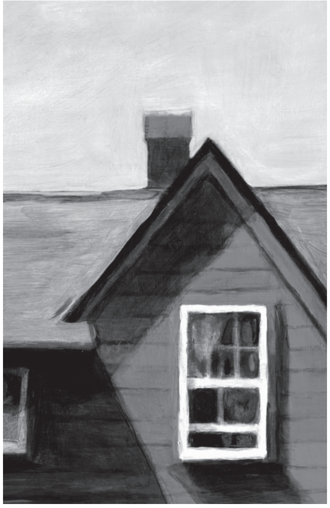
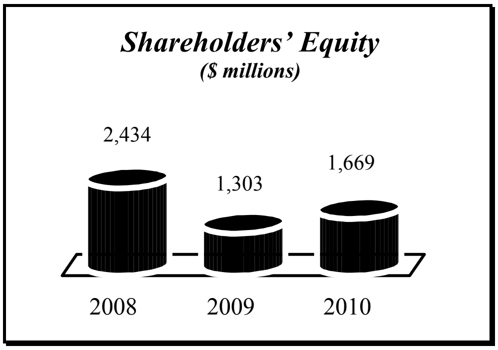
MGIC

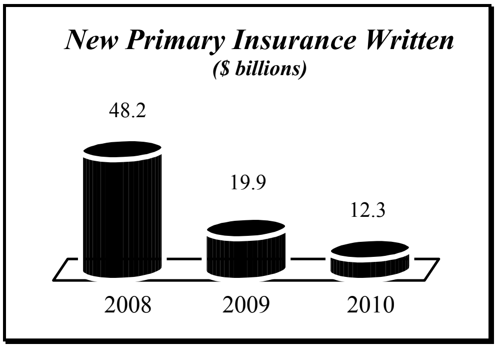


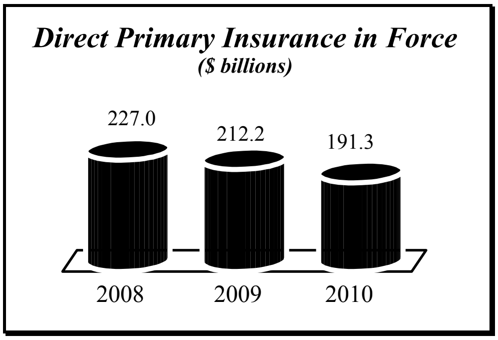
MGIC Investment Corporation
2010 Annual Report

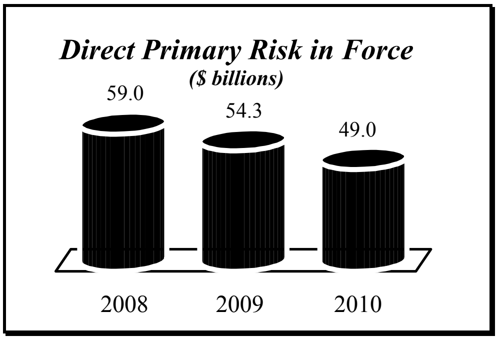
Financial Summary

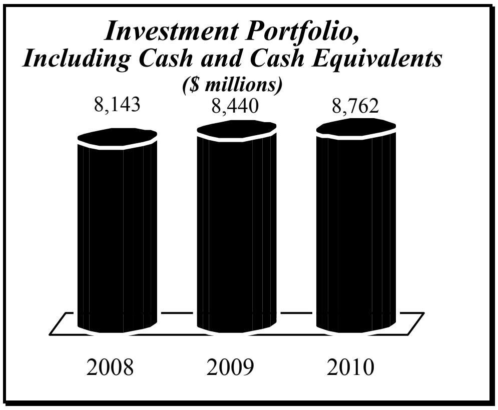
	2008	2009	2010
Net income (loss) ($ millions)	(525.4)	(1,322.3)	(363.7)
Diluted earnings (loss) per share ($)	(4.61)	(10.65)	(2.06)

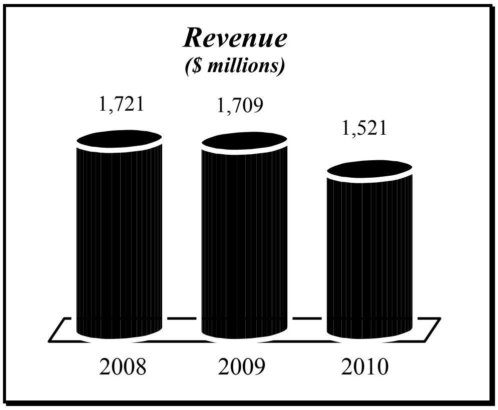




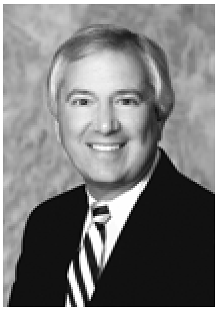








Fellow Shareholders



2010 was marked with a difficult housing market and a fragile economic environment. In the earlier part of 2010 the economy showed signs of emerging from the Great Recession. However, as the year progressed the positive momentum began to fade due to continued high unemployment and the uncertainty surrounding the residential housing market, as housing values ended the year 3.9% lower according to the Federal Housing Finance Authority.

While we can't control the economic activity that impacts the labor and housing markets, we can focus on those operating items that we can influence, namely positioning MGIC to continue to write high quality new business, maintain a cost efficient operation and proactively mitigate losses. In April 2010 we increased the capital base of the company by approximately $1.1 billion in order to improve our capacity to absorb new business writings in 2011 and beyond, as well as to provide holding company liquidity. In May 2010 we introduced credit-tiered pricing that, when combined with our underwriting guidelines, makes MGIC's product offerings more competitive with FHA alternatives, especially for high credit caliber borrowers. The underwriting guidelines we put in place in 2008 continue to produce high quality business as measured by delinquency rates. The expense ratio for the company's insurance operations continues to be the lowest in the industry, at 16.3% for 2010, and reflects the productivity and professionalism that we have come to expect of MGIC co-workers.

The economic and operating environment of 2010, while improved from prior years, still resulted in a net loss of $363.7 million or a loss per share of $2.06. Reflecting a smaller in force book of business and a lower yield on the investment portfolio, total revenues were $1.5 billion (including $247 million of investment income earned on our cash and investment portfolio which totaled $8.8 billion as of December 31, 2010). Risk in force was $51.7 billion and loss reserves totaled $5.9 billion as of December 31, 2010. New insurance writings were $12.3 billion, which reflects the continued high market share of the FHA (due in part to GSE pricing policies that increased the cost of conventionally insured loans) and a lower overall origination market.

Despite elevated staffing levels and expenses for our loss mitigation efforts, as I mentioned earlier, we continued to maintain the lowest expense ratio in the industry. We reduced operating expenses by 6% in 2010, to $225 million, and by 12% in 2009. Losses incurred totaled $1.6 billion, a decrease of 52% or approximately $1.8 billion, when compared to 2009, reflecting a decrease in the total number of new delinquent loans. Finally, as expected, paid claims increased to $2.4 billion, up 41% from last year, as foreclosure completions continued to be elevated.

Loss mitigation remains a primary focus of the company. We have been working with servicers, investors and regulators to help all borrowers that are eligible for foreclosure prevention alternatives to be properly considered. In 2010 various loan modification programs that we support allowed more than 50,000 delinquent homeowners a chance to cure their delinquency and avoid a foreclosure. Importantly, the majority of these modifications resulted in a reduced monthly payment for the borrower, which should increase the success rate of the modifications. The percentage of claims resolved through rescissions and denials began to decline in 2010 and reduced our paid losses by approximately $1.2 billion for the full year. We expect that the benefit we will realize from loan modifications, rescissions and denials will be less in 2011 than it was in 2010.

The overall economy, including the housing sector, continues to show a great deal of volatility, which makes our ability to forecast difficult. With that in mind, we expect our new insurance writings will only be modestly higher than in 2010, as our industry recaptures market share from the FHA, despite a smaller origination market in 2011. We expect the number of delinquent loans to continue to trend lower throughout 2011, primarily as a result of an increase in the number of paid claims. The extent of the decline in the number of delinquent loans will be driven by the number of new delinquent notices received, the rate at which newer delinquencies cure and the rate of foreclosure completions on older delinquencies. Based on current economic forecasts of slow, but steady growth, we would expect that the cure rate for new delinquent loans will recover slowly throughout 2011, but not return to historic levels until 2013. Finally, we expect that paid claims will be higher in 2011 than in 2010.

Early in 2011 the Obama Administration and the Department of Housing and Urban Development issued a “white paper” outlining options that are intended to reduce the federal government’s footprint in the residential mortgage market. The options outlined in the white paper, which include less participation by the FHA, Fannie Mae and Freddie Mac, are expected to be publicly debated for quite some time before legislative changes, if any, would occur. The Dodd-Frank Act definition of a “qualified residential mortgage” or QRM is expected to be published by federal regulators in the near future. Ultimately, the definition of QRM (which will affect risk retention for lenders/securitizers and borrower down payment requirements) along with changes to the FHA and the GSEs will determine how MGIC serves the credit enhancement needs of the residential mortgage markets. We continue to believe that there is a meaningful role for private mortgage insurance in United States residential housing policy as the main goal of the housing policy changes outlined by the Administration is to reduce taxpayer exposure to housing risk.

So, much like last year, our company and our industry will continue to deal with a difficult housing market, a fledgling economic recovery and emerging regulations regarding the structure of the mortgage market. We will continue to focus on those areas we can control, namely pricing, underwriting criteria, expenses, and loss mitigation. We will also continue to actively engage policy makers regarding the benefits of private capital and the operating efficiency of the private sector. In total we believe that the capital and operating strategy that we have put in place positions our company well for a better future.

Thank you for your support through another challenging year.

Respectfully,

Curt S. Culver

Curt S. Culver
Chairman and Chief Executive Office

The factors discussed under “Risk Factors” following the “Management’s Discussion and Analysis” in this Annual Report may cause actual results to differ materially from the results contemplated by forward looking statements made in the foregoing letter. Forward looking statements consist of statements which relate to matters other than historical fact, including matters that inherently refer to future events. Statements in the letter that include words such as “may,” “could,” “expect,” “believe” or “will” or words of similar import, are forward looking statements.

