and expand the role of MGIC and Private MI in housing finance policy	Develop and diversify the talents of co-workers	Manage and deploy capital to optimize creation of shareholder value
<ul style="list-style-type: none"> <li>• \$200.7 billion of insurance in force (~+7% y/o/y)</li> <li>• 81% of RIF is 2009 and &gt;</li> <li>• Average FICO &gt; 750 on 2009 and &gt; NIW</li> <li>• Low delinquency and ever to date losses on 2009 and &gt; IIF</li> </ul>	<ul style="list-style-type: none"> <li>• Engage in discussions supportive of front-end credit risk transfer through “deep cover” MI</li> <li>• Participated in GSE mortgage insurance credit risk transfer programs</li> </ul>	<ul style="list-style-type: none"> <li>• Private MI has a meaningful market share of High LTV Market (+/-~40%)</li> <li>• Private MI NIW volume of ~\$270 million in 2017</li> <li>• MGIC had ~18% market share in 2017 and 1H 18</li> <li>• Increased visibility in housing policy arenas</li> </ul>	<ul style="list-style-type: none"> <li>• Increased investment in co-worker development while maintaining industry low expense ratio</li> <li>• Promote accountability and reward success</li> </ul>	<ul style="list-style-type: none"> <li>• PMIERs Compliant</li> <li>• Positive ratings trajectory</li> <li>• Y/O/Y decreased MTG leverage ratios and reduced potential share dilution</li> <li>• Book value per share increased 7.5% in 1H 18</li> </ul>



1) Total Originations, FHA, Private MI, VA and USDA as published by Inside Mortgage Finance. 2) In 2015 Book Value was materially impacted by the reversal of the Valuation Allowance against the Company's Deferred Tax Asset.



# Summary



## Unique Company

- Enables private investment in mortgage credit risk
- Established market player positioned to take advantage of current environment
- Solid capital position and positive ratings momentum
- Proven track record of execution with strong management team

## Potential Financial Tailwinds

- Growing Insurance in force (IIF); Gaining share from FHA; Increasing Owner Occupied Households
- Positive loss trajectory of legacy book; Low loss ratios from 2009 and > books
- Increasing dividends from the writing company to the holding company
- Emerging alternatives to traditional mortgage insurance

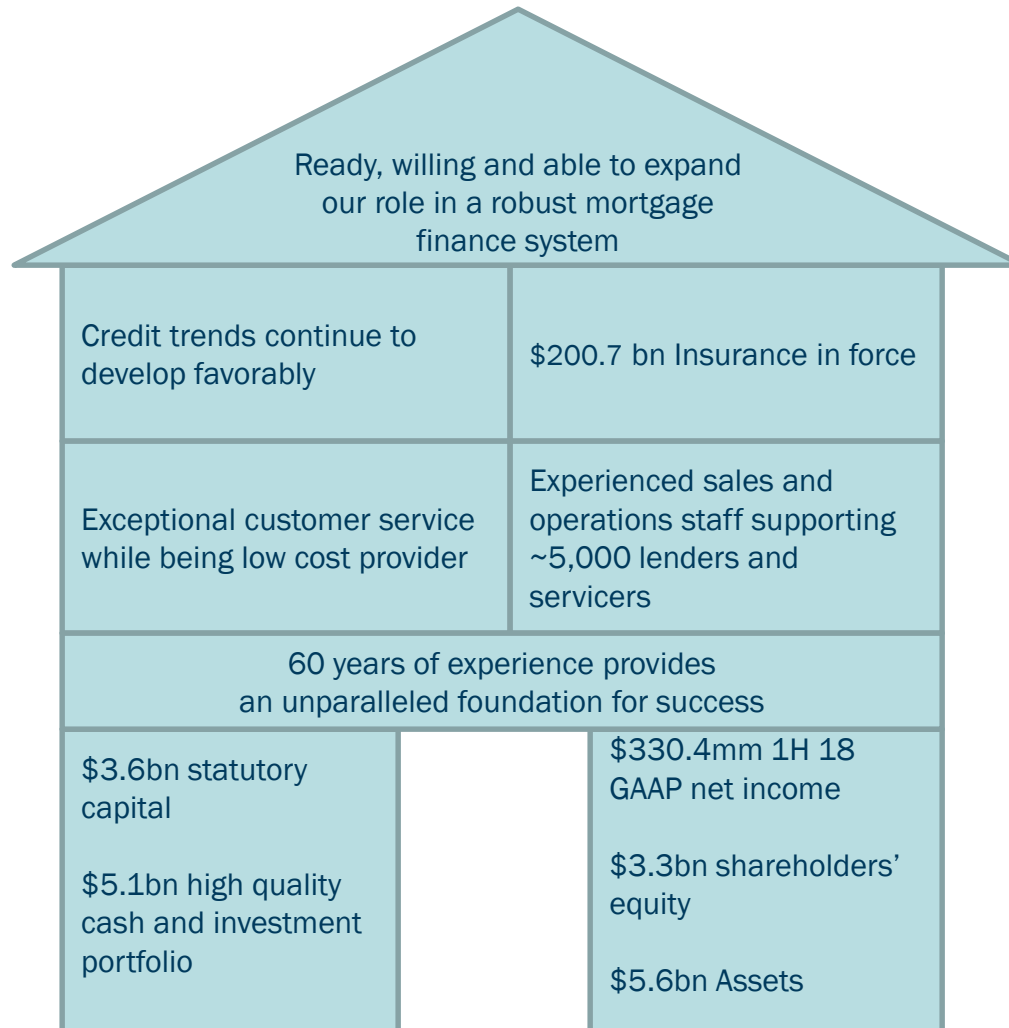
## Potential Financial Headwinds

- Premium revenue growth limited in near term as effective rate premium yield drifts lower;
  - changing mix of remaining in force (legacy books have materially higher premium rates compared to business written since then)
  - reinsurance
  - new premium rates phased in beginning in 2H 18
- Changes to PMIERS financial requirements (will not be effective before Q1 2019)
- Increased influence of FHA and GSEs in Housing Finance
- Emerging alternatives to traditional mortgage insurance