Five-Year Summary of Financial Information

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands of dollars, except per share data)				
Summary of Operations					
Revenues:					
Net premiums written	$ 1,101,795	$ 1,243,027	$ 1,466,047	$ 1,345,794	$ 1,217,236
Net premiums earned	$ 1,168,747	$ 1,302,341	$ 1,393,180	$ 1,262,390	$ 1,187,409
Investment income, net	247,253	304,678	308,517	259,828	240,621
Realized investment gains (losses), net, including net impairment losses	92,937	51,934	(12,486)	142,195	(4,264)
Other revenue	11,588	49,573	32,315	28,793	45,403
Total revenues	1,520,525	1,708,526	1,721,526	1,693,206	1,469,169
Losses and expenses:					
Losses incurred, net	1,607,541	3,379,444	3,071,501	2,365,423	613,635
Change in premium deficiency reserves	(51,347)	(261,150)	(756,505)	1,210,841	-
Underwriting and other expenses	225,142	239,612	271,314	309,610	290,858
Reinsurance fee	-	26,407	1,781	-	-
Interest expense	98,589	89,266	81,074	41,986	39,348
Total losses and expenses	1,879,925	3,473,579	2,669,165	3,927,860	943,841
(Loss) income before tax and joint ventures	(359,400)	(1,765,053)	(947,639)	(2,234,654)	525,328
Provision for (benefit from) income taxes	4,335	(442,776)	(397,798)	(833,977)	130,097
Income (loss) from joint ventures, net of tax	-	-	24,486	(269,341)	169,508
Net (loss) income	$ (363,735)	$ (1,322,277)	$ (525,355)	$ (1,670,018)	$ 564,739
Weighted average common shares outstanding (in thousands)	176,406	124,209	113,962	81,294	84,950
Diluted (loss) earnings per share	$ (2.06)	$ (10.65)	$ (4.61)	$ (20.54)	$ 6.65
Dividends per share	$ -	$ -	$ 0.075	$ 0.775	$ 1.00
Balance sheet data					
Total investments	$ 7,458,282	$ 7,254,465	$ 7,045,536	$ 5,896,233	$ 5,252,422
Cash and cash equivalents	1,304,154	1,185,739	1,097,334	288,933	293,738
Total assets	9,333,642	9,404,419	9,146,734	7,716,361	6,621,671
Loss reserves	5,884,171	6,704,990	4,775,552	2,642,479	1,125,715
Premium deficiency reserves	178,967	193,186	454,336	1,210,841	-
Senior notes and other debt	376,329	377,098	698,446	798,250	781,277
Convertible senior notes	345,000	-	-	-	-
Convertible junior debentures	315,626	291,785	272,465	-	-
Shareholders' equity	1,669,055	1,302,581	2,434,233	2,594,343	4,295,877
Book value per share	8.33	10.41	19.46	31.72	51.88

Five-Year Summary of Financial Information *(cont.)*

	Year Ended December 31,				
	2010	2009	2008	2007	2006
New primary insurance written ($ millions)	$ 12,257	$ 19,942	$ 48,230	$ 76,806	$ 58,242
New primary risk written ($ millions)	2,944	4,149	11,669	19,632	15,937
New pool risk written ($ millions) (1)	-	4	145	211	240
Insurance in force (at year-end) ($ millions)					
Direct primary insurance	191,250	212,182	226,955	211,745	176,531
Direct primary risk	48,979	54,343	58,981	55,794	47,079
Direct pool risk (1)					
With aggregate loss limits	1,154	1,478	1,752	2,325	2,590
Without aggregate loss limits	1,532	1,951	2,521	4,131	4,417
Primary loans in default ratios					
Policies in force	1,228,315	1,360,456	1,472,757	1,437,432	1,283,174
Loans in default	214,724	250,440	182,188	107,120	78,628
Percentage of loans in default	17.48%	18.41%	12.37%	7.45%	6.13%
Percentage of loans in default — bulk	37.36%	40.87%	32.64%	21.91%	14.87%
Insurance operating ratios (GAAP)					
Loss ratio (2)	137.5%	259.5%	220.4%	187.3%	51.7%
Expense ratio (2)	16.3%	15.1%	14.2%	15.8%	17.0%
Combined ratio	153.8%	274.6%	234.6%	203.1%	68.7%
Risk-to-capital ratio (statutory)					
Mortgage Guaranty Insurance Corporation	19.8:1	19.4:1	12.9:1	10.3:1	6.4:1
Combined insurance companies	23.2:1	22.1:1	14.7:1	11.9:1	7.5:1

(1) In previous filings, we also disclosed the estimated risk amount that would credit enhance these loans to an 'AA' level based on a rating agency model. We did not renew our subscription to this model and no longer estimate this amount.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

We have reproduced below the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" that appeared in our Annual Report on Form 10-K for the year ended December 31, 2010, which was filed with the SEC on March 1, 2011. Except for various cross-references, we have not changed what appears below from what was in our Form 10-K. As a result, the Management's Discussion and Analysis and Risk Factors are not updated to reflect any events or changes in circumstances that have occurred since our Annual Report on Form 10-K was filed with the SEC. Our Risk Factors are an integral part of Management's Discussion and Analysis and appear immediately after it.

Overview

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

As used below, "we" and "our" refer to MGIC Investment Corporation's consolidated operations. In the discussion below, we classify, in accordance with industry practice, as "full documentation" loans approved by GSE and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income. For additional information about such loans, see footnote (3) to the composition of primary default inventory table under "Results of Consolidated Operations—Losses—Losses Incurred" below. The discussion of our business in this document generally does not apply to our Australian operations which have historically been immaterial. The results of our operations in Australia are included in the consolidated results disclosed. For additional information about our Australian operations, see our risk factor titled "Our Australian operations may suffer significant losses" below and "Overview—Australia" below.

Forward Looking Statements

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

Outlook

At this time, we are facing the following particularly significant challenges:

- Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. A possible restructuring or change in the charters of the GSEs, or a definition of "qualified residential mortgages" ("QRM") that significantly impacts the volume of low down payment mortgages available to be insured could significantly affect our business. This challenge is discussed under "Fannie Mae and Freddie Mac" and "Qualified Residential Mortgages" below.

- Whether we may continue to write insurance on new residential mortgage loans due to actions our regulators or the GSEs could take due to an actual or projected deterioration in our capital position. This challenge is discussed under "Capital" below.

- Whether we will prevail in legal proceedings challenging whether our rescissions were proper. For additional information about this challenge see "Rescissions" below. An adverse outcome in these legal proceedings would negatively impact our capital position. See discussion of this challenge under "Capital" below.

Fannie Mae and Freddie Mac

In September 2008, the Federal Housing Finance Agency ("FHFA") was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The appointment of FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry's inability, due to capital constraints, to write sufficient business to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. Such changes may allow the GSEs to reduce or eliminate the level of private mortgage insurance coverage that they use as credit enhancement, which could have a material adverse effect on our revenue, results of operations or financial condition. Dodd-Frank Act ("Dodd-Frank") required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released on February 11, 2011 and while it does not provide any definitive timelines for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. As a result of the matters referred to above, it is uncertain what role the GSEs will play in the domestic residential housing finance system in the future or the impact of any such changes on our business.

For a number of years, the GSEs have had programs under which on certain loans lenders could choose a mortgage insurance coverage percentage that was only the minimum required by their charters, with the GSEs paying a lower price for these loans ("charter coverage"). The GSEs have also had programs under which on certain loans they would accept a level of mortgage insurance above the requirements of their charters but below their standard coverage without any decrease in the purchase price they would pay for these loans ("reduced coverage"). Freddie Mac eliminated its reduced coverage program in 2009. Effective January 1, 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage and in the second quarter of 2010 Fannie Mae eliminated its reduced coverage program. In recent years, a majority of our volume was on loans with GSE standard coverage; almost all of the rest of our volume was on loans with reduced coverage, with only a minor portion of our volume on loans with charter coverage. The pricing changes we implemented on May 1, 2010 (see our risk factor titled "The premiums we charge may not be adequate to compensate us for our liabilities for losses and as a result any inadequacy could materially affect our financial condition and results of operations") may eliminate a lender's incentive to use Fannie Mae charter coverage in place of standard coverage. During 2010, the portion of our volume insured either at charter coverage or reduced coverage has decreased compared to recent years and the portion of our volume insured at standard coverage has increased. We charge higher premium rates for higher coverage percentages. To the extent lenders selling loans to Fannie Mae in the future choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

For further discussion see our risk factors titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses" and "The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."

Both of the GSEs have guidelines on terms under which they can conduct business with mortgage insurers, such as MGIC, with financial strength ratings below Aa3/AA-. (MGIC's financial strength rating from Moody's is Ba3, with a positive outlook and from Standard & Poor's is B+, with a negative outlook.) For information about how these guidelines could affect us, see our risk factor titled "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements."

Qualified Residential Mortgages

Dodd-Frank requires a securitizer and a lender who sells residential mortgages to a securitizer to retain collectively 5% of the risk associated with such mortgage loans that are securitized, with the retained risk allocated between the securitizer and the lender as defined by regulations to be adopted under Dodd-Frank by various federal financial institutions regulators. This risk retention requirement does not apply to mortgage loans that are QRMs or that are insured by the FHA or another federal agency. (The GSEs are not federal agencies for this purpose.) In defining a QRM the federal regulators are to take into account underwriting and product features, which we understand from reports about the scope of the definition that could be proposed, include the amount of the down payment. The federal regulators are also to take into account for such purpose, among other things, "standards with respect to mortgage guarantee insurance or other types of insurance or credit enhancement obtained at the time of origination, to the extent such insurance or credit enhancement reduces the risk of default." Although the definition of QRM had yet to be proposed at the time this Form 10-K was finalized, the federal regulators are expected to propose the definition in the near future. Depending on the extent of the down payment required for a QRM and to what extent, if any, the presence of mortgage insurance would be a substitute for a higher down payment, the amount of new insurance that we write may be materially adversely affected.

The following table shows the percentage of our new risk written by LTV for the years ended December 31, 2010 and 2009.

	Percentage of new risk written	
	2010	**2009**
LTV:		
85% and under	7%	12%
85.1 - 90%	48%	53%
90.1 - 95%	44%	34%
95.1 - 97%	1%	1%
> 97%	0%	0%

For further discussion 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."

Capital

<u>*Insurance regulators*</u>

Although we currently meet the minimum capital requirements of the jurisdictions in which we write business, in 2009, we requested and received from the Office of the Commissioner of Insurance for Wisconsin ("OCI") and insurance departments in certain other jurisdictions, waivers from their minimum capital requirements in order to prepare for the possibility that we would not meet those requirements in the future. We also funded MGIC Indemnity Corporation ("MIC") and obtained the required state and GSE approvals for MIC to write new business in jurisdictions where MGIC no longer met, or was not able to obtain a waiver of, the capital requirements. The GSEs have only approved MIC for use in certain states. The OCI or other insurance departments may modify or terminate MGIC's existing waivers or fail to renew them when they expire. For additional information see our risk factor titled "Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis."

GSEs

The GSEs have approved us as an eligible mortgage insurer, under remediation plans, even though our insurer financial strength (IFS) rating is below the published GSE minimum. The GSEs may change the requirements under our remediation plans or fail to renew, when they expire, their approvals of MIC as an eligible insurer during periods when MGIC does not meet insurance department requirements. These possibilities could result from changes imposed on the GSEs by their regulator or due to an actual or GSE-projected deterioration in our capital position. For additional information about this challenge see our risk factors titled "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements" and "We have reported losses for the last four years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability."

Rescissions

Subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Because we can review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, claim rescissions and denials, which we collectively refer to as rescissions, were not a material portion of our claims resolved during a year. However, beginning in 2008 our rescissions of policies have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue to mitigate paid and incurred losses at the same level we have recently experienced. In addition, if an insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately $1.2 billion. These figures include amounts that would have resulted in either a claim payment or been charged to a deductible or aggregate loss limit under a bulk or pool policy, and may have been charged to a captive reinsurer, as shown in the table below. The amounts that would have been applied to a deductible do not take into account previous rescissions that may have been applied to a deductible.

Our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. We do not utilize an explicit rescission rate in our reserving methodology, but rather our reserving methodology incorporates the effects rescission activity has had on our historical claim rate and claim severities. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. Our estimation process does not include a direct correlation between claim rates and severities to projected rescission activity or other economic conditions such as changes in unemployment rates, interest rates or housing values. Our experience is that analysis of that nature would not produce reliable results, as the change in one condition cannot be isolated to determine its sole effect on our ultimate paid losses as our ultimate paid losses are also influenced at the same time by other economic conditions. The estimation of the impact of rescissions on losses incurred, included in the table below, must be considered together with the various other factors impacting losses incurred and not in isolation.

The table below represents our estimate of the impact rescissions have had on reducing our loss reserves, paid losses and losses incurred.