# MGIC at a Glance

as of June 30, 2018





## Appendix



## ✓ Who we are

- The nation's oldest private mortgage insurer, with insurance in force of \$200.7 billion
- In 1957 Max Karl founded the modern MI industry and MGIC in Milwaukee, WI
- ~800 employees, including an experienced sales and underwriting team covering the U.S. and other locations

## ✓ What we do

- Take **first-loss** credit position on low down payment residential mortgages
- **Reduce** cost for borrowers and promote risk-sharing compared to FHA
- Enable **private** investment in mortgage credit risk
- Provide **long term** credit enhancement options to investors in mortgages

## ✓ Our strategies

- Prudently grow insurance in force
- Pursue new business opportunities that meet our return objectives
- Preserve and expand the role of MGIC and Private MI in housing finance policy
- Manage and deploy capital to optimize the creation of shareholder value
- Expand and develop the talents of our people

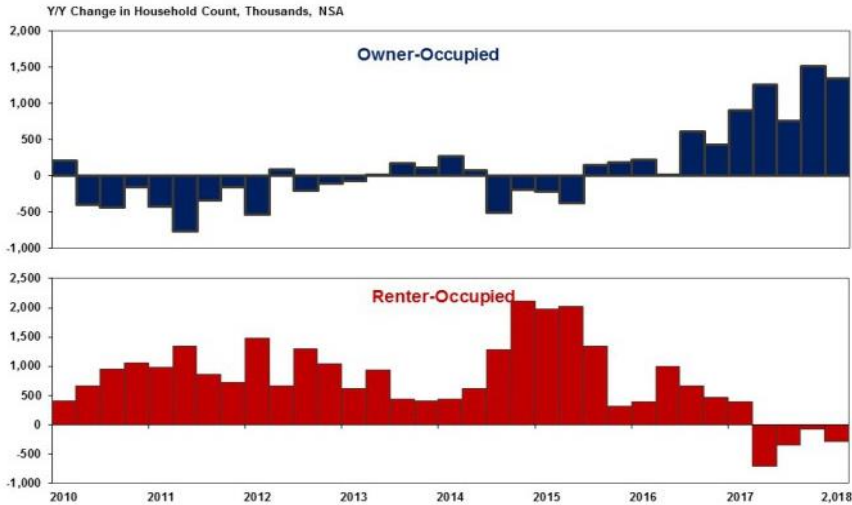




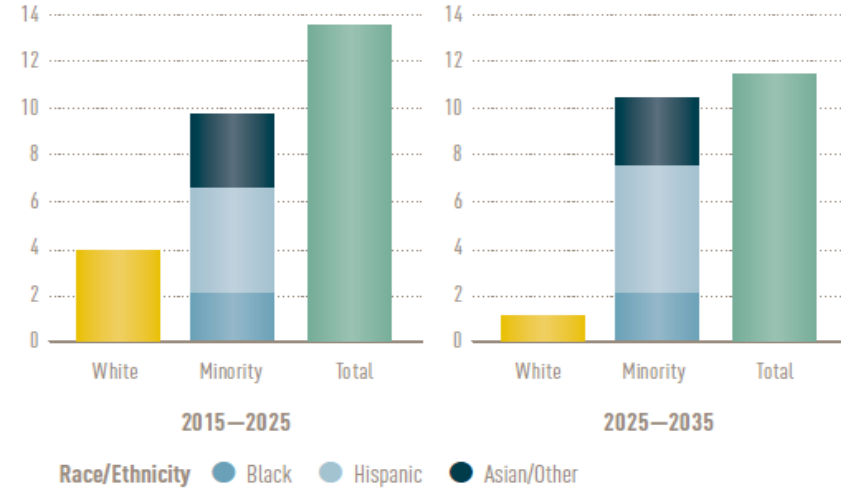
# Solid Demographic Trends Are Positively Influencing Housing Markets



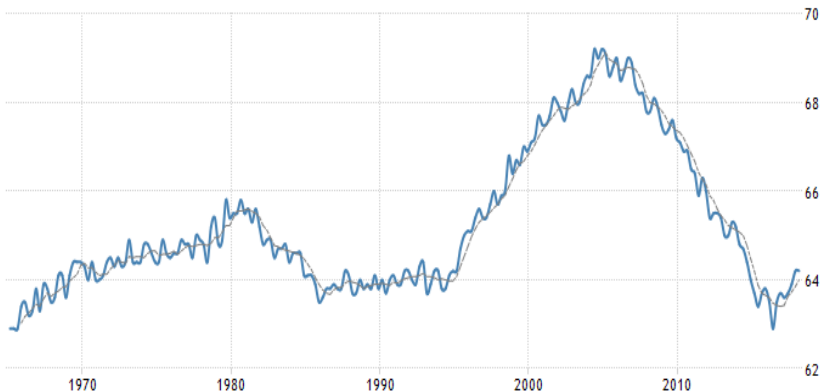
Household Formation Changes



Projected Household Growth (Millions)



US HOME OWNERSHIP RATE



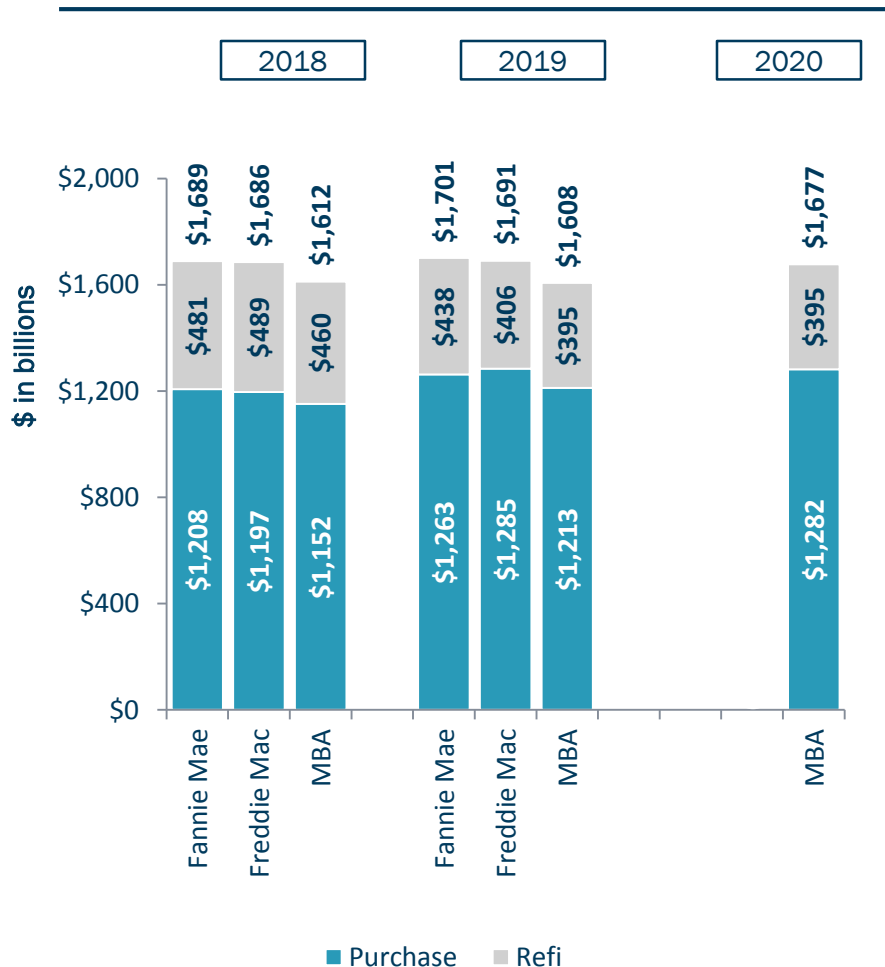
- ✓ *Increasing household formations*
  - ✓ *Increase in owner-occupied partially offset by a decline in renters*
  - ✓ *~45 million households between ages 25 and 34*
  - ✓ *(Homeownership rate is ~35% for < 35 year olds and ~60% for 35 – 44 year olds)*
- ✓ *Homeownership rates off of lows and rising*



# Mortgage Origination Outlook



## Origination Forecasts



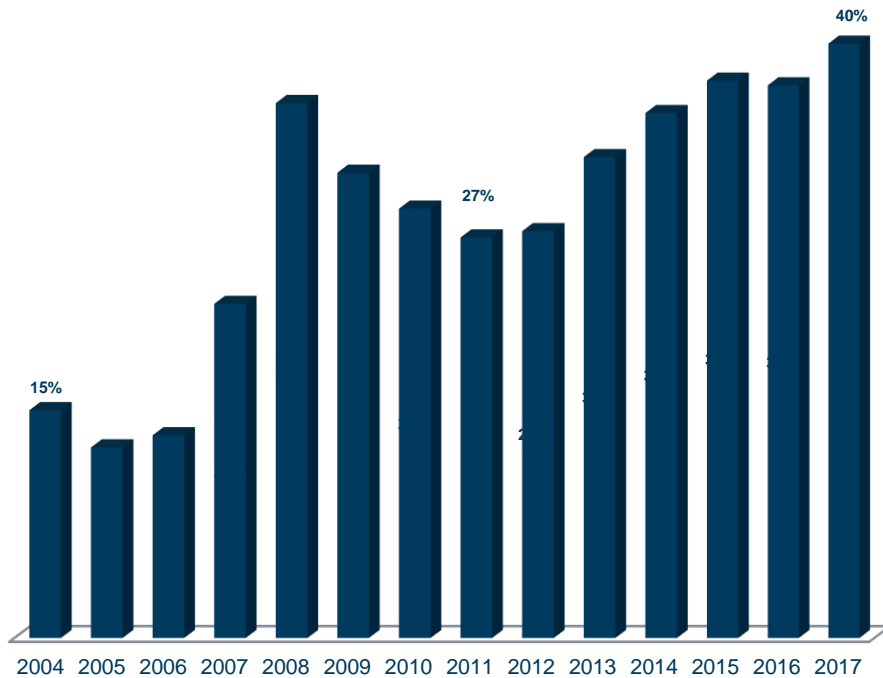
- ✓ 2018 origination forecasts range from \$1.6 to \$1.7 trillion
- ✓ Overall market down due to lower refinance volume
- ✓ GSEs and MBA all forecasting modest increases in purchase activity over next few years
- ✓ Good environment for Private MI
  - ✓ MI market share 3.5-4x higher for Purchase business v. Refinance
  - ✓ Attractive interest rate environment
  - ✓ Strong demand for housing especially among millennials