	2010	2009	2008
		(In billions)	
Estimated rescission reduction - beginning reserve	$ 2.1	$ 0.5	$ 0.2
Estimated rescission reduction - losses incurred	0.2	2.5	0.4
Rescission reduction - paid claims	1.2	1.2	0.2
Amounts that may have been applied to a deductible	(0.2)	(0.3)	(0.1)
Net rescission reduction - paid claims	1.0	0.9	0.1
Estimated rescission reduction - ending reserve	$ 1.3	$ 2.1	$ 0.5

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Actions disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20 an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 20 – "Litigation and contingencies" to our consolidated financial statements.

In the second quarter of 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. Loans covered by this settlement agreement represented fewer than 10% of our policies in force as well as our delinquent inventory. Under this agreement, we waived certain of our rescission rights on loans subject to the agreement and the customer agreed to contribute to the cost of claims that we pay on those loans. The rescission rights we waived are for matters related to loan origination, which historically have been the basis for substantially all of our rescissions. In addition, under the agreement we reversed certain rescissions and the customer waived claims regarding certain other past rescissions. This agreement did not have a significant impact on our established loss reserves. We continue to discuss with other lenders their objections to material rescissions and/or the possibility of entering into a settlement agreement. In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or legal proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability.

For further information see our risk factor titled "We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper."

Loan Modification and Other Similar Programs

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

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

We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP. We are aware of approximately 16,800 loans in our primary delinquent inventory at December 31, 2010 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through December 31, 2010 approximately 24,600 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. We believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly in recent months and most of the loans currently in a trial period will not receive HAMP modifications. In September 2010, the U.S. Department of the Treasury directed several large loan servicers to change their processes for soliciting borrowers and determining eligibility for participation in HAMP. We are uncertain what effect such changes in processes will have on HAMP participation and any benefits we may receive from such participation.

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

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

Various government entities and private parties have from time to time enacted foreclosure (or equivalent) moratoriums and suspensions (which we collectively refer to as moratoriums). There has been public discussion that additional government moratoriums may be effected in the near future if investigations by various government agencies indicate that large mortgage servicers and other parties acted improperly in foreclosure proceedings. We do not know what effect improprieties that may have occurred in a particular foreclosure have on the validity of that foreclosure, once it was completed and the property transferred to the lender. Under our policy, in general, completion of a foreclosure is a condition precedent to the filing of a claim.

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

Factors Affecting Our Results

Our results of operations are affected by:

- Premiums written and earned

  Premiums written and earned in a year are influenced by:

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

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

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

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

Premiums are generated by the insurance that is in force during all or a portion of the period. A change in the average insurance in force in the current period compared to an earlier period is a factor that will increase (when the average in force is higher) or reduce (when it is lower) premiums written and earned in the current period, although this effect may be enhanced (or mitigated) by differences in the average premium rate between the two periods as well as by premiums that are returned or expected to be returned in connection with rescissions and premiums ceded to captives or the GSEs. Also, new insurance written and cancellations during a period will generally have a greater effect on premiums written and earned in subsequent periods than in the period in which these events occur.

- Investment income

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

- Losses incurred

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

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

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

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

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

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

- The rate at which we rescind policies. Our estimated loss reserves reflect mitigation from rescissions of policies and denials of claims. We collectively refer to such rescissions and denials as "rescissions" and variations of this term.

- The distribution of claims over the life of a book. Historically, the first two years after loans are originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency (percentage of insurance remaining in force from one year prior), the condition of the economy, including unemployment and housing prices, and other factors can affect this pattern. For example, a weak economy or housing price declines can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. See further information under "Mortgage Insurance Earnings and Cash Flow Cycle" below.

- Changes in premium deficiency reserve

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

- Underwriting and other expenses

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

- Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. The principal amount of our long-term debt obligations at December 31, 2010 is comprised of $77.4 million of 5.625% Senior Notes due in September 2011, $300 million of 5.375% Senior Notes due in November 2015, $345 million of 5% Convertible Senior Notes due in 2017 and $389.5 million of 9% Convertible Junior Subordinated Debentures due in 2063 (interest on these debentures accrues and compounds even if we defer the payment of interest), as discussed in Note 8 – "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" below. At December 31, 2010, the convertible debentures are reflected as a liability on our consolidated balance sheet at the current amortized value of $315.6 million, with the unamortized discount reflected in equity.

Mortgage Insurance Earnings and Cash Flow Cycle

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

Australia

In 2007, we began providing mortgage insurance to lenders in Australia. At December 31, 2010 the equity value of our Australian operations was approximately $131 million and our risk in force in Australia was approximately $1.0 billion. In Australia, mortgage insurance is a single premium product that covers the entire loan balance. As a result, our Australian risk in force represents the entire amount of the loans that we have insured. However, the mortgage insurance we provide only covers the unpaid loan balance after the sale of the underlying property. In view of our need to dedicate capital to our domestic mortgage insurance operations, we have reduced our Australian headcount and are no longer writing new business in Australia.

Summary of 2010 Results

Our results of operations for 2010 were principally affected by the factors referred to below.

- Net premiums written and earned

Net premiums written and earned during 2010 decreased when compared to 2009. The decrease is due to the lower average insurance in force and higher levels of premium refunds, offset by lower ceded premiums due to captive terminations and run-offs.

- Investment income

Investment income in 2010 was lower when compared to 2009 due to a decrease in the pre-tax yield.

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

Net realized gains for 2010 included $102.6 million in net realized gains on the sale of fixed income investments and $9.6 million in other-than-temporary impairment ("OTTI") losses. Net realized gains for 2009 included $92.9 million in net realized gains on the sale of fixed income investments and $40.9 million in OTTI losses.

- Losses incurred

Losses incurred for 2010 significantly decreased compared to 2009 primarily due to the decrease in the primary default inventory, compared to an increase in 2009. The primary default inventory decreased by 35,716 delinquencies in 2010, compared to an increase of 68,252 in 2009. The estimated severity decreased in both 2010 and 2009. The estimated claim rate increased slightly in both 2010 and 2009.

- Change in premium deficiency reserve

During 2010 the premium deficiency reserve on Wall Street bulk transactions declined by $14 million from $193 million, as of December 31, 2009, to $179 million as of December 31, 2010. The decrease in the premium deficiency reserve represents the net result of actual premiums, losses and expenses as well as a change in net assumptions for the period. The change in net assumptions for 2010 is primarily related to higher estimated ultimate premiums. The $179 million premium deficiency reserve as of December 31, 2010 reflects the present value of expected future losses and expenses that exceeds the present value of expected future premium and already established loss reserves.

- Underwriting and other expenses

Underwriting and other expenses for 2010 decreased when compared to 2009. The decrease reflects our lower contract underwriting volume as well as reductions in headcount.

- Interest expense

Interest expense for 2010 increased when compared to 2009. The increase is due to the issuance of our 5% Convertible Senior Notes in April 2010 as well as an increase in amortization on our junior debentures.

- Benefit from income taxes

The effective tax rate provision on our pre-tax loss was 1.2% in 2010, compared to the effective tax rate benefit of (25.1%) in 2009. During those periods, the benefit from income taxes was eliminated or reduced by the establishment of a valuation allowance. The difference in the rate was primarily the result of the elimination of the entire tax benefit due to an increase in the valuation allowance in 2010, while the tax benefit was not completely eliminated due to the establishment of the valuation allowance in 2009.

Results of Consolidated Operations

New insurance written

The amount of our primary new insurance written during the years ended December 31, 2010, 2009 and 2008 was as follows:

	2010	2009	2008
Total Primary NIW (In billions)	$ 12.3	$ 19.9	$ 48.2
Refinance volume as a % of primary NIW.......	32%	40%	26%

The decrease in new insurance written in 2010, compared to 2009, was primarily due to a lower overall origination market, the continued high market share of FHA and a loss of business from a major lender as a result of our rescission practices.

The decrease in new insurance written in 2009, compared to 2008, was primarily due to changes in our underwriting guidelines, designed to improve the credit risk profile of our new insurance written, as well as premium rate increases.

We expect new insurance written in 2011 to increase modestly over the $12 billion written in 2010. Our level of new insurance written could also be affected by other items, including those noted in our Risk Factors.

Beginning on May 1, 2010, in a majority of states we began pricing our new insurance written considering, among other things, the borrower's credit score ("credit-tiered pricing"). During the third quarter of 2010, we implemented these changes in the remaining states. We made these rate changes to be more competitive with insurance programs offered by the FHA. These rate changes, in isolation, would have resulted in lower premiums being charged for a substantial majority of our new insurance written. However, beginning in the fourth quarter of 2009, the average coverage percentage of our new insurance written increased. We believe the increased coverage was due in part to the elimination of Fannie Mae's reduced coverage program. 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." Because we charge higher premiums for higher coverages, the higher coverages combined with the May 1, 2010 premium rate changes, has led to the premium yield remaining stable. We cannot predict whether our new business written in the future will continue to have higher coverages. For more information about our rate changes, see our Form 8-K that was filed with the SEC on February 23, 2010.

Effective October 4, 2010, the FHA simultaneously reduced its upfront mortgage insurance premium and increased its annual premium. The new FHA pricing when compared to our credit-tiered pricing, may allow us to be more competitive with the FHA than in the recent past for loans with high FICO credit scores (those of at least 720). We cannot predict, however, what impact these premium changes will have on new insurance written in the future.

Beginning in 2009 the GSEs began charging lenders Loan Level Price Adjustments (LLPAs) that are assessed on all loans purchased or guaranteed by the GSEs and are based upon certain, eligibility or other loan features, or combination of features, including but not limited to loan to value ratio and the borrowers credit score. Recently both GSEs announced an increase in these fees which will take effect in the early part of 2011. Typically these fees are passed through to the consumer thus increasing their financing costs. These fees reduce, but do not eliminate, the increased competitiveness of our credit tiered pricing versus the revised FHA pricing for certain LTV and credit score combinations.

From time to time, in response to market conditions, we change the types of loans that we insure and the guidelines under which we insure them. In addition, we make exceptions to our underwriting guidelines on a loan-by-loan basis and for certain customer programs. Together these exceptions accounted for fewer than 5% of the loans we insured in recent quarters. Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make equivalent changes in appropriate circumstances in the future. Our underwriting guidelines are available on our website at http://www.mgic.com/guides/underwriting.html.

Cancellations, insurance in force and risk in force

New insurance written and cancellations of primary insurance in force during the years ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
		(In billions)	
NIW	$ 12.3	$ 19.9	$ 48.2
Cancellations	(33.2)	(34.7)	(32.9)
Change in primary insurance in force	$ (20.9)	$ (14.8)	$ 15.3
Direct primary insurance in force as of December 31,	$ 191.3	$ 212.2	$ 227.0
Direct primary risk in force as of December 31,	$ 49.0	$ 54.3	$ 59.0

Cancellation activity has historically been affected by the level of mortgage interest rates and the level of home price appreciation. Cancellations generally move inversely to the change in the direction of interest rates, although they generally lag a change in direction. Cancellations also include rescissions and policies cancelled due to claim payment. During 2009 and 2010, cancellations due to rescissions and claim payments have comprised a significant amount of our cancellations.

Our persistency rate was 84.4% at December 31, 2010 compared to 84.7% at December 31, 2009 and 84.4% at December 31, 2008. These improved persistency rates (compared to those experienced a few years ago and earlier) reflect the more restrictive credit policies of lenders (which make it more difficult for homeowners to refinance loans), as well as declines in housing values.

Bulk transactions

We ceased writing Wall Street bulk business in the fourth quarter of 2007. In addition, we wrote no new business through the bulk channel since the second quarter of 2008. We expect the volume of any future business written through the bulk channel will be insignificant. Wall Street bulk transactions, as of December 31, 2010, included approximately 89,000 loans with insurance in force of approximately $14.1

billion and risk in force of approximately $4.2 billion, which is approximately 63% of our bulk risk in force.