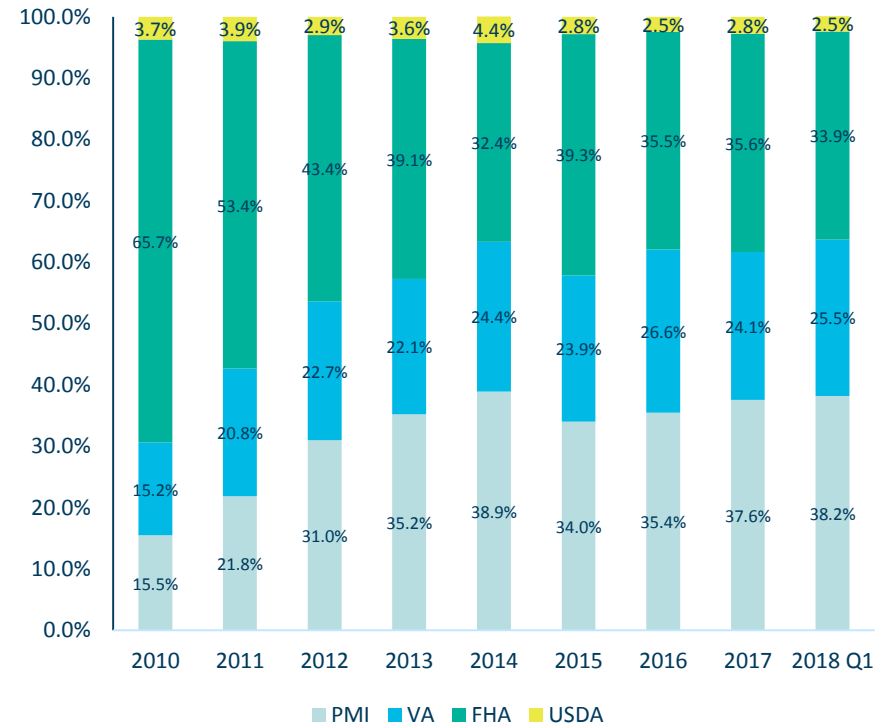
# High LTV Lending Trends



Private and Government Insured Loans  
as % of Total Origination Market <sup>(1)</sup>



Private MI Market Share of Insured Loans <sup>(2)</sup>



<sup>1</sup> Insured loans equals the total dollar volume of PMI, FHA and VA insurance issued in that period as a percentage of total originations for the same period as reported by Inside Mortgage Finance January and February 2018

<sup>2</sup> Source: Inside Mortgage Finance May 2018

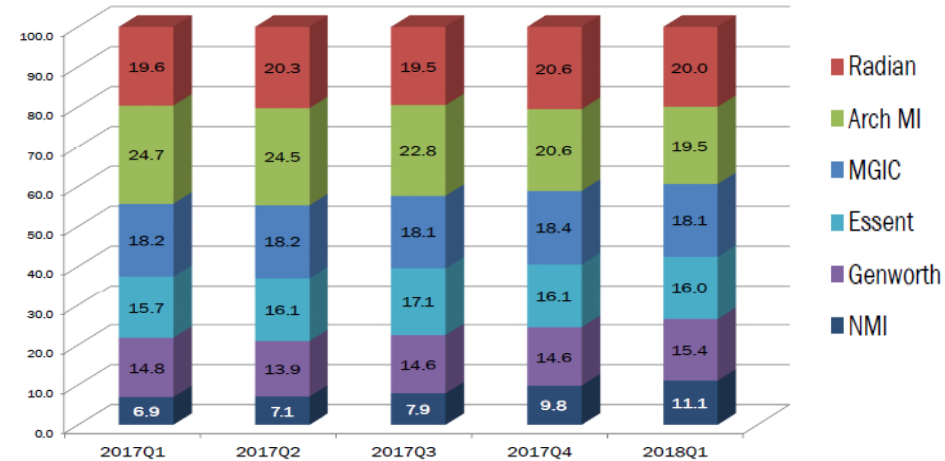


# Solid Market Share Leads to Growing Insurance in Force

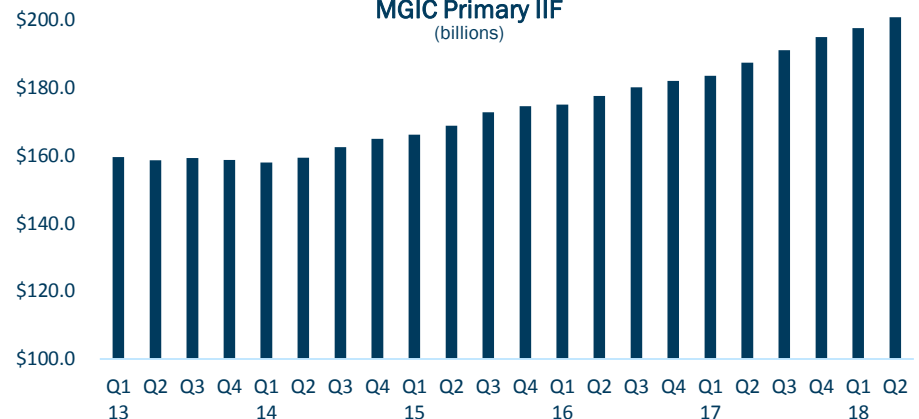


- Ready, willing and able to expand our role in a robust mortgage finance system
- Solid market share position of ~18%
- \$200.7 billion Insurance in force is up ~7% year over year at June 30, 2018
- 60+ years of experience provides an unparalleled foundation for success

Market Share by NIW <sup>(1)</sup>



MGIC Primary IIF (billions)



<sup>1</sup> Per company press releases



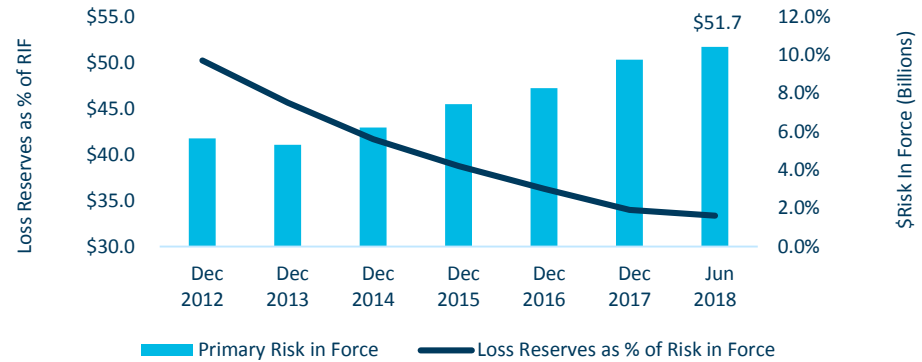
# Well Positioned to Serve the Market



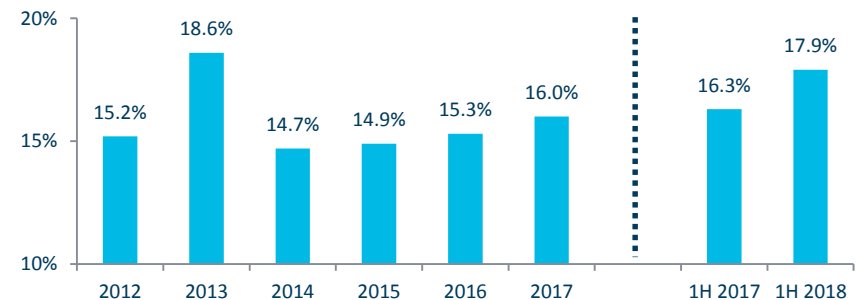
## MGIC's Strong Positioning

- Exceptional customer service with industry-leading low expense ratio
- Growing risk in force and improving credit performance
- Strong relationships with large, diverse customer base
  - ~5,000 originators or servicers transacted with MGIC in last 12 months
  - No single lender accounts for more than 4% of new business in 2016 or 2017
  - Top 25 lenders deliver <40% of new business in 2016 and 2017

## Increasing Risk in Force and Improving Credit Profile



## Highly Efficient and Low Cost Platform Expense Ratio <sup>(1)</sup>



<sup>1</sup> Expense Ratio for MGIC is for insurance operations. MGIC calculates expense ratio based on net written premiums, while some peers use net earned premiums to calculate expense ratios.



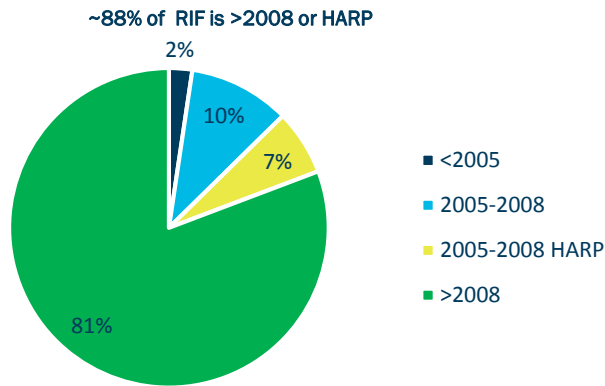
# Well Positioned to Serve the Market

(as of June 30, 2018)