Pool insurance

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

Our direct pool risk in force was $2.7 billion ($1.2 billion on pool policies with aggregate loss limits and $1.5 billion on pool policies without aggregate loss limits) at December 31, 2010 compared to $3.4 billion ($1.5 billion on pool policies with aggregate loss limits and $1.9 billion on pool policies without aggregate loss limits) at December 31, 2009. In previous filings, we also disclosed the estimated risk amount that would credit enhance the pool policies with no aggregate loss limits to a 'AA' level based on a rating agency model. We did not renew our subscription to this model and, and as a result, no longer estimate this amount.

One of our pool insurance insureds is computing the aggregate loss limit under a pool insurance policy at a higher level than we are computing this limit because we believe the original aggregate limit decreases over time while the insured believes the limit remains constant. At December 31, 2010, the difference was approximately $535 million and under our interpretation this difference will increase by approximately $205 million in August 2011 and will continue to increase in August of years thereafter. This difference has had no effect on our results of operations because the aggregate paid losses plus the portion of our loss reserves attributable to this policy have been below our interpretation of the loss limit. Based on our interpretation of the pool insurance policy, and our expected loss development, we believe that at a point some time in the not too distant future, the losses from delinquent loans under this policy will exceed our view of the aggregate loss limit, with the result that we will not recognize the excess portion of such losses as incurred losses. The difference in interpretation has had no effect on our pool loss forecasts because we do not include the benefits of the aggregate loss limit under this policy in those forecasts.

Net premiums written and earned

Net premiums written and earned during 2010 decreased when compared to 2009. The decrease is due to lower average insurance in force and higher levels of premium refunds, offset by lower ceded premiums due to captive terminations and run-offs. In a captive termination, the arrangement is cancelled, with no future premium ceded and funds for any incurred but unpaid losses transferred to us. In a run-off, no new loans are reinsured by the captive but loans previously reinsured continue to be covered, with premium and losses continuing to be ceded on those loans.

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

We expect our average insurance in force to continue to decline through 2011 because our expected new insurance written levels are not expected to exceed our cancellation activity. We expect our premium yields (net premiums written or earned, expressed on an annual basis, divided by the average insurance in force) in 2011 to continue at approximately the level experienced during 2010.

Risk sharing arrangements

For the year ended December 31, 2010, approximately 5% of our flow new insurance written was subject to arrangements with captives which was comparable to the year ended December 31, 2009. We expect the percentage of new insurance written subject to risk sharing arrangements to approximate 5% in 2011 for the reasons discussed below.

Effective January 1, 2009, we are no longer ceding new business under excess of loss reinsurance treaties with lender captive reinsurers. Loans reinsured through December 31, 2008 under excess of loss agreements will run off pursuant to the terms of the particular captive arrangement. New business will continue to be ceded under quota share reinsurance arrangements, limited to a 25% cede rate. Beginning in 2008, many of our captive arrangements have either been terminated or placed into run-off.

We anticipate that our ceded premiums related to risk sharing agreements will continue to decline in 2011 for the reasons discussed above.

See discussion under "-Losses—Losses Incurred" regarding losses assumed by captives.

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

Investment income

Investment income for 2010 decreased when compared to 2009 due to a decrease in the average investment yield. The decrease in the average investment yield was caused both by decreases in prevailing interest rates and a decrease in the average maturity of our investments. The average maturity of our investments has continued to decrease as the proceeds from the April 2010 offerings have been invested in shorter term instruments. See further discussion under "Liquidity and Capital Resources" below. The portfolio's average pre-tax investment yield was 2.5% at December 31, 2010 and 3.6% at December 31, 2009. The portfolio's average pre-tax investment yield, excluding cash and cash equivalents, was 3.0% at December 31, 2010 and 4.0% at December 31, 2009.

Investment income for 2009 decreased when compared to 2008 due to a decrease in the average investment yield, offset by an increase in the average amortized cost of invested assets. The decrease in the average investment yield was caused both by decreases in prevailing interest rates and a decrease in the average maturity of our investments. The portfolio's average pre-tax investment yield was 3.9% at December 31, 2008 and 4.0% excluding cash and cash equivalents.

We expect a decline in investment income in 2011, compared to 2010, as the average amortized cost of invested assets decreases due to claim payments exceeding premiums received in future periods. See further discussion under "Liquidity and Capital Resources" below.

Realized gains and other-than-temporary impairments

We had net realized investment gains of $102.6 million in 2010, compared to $92.9 million in 2009. The net realized gains on investments in 2010 and 2009 are primarily the result of the sale of fixed income securities. We are in the process of reducing the proportion of our investment portfolio in tax exempt municipal securities and increasing the proportion of taxable securities. We are shifting the portfolio to taxable securities because the tax benefits of holding tax exempt municipal securities are no longer available based on our recent net operating losses. We also are disposing of securities to decrease the duration of the portfolio to provide cash to meet our anticipated claim payment obligations.

Net impairment losses recognized in earnings were $9.6 million in 2010 compared to $40.9 million in 2009. The impairment losses in 2010 included credit losses related to debt instruments issued by health facilities, an inflation linked bond and specific issuer auction rate securities. The impairment losses in 2009 included credit losses related to collateralized debt obligations, debt instruments issued by health facilities and mortgage backed bonds.

We had net realized investment gains of $52.9 million in 2008. Realized gains for 2008 included $62.8 million from the sale of our interest in Sherman, which was offset by realized losses on sales of investments of $9.9 million.

Net impairment losses recognized in earnings were $65.4 million in 2008. The impairment losses in 2008 included debt instruments issued by Fannie Mae, Freddie Mac, Lehman Brothers and AIG.

Other revenue

Other revenue for 2010 decreased, when compared to 2009, due to gains of $27.2 million in 2009 from the repurchase of our September 2011 Senior Notes and a decrease in contract underwriting revenues.

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

Losses

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

Estimation of losses that we will pay in the future is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the economy, including unemployment and local housing markets. Current conditions in the housing and mortgage industries make these assumptions more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a further deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a further drop in housing values, which expose us to greater losses on resale of properties obtained through the claim settlement process and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Our estimates are also affected by any agreements we enter into regarding claim payments, such as the settlement agreement discussed below under "Losses incurred". Changes to our estimates could result in a material impact to our results of operations, even in a stable economic environment.

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

Our estimates could also be positively affected by efforts to assist current borrowers in refinancing to new loans, assisting delinquent borrowers in reducing their mortgage payments, and forestalling foreclosures. If these benefits occur, we anticipate they will do so under non-HAMP programs. See discussion of HAMP under "Overview – Loan Modification and Other Similar Programs."

Losses incurred

In 2010, net losses incurred were $1,608 million, of which $1,875 million related to current year loss development and ($267) million related to favorable prior years' loss development. In 2009, net losses incurred were $3,379 million, of which $2,913 million related to current year loss development and $466 million related to unfavorable prior years' loss development. See Note 10 – "Loss reserves" to our Consolidated Financial Statements.

Current year losses incurred decreased in 2010 compared to 2009 primarily due to a decrease in the number of new notices received, from 259,876 in 2009 to 205,069 in 2010, as well as an increase in the percentage of new notices that cured from delinquency, which decreases the claim rate on new notices. These factors were somewhat offset by a smaller benefit from captive arrangements. Current year losses incurred increased in 2009 compared to 2008 primarily due to an increase in claim rates and a smaller benefit from captive arrangements, offset by a decrease in severity. The increase in claim rates experienced during 2009 was likely due to general economic conditions, including the unemployment rate, as well as further decreases in home values which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. The increase in 2009 claim rates was significantly mitigated by an increase in expected rescission levels. The smaller benefit from captive arrangements is due to captive terminations in 2009 and late 2008. The decrease in severity, compared to an increase in 2008, was primarily due to an increase in expected rescission levels. The average exposure on policies rescinded in 2009 was higher than the average exposure on claims paid.

The amount of losses incurred relating to default notices received in prior years represents the actual claim rate and severity associated with those default notices resolved in the current year to the extent it differs from the estimated liability at the prior year-end, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. This re-estimation of the claim rate and severity is the result of our review of current trends in default inventory, such as percentages of defaults that have resulted in a claim, the amount of the claims, changes in the relative level of defaults by geography and changes in average loan exposure. The $266.9 million decrease in losses incurred in 2010 related to prior years was primarily related to a decrease in the expected claim rate on the defaults that occurred in prior periods which accounted for approximately $402 million of the decrease. The decrease in the claim rate is based on the resolution of approximately 55% of the prior year default inventory, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. The decrease in the claim rate was due to greater cures experienced during 2010, a portion of which resulted from loan modifications. The decrease in the expected claim rate on prior defaults was partially offset by an increase in severity on pool defaults that occurred in prior periods which approximated $155 million. The increase in pool severity was based on the resolution of defaults that occurred in prior periods with higher claim amounts, which in part, were applied to remaining deductibles on certain pool policies. The remaining decrease in losses incurred related to prior years of approximately $20 million related to LAE reserves and reinsurance. Of the 250,440 primary defaults in our December 31, 2009 inventory, 109,920 primary defaults, approximately 44%, remained in our default inventory one year later at December 31, 2010. These defaults have a higher estimated claim rate when compared to a year ago because our experience is that as a default ages it become more likely to result in a claim payment (see further discussion below). Historically, approximately 75% of our default inventory was resolved in one year.

The $466.8 million increase in losses incurred in 2009 related to prior years was primarily related to an increase in the claim rate on defaults that occurred in prior periods which accounted for approximately $337 million of the increase. The increase in the claim rate is based on the resolution of approximately 50% of the prior year default inventory, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. The increase in the claim rate was likely due to general economic conditions, including the unemployment rate, as well as further decreases in home values which may affect borrower willingness to continue to make mortgage payments. The increase in losses incurred in 2009 related to prior years was also due to an increase in severity on defaults that occurred in prior periods which accounted for approximately $137 million of the increase. The increase in severity was related to the weakening of the housing and mortgage markets which resulted in adverse claim sizes. The remaining increase in losses incurred related to prior years of approximately $7 million related to LAE reserves and reinsurance. The $387.1 million increase in losses incurred in 2008 related to prior years was primarily related to the significant increase in severity during the year, as compared to our estimates when originally establishing the reserves at December 31, 2007.

The decrease in the primary default inventory experienced during 2010 was generally across all markets and all book years. However the number of consecutive months a loan remains in the default inventory (the age of the item in default) has continued to increase, as shown in the table below. Historically as a default ages it becomes more likely to result in a claim. The impact of the decrease in the primary default inventory and estimated severity on losses incurred was partially offset by the impact of the increased age of the primary default inventory.

Aging of the Primary Default Inventory

	December 31, 2010		December 31, 2009		December 31, 2008	
Consecutive months in the default inventory						
3 months or less	37,640	18%	48,252	19%	60,113	33%
4 - 11 months	58,701	27%	98,210	39%	75,476	41%
12 months or more	118,383	55%	103,978	42%	46,599	26%
Total primary default inventory	214,724	100%	250,440	100%	182,188	100%
Loans in default in our claims received inventory	20,898	10%	16,389	7%	13,275	7%

The length of time a loan is continuously in the default inventory 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. The number of payments that a borrower is delinquent is shown in the table below.

Number of Payments Delinquent

	December 31, 2010		December 31, 2009		December 31, 2008	
3 payments or less	51,003	24%	60,970	24%	68,010	37%
4 - 11 payments	65,797	31%	105,208	42%	76,194	42%
12 payments or more	97,924	45%	84,262	34%	37,984	21%
Total primary default inventory	214,724	100%	250,440	100%	182,188	100%

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

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Because we can review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, claim rescissions were not a material portion of our claims resolved during a year. However, beginning in 2008 our rescissions of policies have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue to mitigate paid and incurred losses at the same level we have recently experienced. In addition, if an insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately $1.2 billion. These figures include amounts that would have resulted in either a claim payment or been charged to a deductible or aggregate loss limit under a bulk or pool policy, and may have been charged to a captive reinsurer, as shown in the table below. The amounts that would have been applied to a deductible do not take into account previous rescissions that may have been applied to a deductible.