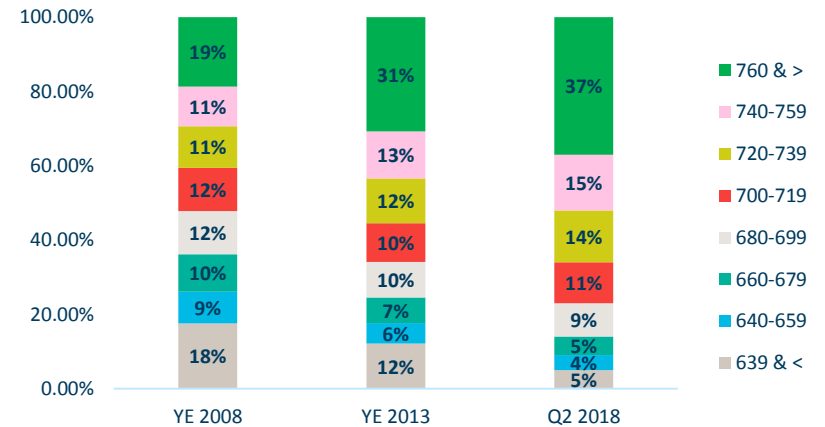
## Primary Risk in Force

\$51.7 Billion

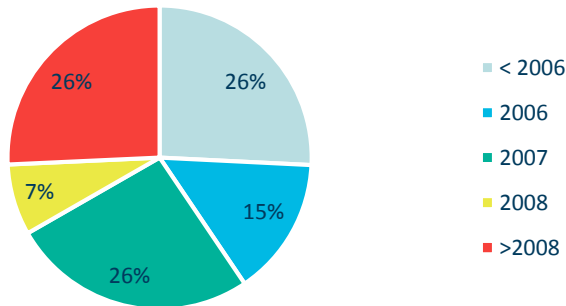


## Risk in Force By FICO Score at Time of Origination

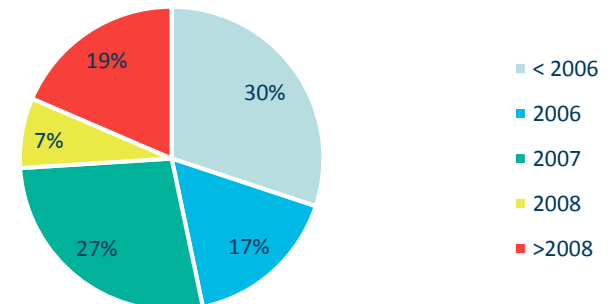
(as of period ending)



## New Notices Received in Q2 2018



## Primary Delinquent Inventory



2009 - Q2 18 books account for 81% of risk in force, 26% of new notices of delinquency in Q2 18 and is 19% of delinquent inventory.

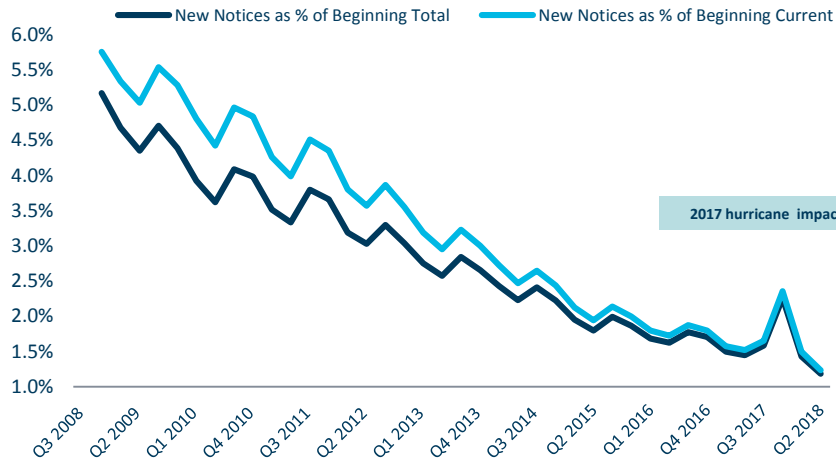


# Positive Credit Trends

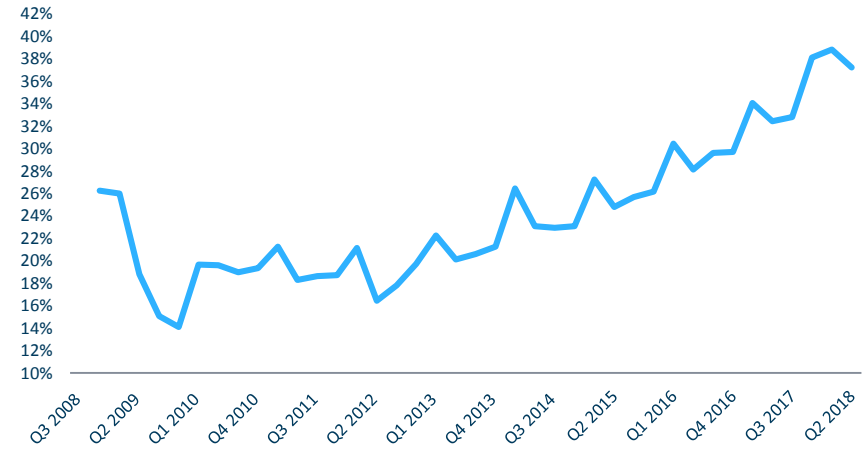
(as of June 30, 2018)



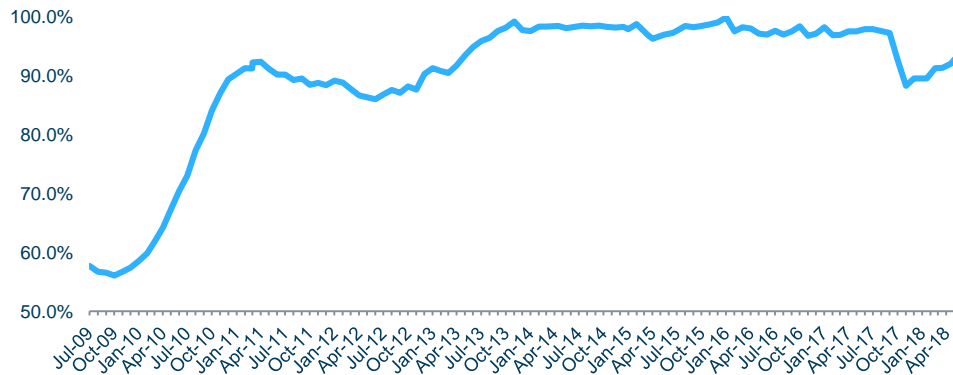
### New Notices as Percent of Primary Loans Insured