Our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. We do not utilize an explicit rescission rate in our reserving methodology, but rather our reserving methodology incorporates the effects rescission activity has had on our historical claim rate and claim severities. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. Our estimation process does not include a direct correlation between claim rates and severities to projected rescission activity or other economic conditions such as changes in unemployment rates, interest rates or housing values. Our experience is that analysis of that nature would not produce reliable results, as the change in one condition cannot be isolated to determine its sole effect on our ultimate paid losses as our ultimate paid losses are also influenced at the same time by other economic conditions. The estimation of the impact of rescissions on losses incurred, included in the table below, must be considered together with the various other factors impacting losses incurred and not in isolation.

The table below represents our estimate of the impact rescissions have had on reducing our loss reserves, paid losses and losses incurred.

	2010	2009	2008
		(In billions)	
Estimated rescission reduction - beginning reserve	$ 2.1	$ 0.5	$ 0.2
Estimated rescission reduction - losses incurred	0.2	2.5	0.4
Rescission reduction - paid claims	1.2	1.2	0.2
Amounts that may have been applied to a deductible	(0.2)	(0.3)	(0.1)
Net rescission reduction - paid claims	1.0	0.9	0.1
Estimated rescission reduction - ending reserve	$ 1.3	$ 2.1	$ 0.5

The $2.5 billion estimated mitigation of incurred losses during 2009 represents both the claims not paid in the period due to rescissions, as well as an increasing default inventory and an increasing expected rescission rate for loans in default. Even though rescissions mitigated our paid losses by a similar amount in 2010 as compared to 2009, the estimated mitigation of incurred losses declined to $0.2 billion for 2010. This decrease was caused by a decline in our default inventory in 2010, compared to an increase in 2009, as well as a modest decline in the expected rescission rate for loans in our default inventory during 2010 compared to a significantly increasing expected rescission rate during 2009 and a decrease in exposure on expected rescissions.

At December 31, 2010, our loss reserves continued to be significantly impacted by expected rescission activity. We expect that the reduction of our loss reserves due to rescissions will continue to decline because our recent experience indicates new notices in our default inventory have a lower likelihood of being rescinded than those already in the inventory due to their product mix, geographic location and vintage.

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At December 31, 2010 and 2009 the estimate of this liability totaled $101 million and $88 million, respectively. Separate components of this liability are included in "Other liabilities" and "Premium deficiency reserve" on our consolidated balance sheet. Changes in the liability affect premiums written and earned and change in premium deficiency reserve, respectively.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Actions disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20 an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 20 – "Litigation and contingencies" to our consolidated financial statements.

In the second quarter of 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. Loans covered by this settlement agreement represented fewer than 10% of our policies in force as well as our delinquent inventory. Under this agreement, we waived certain of our rescission rights on loans subject to the agreement and the customer agreed to contribute to the cost of claims that we pay on those loans. The rescission rights we waived are for matters related to loan origination, which historically have been the basis for substantially all of our rescissions. In addition, under the agreement we reversed certain rescissions and the customer waived claims regarding certain other past rescissions. This agreement did not have a significant impact on our established loss reserves. We continue to discuss with other lenders their objections to material rescissions and/or the possibility of entering into a settlement agreement. In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or legal proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability.

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

As of December 31, 2010
Ever to Date Rescission Rates on Primary Claims Received
(based on count)

Quarter in Which the Claim was Received	ETD Rescission Rate (1)	ETD Claims Resolution Percentage (2)
Q2 2009	28.0%	99.8%
Q3 2009	27.5%	99.9%
Q4 2009	24.0%	99.5%
Q1 2010	20.7%	97.6%
Q2 2010	18.5%	92.5%

(1) This percentage is claims received during the quarter shown that have been rescinded as of our most recently completed quarter divided by the total claims received during the quarter shown. In certain cases we rescind coverage before a claim is received. Such rescissions, which have not been material, are not included in the statistics in the table.

(2) This percentage is claims received during the quarter shown that have been resolved as of our most recently completed quarter divided by the total claims received during the quarter shown. Claims resolved principally consist of claims paid plus claims for which we have informed the insured of our decision not to pay the claim. Although our decision to not pay a claim is made after we have given the insured an opportunity to dispute the facts underlying our decision to not pay the claim, these decisions are sometimes reversed after further discussion with the insured. The number of rescission reversals has been immaterial.

We anticipate that the ever-to-date rescission rate on the more recent quarters will increase, to a greater or lesser degree, as the ever-to-date resolution percentage moves closer to 100%.

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

Under these agreements the captives are required to maintain a separate trust account, of which we are the sole beneficiary. Premiums ceded to a captive are deposited into the applicable trust account to support the captive's layer of insured risk. These amounts are held in the trust account and are available to pay reinsured losses. The captive's ultimate liability is limited to the assets in the trust account. When specific time periods are met and the individual trust account balance has reached a required level, then the individual captive may make authorized withdrawals from its applicable trust account. In most cases, the captives are also allowed to withdraw funds from the trust account to pay verifiable federal income taxes and operational expenses. Conversely, if the account balance falls below certain thresholds, the individual captive may be required to contribute funds to the trust account. However, in most cases, our sole remedy if a captive does not contribute such funds is to put the captive into run-off, in which case no new business would be ceded to the captive. In the event that the captive's incurred but unpaid losses exceed the funds in the trust account, and the captive does not deposit adequate funds, we may also be allowed to terminate the captive agreement, assume the captive's obligations, transfer the assets in the trust accounts to us, and retain all future premium payments. We intend to exercise this additional remedy when it is available to us. However, if the captive would challenge our right to do so, the matter would be determined by arbitration. The reinsurance recoverable on loss reserves related to captive agreements was approximately $248 million at December 31, 2010 and $297 million at December 31, 2009. The total fair value of the trust fund assets under these agreements at December 31, 2010 was $510 million, compared to $547 million at December 31, 2009. Trust fund assets of $38 million and $119 million were transferred to us as a result of captive terminations during 2010 and 2009, respectively.

In 2010 the captive arrangements reduced our losses incurred by approximately $113 million, compared to a $234 million captive reduction in 2009. We anticipate that the reduction in losses incurred will continue to be lower in 2011, as some of our captive arrangements were terminated in 2009 and 2010.

A rollforward of our primary insurance default inventory for the years ended December 31, 2010, 2009 and 2008 appears in the table 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 and by transfers of servicing between loan servicers.

	2010	2009	2008
Default inventory at beginning of period	250,440	182,188	107,120
Plus: New Notices	205,069	259,876	263,603
Less: Cures	(183,017)	(149,251)	(161,069)
Less: Paids (including those charged to a deductible or captive)	(43,826)	(29,732)	(25,318)
Less: Rescissions and denials	(13,942)	(12,641)	(2,148)
Default inventory at end of period	214,724	250,440	182,188

Information about the composition of the primary insurance default inventory at December 31, 2010, December 31, 2009 and December 31, 2008 appears in the table below.

	December 31,		
	2010	2009	2008
Total loans delinquent (1)	214,724	250,440	182,188
Percentage of loans delinquent (default rate)	17.48%	18.41%	12.37%
Prime loans delinquent (2)	134,787	150,642	95,672
Percentage of prime loans delinquent (default rate)	13.11%	13.29%	7.90%
A-minus loans delinquent (2)	31,566	37,711	31,907
Percent of A-minus loans delinquent (default rate)	36.69%	40.66%	30.19%
Subprime credit loans delinquent (2)	11,132	13,687	13,300
Percentage of subprime credit loans delinquent (default rate)	45.66%	50.72%	43.30%
Reduced documentation loans delinquent (3)	37,239	48,400	41,309
Percentage of reduced documentation loans delinquent (default rate)	41.66%	45.26%	32.88%

General Notes: (a) For the information presented for 2010, the FICO credit score for a loan with multiple borrowers is the lowest of the borrowers' "decision FICO scores." For the information presented prior to 2010, the FICO score for a loan with multiple borrowers was the income weighted average of the "decision FICO scores" for each borrower. A borrower's "decision FICO score" is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used. This change will make our reporting of FICO credit scores consistent with the FICO credit scores that we use for underwriting purposes.

(b) Servicers continue to pay our premiums for nearly all of the loans in our default inventory, but in some cases, servicers stop paying our premiums. In those cases, even though the loans continue to be included in our default inventory, the applicable loans are removed from our insurance in force and risk in force. Loans where servicers have stopped paying premiums include 14,970 defaults with a risk of $719.4 million as of December 31, 2010.

(1) At December 31, 2010, 2009 and 2008 36,066, 45,907 and 45,482 loans in default, respectively, related to Wall Street bulk transactions.

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

(3) In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under "doc waiver" programs that do not require verification of borrower income are classified by MGIC as "full documentation." Based in part on information provided by the GSEs, we estimate

full documentation loans of this type were approximately 4% of 2007 NIW. Information for other periods is not available. We understand these AU systems grant such doc waivers for loans they judge to have higher credit quality. We also understand that the GSEs terminated their "doc waiver" programs, with respect to new commitments, in the second half of 2008.

Pool insurance notice inventory decreased from 44,231 at December 31, 2009 to 43,329 at December 31, 2010. The pool insurance notice inventory was 33,884 at December 31, 2008. We expect that the trend of increased pool claim payments shown below in the net paid claims table will continue.

The primary and pool loss reserves at December 31, 2010 and 2009 appear in the table below.

Gross Reserves

	2010	2009
Primary		
Direct loss reserves (in millions)	$ 5,146	$ 6,102
Default inventory	214,724	250,440
Average direct reserve per default	$ 23,966	$ 24,365
Pool		
Direct loss reserves (in millions)	$ 730	$ 596
Default inventory	43,329	44,231
Other gross reserves (in millions)	$ 8	$ 7

Note: Since a number of our pool policies include aggregate loss limits and/or deductibles, we do not disclose an average direct reserve per default for our pool business.

The primary default inventory and primary loss reserves by region at December 31, 2010, 2009 and 2008 appears in the table below.

Losses by Region

Primary Default Inventory

Region	2010	2009	2008
Great Lakes	27,663	32,697	25,377
Mid-Atlantic	9,660	11,384	8,081
New England	7,702	8,824	6,133
North Central	24,192	27,514	19,448
Northeast	19,056	20,607	14,673
Pacific	25,438	32,204	22,399
Plains	7,045	7,998	5,616
South Central	28,984	34,524	25,203
Southeast	64,984	74,688	55,258
Total	214,724	250,440	182,188

Primary Loss Reserves
(In millions)

Region	2010	2009	2008
Great Lakes	$ 426	$ 531	$ 426
Mid-Atlantic	231	237	166
New England	174	207	159
North Central	495	561	417
Northeast	374	465	276
Pacific	886	1,061	1,038
Plains	107	117	58
South Central	555	608	397
Southeast	1,395	1,679	1,086
Total before IBNR and LAE	$ 4,643	$ 5,466	$ 4,023
IBNR and LAE	503	636	520
Total	$ 5,146	$ 6,102	$ 4,543

Regions contain the states as follows:
Great Lakes: IN, KY, MI, OH
Mid-Atlantic: DC, DE, MD, VA, WV
New England: CT, MA, ME, NH, RI, VT
North Central: IL, MN, MO, WI
Northeast: NJ, NY, PA
Pacific: CA, HI, NV, OR, WA
Plains: IA, ID, KS, MT, ND, NE, SD, WY
South Central: AK, AZ, CO, LA, NM, OK, TX, UT
Southeast: AL, AR, FL, GA, MS, NC, SC, TN

The primary loss reserves at December 31, 2010, 2009 and 2008 separated between our flow and bulk business appears in the table below.

Primary loss reserves
(In millions)

	2010	2009	2008
Flow	$ 3,329	$ 3,637	$ 2,295
Bulk	1,314	1,829	1,728
Total primary reserves	$ 4,643	$ 5,466	$ 4,023

The average claim paid, as shown in the table below, can vary materially from period to period based upon a variety of factors, on both a national and state basis, including the geographic mix, average loan amount and average coverage percentage of loans for which claims are paid.

The primary average claim paid for the top 5 states (based on 2010 paid claims) for the years ended December 31, 2010, 2009 and 2008 appears in the table below.

Primary average claim paid

	2010	2009	2008
Florida	$ 61,290	$ 66,059	$ 69,061
California	88,761	105,552	115,409
Arizona	57,925	61,929	67,058
Michigan	35,675	38,341	37,020
Georgia	42,070	41,836	40,776
All other states	44,985	45,590	41,991
All states	$ 50,173	$ 52,627	$ 52,239

The primary average loan size of our insurance in force at December 31, 2010, 2009 and 2008 appears in the table below.

Primary average loan size

	2010	2009	2008
Total insurance in force	$ 155,700	$ 155,960	$ 154,100
Prime (FICO 620 & >)	155,050	154,480	151,240
A-Minus (FICO 575-619)	130,360	130,410	132,380
Subprime (FICO < 575)	117,410	118,440	121,230
Reduced doc (All FICOs)	198,000	203,340	208,020

The primary average loan size of our insurance in force at December 31, 2010, 2009 and 2008 for the top 5 states (based on 2010 paid claims) appears in the table below.

Primary average loan size

	2010	2009	2008
Florida	$ 174,203	$ 178,262	$ 180,261
California	283,459	288,650	293,442
Arizona	184,508	188,614	190,339
Michigan	121,282	121,431	121,001
Georgia	148,002	148,802	148,052
All other states	149,182	148,603	146,130

Information about net paid claims during the years ended December 31, 2010, 2009 and 2008 appears in the table below.

Net paid claims (In millions)

	2010	2009	2008
Prime (FICO 620 & >)	$ 1,400	$ 831	$ 547
A-Minus (FICO 575-619)	265	231	250
Subprime (FICO < 575)	77	95	132
Reduced doc (All FICOs)	451	388	395
Pool	177	99	46
Other	3	5	2
Direct losses paid	2,373	1,649	1,372
Reinsurance	(126)	(41)	(19)
Net losses paid	2,247	1,608	1,353
LAE	71	60	48
Net losses and LAE paid before terminations	2,318	1,668	1,401
Reinsurance terminations	(38)	(119)	(265)
Net losses and LAE paid	$ 2,280	$ 1,549	$ 1,136

Primary claims paid for the top 15 states (based on 2010 paid claims) and all other states for the years ended December 31, 2010, 2009 and 2008 appears in the table below.

Paid Claims by state (In millions)

	2010	2009	2008
Florida	$ 340	$ 195	$ 129
California	288	253	316
Arizona	156	110	61
Michigan	130	111	99
Georgia	97	62	50
Nevada	95	75	45
Illinois	91	59	52
Texas	87	51	48
Ohio	68	54	58
Virginia	57	48	32
Minnesota	56	52	43
Maryland	50	25	21
Washington	41	21	8
Massachusetts	40	27	29
Colorado	38	27	33
All other states	559	375	300
	$ 2,193	$ 1,545	$ 1,324
Other (Pool, LAE, Reinsurance)	87	4	(188)
	$ 2,280	$ 1,549	$ 1,136

The primary default inventory in those same states at December 31, 2010, December 31, 2009 and December 31, 2008 appears in the table below.

	2010	2009	2008
Florida	32,788	38,924	29,384
California	14,070	19,661	14,960
Arizona	6,781	8,791	6,338
Michigan	10,278	12,759	9,853
Georgia	9,117	10,905	7,622
Nevada	4,729	5,803	3,916
Illinois	12,548	13,722	9,130
Texas	11,602	13,668	10,540
Ohio	9,850	11,071	8,555
Virginia	3,627	4,464	3,360
Minnesota	3,672	4,674	3,642
Maryland	4,264	4,940	3,318
Washington	3,888	3,768	1,967
Massachusetts	3,050	3,661	2,634
Colorado	2,917	3,451	2,328
All other states	81,543	90,178	64,641
	214,724	250,440	182,188

The primary default inventory at December 31, 2010, 2009 and 2008 separated between our flow and bulk business appears in the table below.

	2010	2009	2008
Flow	162,621	185,828	122,693
Bulk	52,103	64,612	59,495
	214,724	250,440	182,188

The flow default inventory by policy year at December 31, 2010, December 31, 2009 and December 31, 2009 appears in the table below.

Flow default inventory by policy year

Policy year:	2010	2009	2008
2002 and prior	14,914	17,689	15,891
2003	9,069	10,553	8,151
2004	12,077	13,869	10,266
2005	18,789	21,354	15,462
2006	28,284	33,373	24,315
2007	62,855	73,304	43,211
2008	16,059	15,524	5,397
2009	546	162	-
2010	28	-	-
	162,621	185,828	122,693

Beginning in 2008, the rate at which claims are received and paid slowed for a combination of reasons, including foreclosure moratoriums, servicing delays, court delays, loan modifications and our claims investigations. Although these factors continue to affect our paid claims, we believe that paid claims for 2011 will be higher than 2010 given the large number of loans that are 12 months or more past due and the approximately 21,000 claims that have been received but not yet paid.

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at December 31, 2010 and approximated $113 million. Separate components of this liability are included in "Other liabilities" and "Premium deficiency reserve" on our consolidated balance sheet. Changes in the liability affect premiums written and earned and change in premium deficiency reserve, respectively. Prior to 2010, this estimate of premiums to be refunded was included in loss reserves on the consolidated balance sheet. See Revenue recognition under "Critical Accounting Policies" below.

As of December 31, 2010, 58% of our primary insurance in force was written subsequent to December 31, 2006. On our flow business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. On our bulk business, the period of highest claims frequency has generally occurred earlier than in the historical pattern on our flow business. However, the pattern of claims frequency can be affected by many factors, including persistency and deteriorating economic conditions. Low persistency can have the effect of accelerating the period in the life of a book during which the highest claim frequency occurs. Deteriorating economic conditions can result in increasing claims following a period of declining claims. In 2009, we experienced such performance as it relates to delinquencies from our older books.

Premium deficiency

Beginning in 2007, when we stopped writing Wall Street bulk business, we began to separately measure the performance of these transactions and established a premium deficiency reserve related to this business. During 2010 the premium deficiency reserve on Wall Street bulk transactions declined by $14 million from $193 million, as of December 31, 2009, to $179 million as of December 31, 2010. The $179 million premium deficiency reserve as of December 31, 2010 reflects the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves. The discount rate used in the calculation of the premium deficiency reserve at December 31, 2010 was 2.5%. During 2009 the premium deficiency reserve on Wall Street bulk transactions declined by $261 million from $454 million, as of December 31, 2008, to $193 million as of December 31, 2009. The discount rate used in the calculation of the premium deficiency reserve at December 31, 2009 was 3.6%.

The components of the premium deficiency reserve at December 31, 2010, 2009 and 2008 appear in the table below.

	December 31, 2010	December 31, 2009	December 31, 2008
		(In millions)	
Present value of expected future premium	$ 506	$ 427	$ 712
Present value of expected future paid losses and expenses	(1,760)	(2,157)	(3,063)
Net present value of future cash flows	(1,254)	(1,730)	(2,351)
Established loss reserves	1,075	1,537	1,897
Net deficiency	$ (179)	$ (193)	$ (454)

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

The decrease in the premium deficiency reserve for the years ended December 31, 2010 and 2009 was $14 million and $261 million, respectively, as shown in the charts below, which represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The change in assumptions for 2010 is primarily related to higher estimated ultimate premiums, which is principally related to an increase in the projected persistency rate. The change in assumptions for 2009 primarily related to lower estimated ultimate losses, offset by lower estimated ultimate premiums. The lower estimated ultimate losses and lower estimated ultimate premiums were primarily due to higher expected rates of rescissions.

	Year ended December 31,			
	2010		2009	
	(In millions)			
Premium Deficiency Reserve at beginning of period		$ (193)		$ (454)
Adjustment to premium deficiency reserve (1)		(37)		-
Adjusted premium deficiency reserve at beginning of period		(230)		(454)
Paid claims and loss adjustment expenses	$ 426		$ 584	
Decrease in loss reserves	(425)		(360)	
Premium earned	(128)		(156)	
Effects of present valuing on future premiums, losses and expenses	(25)		21	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		(152)		89
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses expenses and discount rate (2)		203		172
Premium Deficiency Reserve at end of period		$ (179)		$ (193)

(1) In periods prior to 2010 an estimate of premium to be refunded in conjunction with claim payments was included in Loss Reserves. In 2010, we separately stated this liability in Premium deficiency reserve on the consolidated balance sheet. (See Note 3 - "Summary of significant accounting policies - Revenue recognition" to our consolidated financial statements.)

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

Each quarter we perform a premium deficiency analysis on the portion of our book of business not covered by the premium deficiency described above. As of December 31, 2010, the analysis concluded that there was no premium deficiency on such portion of our book of business. For the reasons discussed below, our analysis of any potential deficiency reserve is subject to inherent uncertainty and requires significant judgment by management. To the extent, in a future period, expected losses are higher or expected premiums are lower than the assumptions we used in our analysis, we could be required to record a premium deficiency reserve on this portion of our book of business in such period.

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

Underwriting and other expenses

Underwriting and other expenses for 2010 decreased when compared to 2009 and 2008. The decrease reflects our lower contract underwriting volume as well as reductions in headcount.

Ratios

The table below presents our loss, expense and combined ratios for our combined insurance operations for the years ended December 31, 2010, 2009 and 2008.

	2010	2009	2008
Loss ratio	137.5 %	259.5 %	220.4 %
Expense ratio	16.3 %	15.1 %	14.2 %
Combined ratio	153.8 %	274.6 %	234.6 %

The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The loss ratio does not reflect any effects due to premium deficiency. The decrease in the loss ratio in 2010, compared to 2009, was due to a decrease in losses incurred, offset by a decrease in premiums earned. The expense ratio is the ratio, expressed as a percentage, of underwriting expenses to net premiums written. The increase in the expense ratio in 2010, compared to 2009, was due to a decrease in premiums written, partially offset by a decrease in underwriting and other expenses of the combined insurance operations. The combined ratio is the sum of the loss ratio and the expense ratio.

The increase in the loss ratio in 2009, compared to 2008, was due to an increase in losses incurred, as well a decrease in premium earned. The increase in the expense ratio in 2009, compared to 2008, was due to a decrease in premiums written, which was partially offset by a decrease in underwriting and other expenses.

Interest expense

Interest expense for 2010 increased when compared to 2009. The increase is due to the issuance of our 5% Convertible Senior Notes in April 2010 as well as an increase in amortization on our junior debentures.

Interest expense for 2009 increased when compared to 2008. The increase was primarily due to an increase in interest on our junior debentures. This increase was partially offset by repaying the $200 million credit facility in the second quarter of 2009 as well as the repurchase, in 2009, of approximately $121.6 million of our Senior Notes due in September 2011.