### Cures as Percent of Primary Delinquent Inventory



### Trailing 12 Month Cure to Default Ratio <sup>(1)</sup>

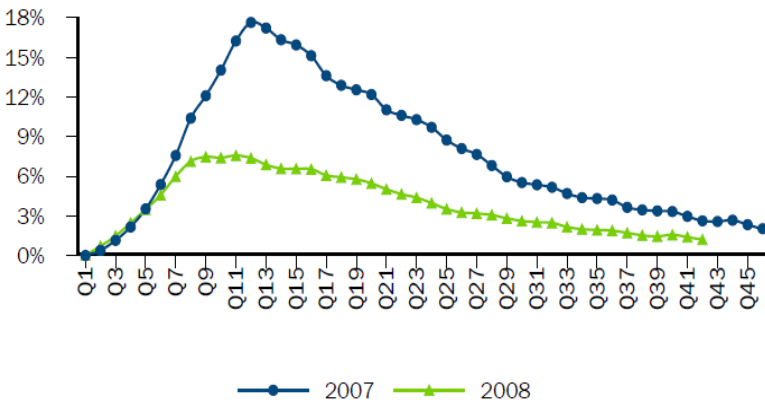
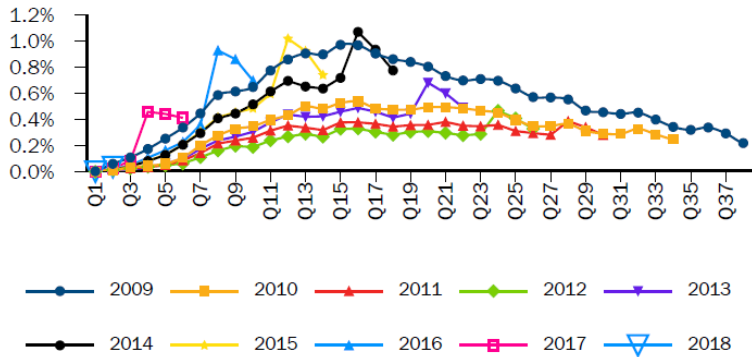


<sup>1</sup> Trailing 12 month cure/default ratio is the sum of the last 12 month's cures / the sum of the last 12 month's new notices of delinquencies. Decrease in Q4 17 was due to major 2017 hurricanes

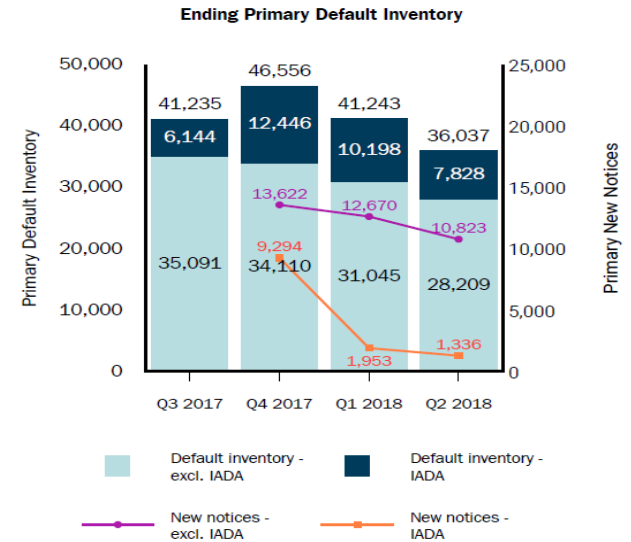


# Delinquency Trends

(as of June 30, 2018)



**Impact of hurricane activity:**  
Hurricane activity primarily involving Puerto Rico, Texas and Florida during the third quarter of 2017 resulted in an increased number of delinquent loans in subsequent periods.



Hurricane Impacted areas are locations that the Federal Emergency Management Agency has declared Individual Assistance Disaster Areas ("IADA")