Income taxes

The effective tax rate provision on our pre-tax loss was 1.2% in 2010, compared to the effective tax rate benefit of (25.1%) in 2009. During those periods, the benefit from income taxes was eliminated or reduced by the establishment of a valuation allowance. The difference in the rate was primarily the result of the elimination of the entire tax benefit due to an increase in the valuation allowance in 2010, while the tax benefit was not completely eliminated due to the establishment of the valuation allowance in 2009. The effective tax rate benefit on our pre-tax loss was (42.0%) in 2008.

We review the need to establish a deferred tax asset valuation allowance on a quarterly basis. We analyze several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the expected occurrence of future income or loss and available tax planning alternatives. As discussed below, we have reduced our benefit from income tax by establishing a valuation allowance.

In periods prior to 2008, we deducted significant amounts of statutory contingency reserves on our federal income tax returns. The reserves were deducted to the extent we purchased tax and loss bonds in an amount equal to the tax benefit of the deduction. The reserves are included in taxable income in future years when they are released for statutory accounting purposes (see "Liquidity and Capital Resources — Risk-to-Capital" below) or when the taxpayer elects to redeem the tax and loss bonds that were purchased in connection with the deduction for the reserves. Since the tax effect on these reserves exceeded the gross deferred tax assets less deferred tax liabilities, we believe that all gross deferred tax assets recorded in periods prior to the quarter ended March 31, 2009 were fully realizable. Therefore, we established no valuation reserve.

In the first quarter of 2009, we redeemed the remaining balance of our tax and loss bonds of $431.5 million. Therefore, the remaining contingency reserves were released and are no longer available to support any net deferred tax assets. Beginning with the first quarter of 2009, any benefit from income taxes, relating to operating losses, has been reduced or eliminated by the establishment of a valuation allowance. During 2009, our deferred tax asset valuation allowance was reduced by the deferred tax liability related to $159.5 million of unrealized gains on investments that were recorded to equity. During 2010, our deferred tax valuation allowance was increased due to a decrease in the deferred tax liability related to $69.9 million of unrealized losses on investments that were recorded in other comprehensive income. In the event of future operating losses, it is likely that the valuation allowance will be adjusted by any taxes recorded to equity for changes in unrealized gains or losses or other items in other comprehensive income.

	2010	2009
	(In millions)	
Benefit from income taxes	$ (145.3)	$ (681.3)
Change in valuation allowance	149.6	238.5
Tax provision (benefit)	$ 4.3	$ (442.8)

The total valuation allowance as of December 31, 2010 and December 31, 2009 was $410.3 million and $238.5 million, respectively.

Legislation enacted in 2009 expanded the carryback period for certain net operating losses from 2 years to 5 years. A total benefit for income taxes of $282.0 million was recorded during 2009 in the consolidated statement of operations for the carryback of 2009 losses. The refund related to these benefits was received in the second quarter of 2010.

Giving full effect to the carryback of net operating losses for federal income tax purposes, we have approximately $1,237 million of net operating loss carryforwards on a regular tax basis and $428 million of net operating loss carryforwards for computing the alternative minimum tax as of December 31, 2010. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 and 2030.

Financial Condition

At December 31, 2010, based on fair value, approximately 96% of our fixed income securities and cash and cash equivalents were invested in 'A' rated and above, readily marketable securities, concentrated in maturities of less than 15 years. The composition of ratings at December 31, 2010, 2009 and 2008 are shown in the table below. While the percentage of our investment portfolio rated 'A' or better has not changed materially since December 31, 2008, the percentage of our investment portfolio rated 'AAA' had been declining and the percentage rated 'AA' and 'A' had been increasing. Contributing to the changes in ratings was an increase in corporate bond investments, and downgrades of municipal investments. The municipal downgrades can be attributed to downgrades of the financial guaranty insurers and downgrades to the underlying credit.

Investment Portfolio Ratings

	At December 31, 2010	At December 31, 2009	At December 31, 2008
AAA	51%	47%	58%
AA	25%	30%	24%
A	20%	17%	13%
A or better	96%	94%	95%
BBB and below	4%	6%	5%
Total	100%	100%	100%

Approximately 13% of our investment portfolio, excluding cash and cash equivalents, is guaranteed by financial guarantors. We evaluate the credit risk of securities through analysis of the underlying fundamentals. The extent of our analysis depends on a variety of factors, including the issuer's sector, scale, profitability, debt cover, ratings and the tenor of the investment. A breakdown of the portion of our investment portfolio covered by a financial guarantor by credit rating, including the rating without the guarantee is shown below. The ratings are provided by one or more of the following major rating agencies: Moody's, Standard & Poor's and Fitch Ratings.

At December 31, 2010

(In millions)	Guarantor Rating				
	AA-	BBB	NR	R	All
Underlying Rating:					
AAA	$ -	$ -	$ -	$ 19	$ 19
AA	111	244	-	139	494
A	86	177	-	151	414
BBB	1	21	9	24	55
	$ 198	$ 442	$ 9	$ 333	$ 982

NR – not rated
R – in regulatory receivership

At December 31, 2010, based on fair value, $1 million of fixed income securities are relying on financial guaranty insurance to elevate their rating to 'A' and above. Any future downgrades of these financial guarantor ratings would leave the percentage of fixed income securities 'A' and above effectively unchanged.

We primarily place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines. The policy guidelines also limit the amount of our credit exposure to any one issue, issuer and type of instrument. At December 31, 2010, the modified duration of our fixed income investment portfolio, including cash and cash equivalents, was 2.9 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 2.9% 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.

We held approximately $358 million in auction rate securities (ARS) backed by student loans at December 31, 2010. ARS are intended to behave like short-term debt instruments because their interest rates are reset periodically through an auction process, most commonly at intervals of 7, 28 and 35 days. The same auction process has historically provided a means by which we may rollover the investment or sell these securities at par in order to provide us with liquidity as needed. The ARS we hold are collateralized by portfolios of student loans, substantially all of which are ultimately 97% guaranteed by the United States Department of Education. At December 31, 2010, our ARS portfolio was 90% AAA/Aaa-rated by one or more of the following major rating agencies: Moody's, Standard & Poor's and Fitch Ratings.

In mid-February 2008, auctions began to fail due to insufficient buyers, as the amount of securities submitted for sale in auctions exceeded the aggregate amount of the bids. For each failed auction, the interest rate on the security moves to a maximum rate specified for each security, and generally resets at a level higher than specified short-term interest rate benchmarks. At December 31, 2010, our entire ARS portfolio, consisting of 34 investments, was subject to failed auctions; however, from the period when the auctions began to fail through December 31, 2010, $165.5 million in par value of ARS was either sold or called, with the average amount we received being approximately 98% of par which approximated the aggregate fair value prior to redemption. To date, we have collected all interest due on our ARS.

As a result of the persistent failed auctions, and the uncertainty of when these investments could be liquidated at par, the investment principal associated with failed auctions will not be accessible until successful auctions occur, a buyer is found outside of the auction process, the issuers establish a different form of financing to replace these securities, or final payments come due according to the contractual maturities of the debt issues. However, we continue to believe we will have liquidity to our ARS portfolio by December 31, 2014.

At December 31, 2010, our total assets included $1.3 billion of cash and cash equivalents as shown on our consolidated balance sheet.

At December 31, 2010, we had $77.4 million, 5.625% Senior Notes due in September 2011 and $300 million, 5.375% Senior Notes due in November 2015, with a combined fair value of $355.6 million, outstanding. At December 31, 2010, we also had $345 million principal amount of 5% Convertible Senior Notes outstanding due in 2017, with a fair value of $400.5 million and $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, which at December 31, 2010 are reflected as a liability on our consolidated balance sheet at the current amortized value of $315.6 million, with the unamortized discount reflected in equity. The fair value of the convertible debentures was approximately $432.4 million at December 31, 2010.

The Internal Revenue Service ("IRS") completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and issued assessments for unpaid taxes, interest and penalties. The primary adjustment in both examinations related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICS"). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We appealed those adjustments and, in August 2010, we reached a tentative settlement agreement with the IRS. The settlement agreement is subject to review by the Joint Committee on Taxation of Congress because net operating losses incurred in 2009 were carried back to taxable years that were included in the agreement. A final agreement is expected to be entered into when the review is complete, although we do not expect there will be any substantive change in the terms of a final agreement from those in the tentative agreement. We adjusted our tax provision and liabilities for the effects of this agreement in 2010 and believe that they accurately reflect our exposure in regard to this issue.

The total amount of unrecognized tax benefits as of December 31, 2010 is $109.1 million. The total amount of the unrecognized tax benefits that would affect our effective tax rate is $96.5 million. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. We have accrued $25.9 million for the payment of interest as of December 31, 2010. Based on our tentative agreement with the IRS, we expect our total amount of unrecognized tax benefits to be reduced by $103.3 million during 2011, while after taking into account prior payments and the effect of available NOL carrybacks, we expect net cash outflows to equal approximately $22 million.

Our principal exposure to loss is our obligation to pay claims under MGIC's mortgage guaranty insurance policies. At December 31, 2010, MGIC's direct (before any reinsurance) primary and pool risk in force, which is the unpaid principal balance of insured loans as reflected in our records multiplied by the coverage percentage, and taking account of any loss limit, was approximately $51.7 billion. In addition, as part of our contract underwriting activities, we are responsible for the quality of our underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. We may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such obligations. Through December 31, 2010, the cost of remedies provided by us to customers for failing to meet the standards of the contracts has not been material. However, a generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs, and claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years, including for 2006 and 2007, has involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans for which we provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. Beginning in the second half of 2009, we experienced an increase in claims for contract underwriting remedies, which continued into 2010. Hence, there can be no assurance that contract underwriting remedies will not be material in the future.

Liquidity and Capital Resources

Overview

Our sources of funds consist primarily of:

- our investment portfolio (which is discussed in "Financial Condition" above), and interest income on the portfolio,
- net premiums that we will receive from our existing insurance in force as well as policies that we write in the future and
- amounts that we expect to recover from captives (which is discussed in "Results of Consolidated Operations – Risk sharing arrangements" and "Results of Consolidated Operations – Losses – Losses incurred" above).

Our obligations consist primarily of:

- claim payments under MGIC's mortgage guaranty insurance policies,
- \$77.4 million of 5.625% Senior Notes due in September 2011,
- \$300 million of 5.375% Senior Notes due in November 2015,
- \$345 million of Convertible Senior Notes due in 2017,
- \$389.5 million of Convertible Junior Debentures due in 2063,
- interest on the foregoing debt instruments, and
- the other costs and operating expenses of our business.

Holders of both of the convertible issues may convert their notes into shares of our common stock at their option prior to certain dates prescribed under the terms of their issuance, in which case our corresponding obligation will be eliminated.

For the first time in many years, beginning in 2009, claim payments exceeded premiums received. We expect that this trend will continue. Due to the uncertainty regarding how certain factors, such as foreclosure moratoriums, servicing and court delays, failures by servicers to follow proper procedures in foreclosure proceedings, loan modifications and claims investigations and rescissions, will affect our future paid claims it has become even more difficult to estimate the amount and timing of future claim payments. When we experience cash shortfalls, we can fund them through sales of short-term investments and other investment portfolio securities, subject to insurance regulatory requirements regarding the payment of dividends to the extent funds were required by an entity other than the seller. In addition, we align the maturities of our investment portfolio with our estimate of future obligations. A significant portion of our investment portfolio securities are held by our insurance subsidiaries.

Debt at Our Holding Company and Holding Company Capital Resources

In April 2010 we completed the public offering and sale of 74,883,720 shares of our common stock at a price of $10.75 per share. We received net proceeds of approximately $772.4 million, after deducting underwriting discount and offering expenses. In April 2010 we also concurrently completed the sale of $345 million principal amount of 5% Convertible Senior Notes due in 2017. We received net proceeds of approximately $334.4 million after deducting underwriting discount and offering expenses.