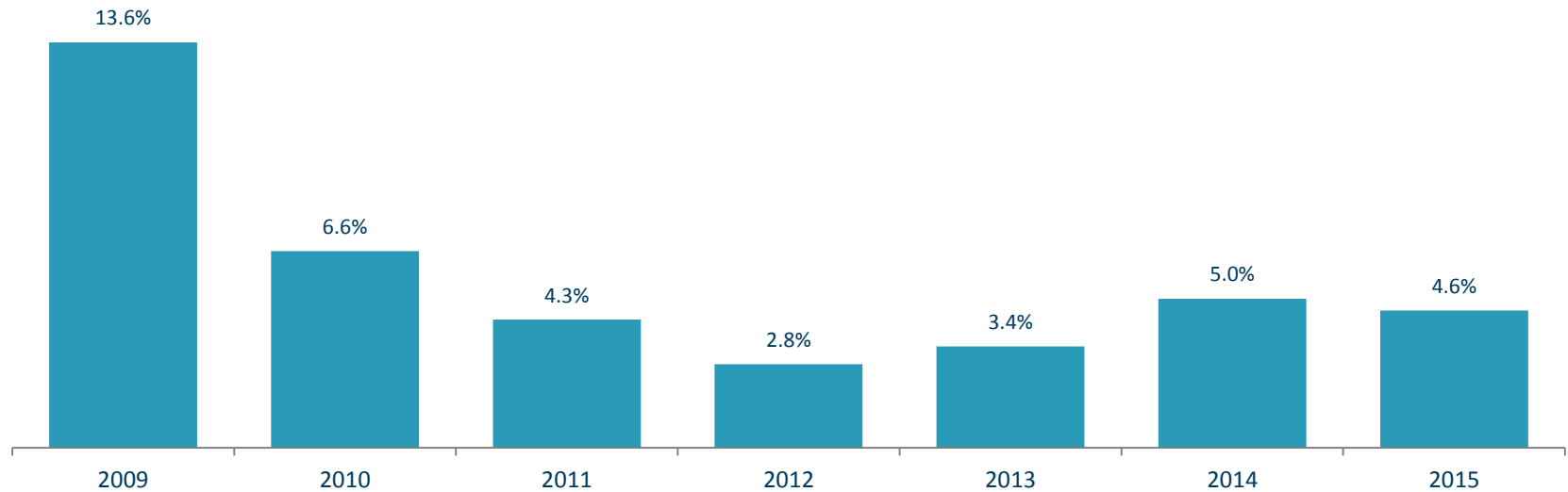




# High Quality Business Leads to Lower Losses and Solid Returns



Ever to Date Loss Ratio of Individual Book Years <sup>(1), (2)</sup>



1. Ever to date loss ratio is the sum of paid losses plus established primary loss reserves (not including IBNR) divided by net premiums earned for each book year shown as of June 30, 2018  
2. 2016 and 2017 not displayed as there is not an adequate period of aging that has occurred to draw meaningful conclusions



# Reconciliation of GAAP Net Income to Adjusted Net Operating Income

(Millions)



	Q4 15	Q1 16	Q2	Q3	Q4	Q1 17	Q2	Q3	Q4	Q1 18	Q2
GAAP Net Income	\$ 102.42	\$ 69.19	\$ 109.22	\$ 56.62	\$ 107.49	\$ 89.80	\$ 118.62	\$ 120.03	\$ 27.31	\$ 143.64	\$ 186.81
Effect of change in deferred tax asset valuation allowance	\$ (25.35)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additional income tax provision related to the rate decrease included in the Tax Act	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133.00	\$ -	\$ -
After tax additional income tax provision related to IRS litigation	\$ -	\$ 0.19	\$ 0.15	\$ 0.19	\$ 0.20	\$ 27.22	\$ 0.56	\$ 0.62	\$ 0.64	\$ 0.71	\$ 0.92
After tax net realized investment losses (gains)	\$ (0.80)	\$ (1.99)	\$ (0.54)	\$ (3.31)	\$ 0.03	\$ 0.08	\$ 0.03	\$ 0.03	\$ (0.30)	\$ 0.26	\$ 1.50
Loss on debt extinguishment	\$ 0.33	\$ 8.74	\$ 1.21	\$ 48.90	\$ -	\$ -	\$ 0.04	\$ -	\$ -	\$ -	\$ -
Adjusted net operating income	\$ 76.61	\$ 76.13	\$ 110.04	\$ 102.40	\$ 107.72	\$ 117.10	\$ 119.25	\$ 120.68	\$ 160.65	\$ 144.61	\$ 189.24
Annualized adjusted net operating income	\$ 306.42	\$ 304.52	\$ 440.18	\$ 409.59	\$ 430.86	\$ 468.41	\$ 477.00	\$ 482.71	\$ 642.60	\$ 578.42	\$ 756.94
Beginning shareholders' equity	\$ 2,148.52	\$ 2,236.14	\$ 2,343.40	\$ 2,511.68	\$ 2,583.08	\$ 2,548.84	\$ 2,647.53	\$ 2,995.06	\$ 3,130.15	\$ 3,154.53	\$ 3,231.41
Annualized GAAP return on beginning shareholders' equity	19.1%	12.4%	18.6%	9.0%	16.6%	14.1%	17.9%	16.0%	3.5%	18.2%	23.1%
Annualized adjusted return on beginning shareholders' equity	14.3%	13.6%	18.8%	16.3%	16.7%	18.4%	18.0%	16.1%	20.5%	18.3%	23.4%



## Summary of Risk Factors



The below is a brief summary of some of the risk factors that could cause the issuer's results to differ materially from those expressed in, or implied by, the forward looking statements included in this presentation. Before investing in the issuer's securities, investors should read and carefully consider the risks described in SEC form 10-Q filed on May 8, 2018.

- *Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and / or increase our losses.*
- *The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance.*
- *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.*
- *We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility.*
- *The benefit of our net operating loss carryforwards may become substantially limited.*
- *We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future.*
- *We are subject to comprehensive regulation and other requirements, which we may fail to satisfy.*
- *Resolution of our dispute with the Internal Revenue Service could adversely affect us.*
- *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.*
- *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.*
- *Because loss reserve estimates are subject to uncertainties, paid claims may be substantially different than our loss reserves.*
- *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.*
- *If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could decline.*
- *State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.*
- *Downturns in the domestic economy or declines in the value of borrowers' homes from their value at the time their loans closed may result in more homeowners defaulting and our losses increasing, with a corresponding decrease in our returns.*
- *The mix of business we write affects our Minimum Required Assets under the PMIERS, our premium yields and the likelihood of losses occurring.*
- *The premiums we charge may not be adequate to compensate us for our liabilities for losses and as a result any inadequacy could materially affect our financial condition and results of operations.*
- *We are susceptible to disruptions in the servicing of mortgage loans that we insure.*
- *Changes in interest rates, house prices or mortgage insurance cancellation requirements may change the length of time that our policies remain in force.*
- *Your ownership in our company may be diluted by additional capital that we raise or if the holders of our outstanding convertible debt convert that debt into shares of our common stock.*
- *Our holding company debt obligations materially exceed our holding company cash and investments.*
- *We could be adversely affected if personal information on consumers that we maintain is improperly disclosed and our information technology systems may become outdated and we may not be able to make timely modifications to support our products and services.*
- *Our success depends, in part, on our ability to manage risks in our investment portfolio.*
- *Our financial results may be adversely impacted by natural disasters; certain 2017 hurricanes 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.*



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