We intend to use the remaining net proceeds from the offerings (after the second quarter 2010 contribution of $200 million to MGIC and the fourth quarter payment of $57.5 million of deferred interest on the Junior Convertible Debentures) to provide funds to repay at maturity or repurchase prior to maturity the $77.4 million outstanding principal amount of our 5.625% Senior Notes due in September 2011 and for our general corporate purposes, which may include improving liquidity by providing funds for debt service and increasing the capital of MGIC and other subsidiaries.

The senior notes, convertible senior notes and convertible debentures are obligations of MGIC Investment Corporation and not of its subsidiaries. We are a holding company and the payment of dividends from our insurance subsidiaries, which prior to raising capital in the public markets in 2008 and 2010 had been the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. In 2009 and 2010, MGIC has not paid any dividends to our holding company. Through 2011, MGIC cannot pay any dividends to our holding company without approval from the OCI.

At December 31, 2010, we had $891 million in cash and investments at our holding company. As of December 31, 2010, our holding company's obligations included $77.4 million of debt which is scheduled to mature in September 2011, $300 million of Senior Notes due in November 2015 and $345 million in Convertible Senior Notes due in 2017, all of which must be serviced pending scheduled maturity. On an annual basis, as of December 31, 2010 our use of funds at the holding company for interest payments on our Senior Notes and Convertible Senior Notes approximated $38 million. As of December 31, 2010, our holding company's obligations also include $389.5 million in Convertible Junior Debentures and interest on these debentures. See Note 8 – "Debt" to our consolidated financial statements for additional information about this indebtedness, including our right to defer interest on our Convertible Junior Debentures.

In 2009, we repurchased for cash approximately $121.6 million in par value of our 5.625% Senior Notes due in September 2011. We recognized a gain on the repurchases of approximately $27.2 million, which is included in other revenue on our consolidated statement of operations for the year ended December 31, 2009. In 2010, we repurchased an additional $1.0 million in par value of our 5.625% Senior Notes. We may from time to time continue to seek to acquire our debt obligations through cash purchases and/or exchanges for other securities. We may do this in open market purchases, privately negotiated acquisitions or other transactions. The amounts involved may be material.

Risk-to-Capital

We compute our risk-to-capital ratio on a separate company statutory basis, as well as for our combined insurance operations and is our net risk in force divided by our policyholders' position. Our net risk in force includes both primary and pool risk in force, and excludes risk on policies that are currently in default and for which loss reserves have been established. The risk amount includes pools of loans or bulk deals with contractual aggregate loss limits and in some cases without these limits. Prior to December 31, 2010, for pools of loans without such limits, risk was estimated based on the amount that would credit enhance the loans in the pool to a "AA" level based on a rating agency model. We no longer utilize this model. 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 contributions to the contingency reserve of approximately 50% of net 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 net earned premium in a calendar year.

The premium deficiency reserve discussed under "Results of Consolidated Operations – Losses – Premium deficiency" above is not recorded as a liability on the statutory balance sheet and is not a component of statutory net income. The present value of expected future premiums and already established loss reserves and statutory contingency reserves, exceeds the present value of expected future losses and expenses, so no deficiency is recorded on a statutory basis.

MGIC's separate company risk-to-capital calculation appears in the table below.

	December 31, 2010	December 31, 2009
	(In millions, except ratio)	
Risk in force - net (1)	$ 33,817	$ 35,663
Statutory policyholders' surplus	$ 1,709	$ 1,429
Statutory contingency reserve	-	406
Statutory policyholders' position	$ 1,709	$ 1,835
Risk-to-capital	19.8:1	19.4:1

(1) Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default and for which loss reserves have been established.

Our combined insurance companies' risk-to-capital calculation appears in the table below.

	December 31, 2010	December 31, 2009
	(In millions, except ratio)	
Risk in force - net (1)	$ 39,369	$ 41,136
Statutory policyholders' surplus	$ 1,692	$ 1,443
Statutory contingency reserve	5	417
Statutory policyholders' position	$ 1,697	$ 1,860
Risk-to-capital	23.2:1	22.1:1

(1) Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default ($11.0 billion at December 31, 2010 and $13.3 billion at December 31, 2009) and for which loss reserves have been established.

Statutory policyholders' position decreased in 2010, primarily due to losses incurred, partially offset by a $200 million capital contribution to MGIC from part of the proceeds from our April 2010 common stock offering. If our statutory policyholders' position decreases at a greater rate than our risk in force, then our risk-to-capital ratio will increase.

For additional information regarding regulatory capital see "Overview-Capital" above as well as our Risk Factor titled "Even though our plan to write new insurance in MGIC Indemnity Corporation has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, because MGIC is not expected to meet statutory risk-to-capital requirements to write new business in various states, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis."

Financial Strength Ratings

The financial strength of MGIC, our principal mortgage insurance subsidiary, is rated Ba3 by Moody's Investors Service with a positive outlook. Standard & Poor's Rating Services' insurer financial strength rating of MGIC is B+ and the outlook for this rating is negative. In January 2010, at our request, Fitch withdrew its financial strength ratings of MGIC.

For further information about the importance of MGIC's ratings, see our Risk Factor titled "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements."

Contractual Obligations

At December 31, 2010, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

Contractual Obligations (In millions):	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	Payments due by period				
Long-term debt obligations	$ 3,150	$ 151	$ 137	$ 437	$ 2,425
Operating lease obligations	6	3	2	1	-
Tax obligations	17	17	-	-	-
Purchase obligations	1	1	-	-	-
Pension, SERP and other post-retirement benefit plans	169	10	25	32	102
Other long-term liabilities	5,884	2,471	2,707	706	-
Total	$ 9,227	$ 2,653	$ 2,871	$ 1,176	$ 2,527

Our long-term debt obligations at December 31, 2010 include our $77.4 million of 5.625% Senior Notes due in September 2011, $300 million of 5.375% Senior Notes due in November 2015, $345 million of 5% Convertible Senior Notes due in 2017 and $389.5 million in convertible debentures due in 2063, including related interest, as discussed in Note 8 – "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" above. Our operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 19 – "Leases" to our consolidated financial statements. Purchase obligations consist primarily of agreements to purchase data processing hardware or services made in the normal course of business. See Note 13 - "Benefit plans" to our consolidated financial statements for discussion of expected benefit payments under our benefit plans.

Our other long-term liabilities represent the loss reserves established to recognize the liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The timing of the future claim payments associated with the established loss reserves was determined primarily based on two key assumptions: the length of time it takes for a notice of default to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge significantly different than this estimate. Due to the uncertainty regarding how certain factors, such as foreclosure moratoriums, servicing and court delays, failures by servicers to follow proper procedures in foreclosure proceedings, loan modifications, claims investigations and claim rescissions, will affect our future paid claims it has become even more difficult to estimate the amount and timing of future claim payments. Current conditions in the housing and mortgage industries make all of the assumptions discussed in this paragraph more volatile than they would otherwise be. See Note 9 – "Loss reserves" to our consolidated financial statements and "-Critical Accounting Policies" below. In accordance with GAAP for the mortgage insurance industry, we establish loss reserves only for loans in default. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our financial statements or in the table above.

Critical Accounting Policies

We believe that the accounting policies described below involved significant judgments and estimates used in the preparation of our consolidated financial statements.

Loss reserves and premium deficiency reserves

Loss reserves

Reserves are established for reported insurance losses and loss adjustment expenses based on when notices of default on insured mortgage loans are received. A default is defined as an insured loan with a mortgage payment that is 45 days or more past due. Reserves are also established for estimated losses incurred on notices of default not yet reported. Even though the accounting standard, ASC 944, regarding accounting and reporting by insurance entities specifically excluded mortgage insurance from its guidance relating to loss reserves, we establish loss reserves using the general principles contained in the insurance standard. However, consistent with industry standards for mortgage insurers, we do not establish loss reserves for future claims on insured loans which are not currently in default.

We establish reserves using estimated claim rates and claim amounts in estimating the ultimate loss. Amounts for salvage recoverable are considered in the determination of the reserve estimates. The liability for reinsurance assumed is based on information provided by the ceding companies.

The incurred but not reported, or IBNR, reserves referred to above result from defaults occurring prior to the close of an accounting period, but which have not been reported to us. Consistent with reserves for reported defaults, IBNR reserves are established using estimated claim rates and claim amounts for the estimated number of defaults not reported. As of December 31, 2010 and 2009, we had IBNR reserves of $335 million and $472 million, respectively.

Reserves also provide for the estimated costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process.

The estimated claim rates and claim amounts represent what we believe reflect the best estimate of what will actually be paid on the loans in default as of the reserve date. If a policy is rescinded we do not expect that it will result in a claim payment and thus the rescission generally reduces the historical claim rate used in establishing reserves. In addition, if a loan cures its delinquency, including successful loan modifications that result in a cure being reported to us, the cure reduces the historical claim rate used in establishing reserves. Our methodology to determine the estimate of claim rates and claim amounts are based on our review of recent trends in the default inventory. To establish reserves we utilize a reserving model that continually incorporates historical data on the rate at which defaults resulted in a claim, or the claim rate. This historical data includes the effects of rescissions, which are included as cures within the model. The model also incorporates an estimate for the amount of the claim we will pay, or severity. The severity is estimated using the historical percentage of our claim paid compared to our loan exposure, as well as the risk in force of the loans currently in default. We review recent trends in the claim rate, severity, the change in the level of defaults by geography and the change in average loan exposure. As a result, the process to determine reserves does not include quantitative ranges of outcomes that are reasonably likely to occur.

The claim rates and claim amounts are likely to be affected by external events, including actual economic conditions such as changes in unemployment rate, interest rate or housing value. Our estimation process does not include a correlation between claim rates and claim amounts to projected economic conditions such as changes in unemployment rate, interest rate or housing value. Our experience is that analysis of that nature would not produce reliable results. The results would not be reliable as the change in one economic condition cannot be isolated to determine its sole effect on our ultimate paid losses as our ultimate paid losses are also influenced at the same time by other economic conditions. Additionally, the changes and interaction of these economic conditions are not likely homogeneous throughout the regions in which we conduct business. Each economic environment influences our ultimate paid losses differently, even if apparently similar in nature. Furthermore, changes in economic conditions may not necessarily be reflected in our loss development in the quarter or year in which the changes occur. Typically, actual claim results often lag changes in economic conditions by at least nine to twelve months.

In considering the potential sensitivity of the factors underlying our best estimate of loss reserves, it is possible that even a relatively small change in estimated claim rate or a relatively small percentage change in estimated claim amount could have a significant impact on reserves and, correspondingly, on results of operations. For example, a $1,000 change in the average severity reserve factor combined with a 1% change in the average claim rate reserve factor would change the reserve amount by approximately $254 million as of December 31, 2010. Historically, it has not been uncommon for us to experience variability in the development of the loss reserves through the end of the following year at this level or higher, as shown by the historical development of our loss reserves in the table below:

	Losses incurred related to prior years (1)	**Reserve at end of prior year**
	(In thousands)	
2010	$ (266,908)	$6,704,990
2009	466,765	4,775,552
2008	387,104	2,642,479
2007	518,950	1,125,715
2006	(90,079)	1,124,454

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

Estimation of losses that we will pay in the future is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy and the current and future strength of local housing markets. Current conditions in the housing and mortgage industries make these assumptions more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values that could materially reduce our ability to mitigate potential losses through property acquisition and resale or expose us to greater losses on resale of properties obtained through the claim settlement process. Changes to our estimates could result in a material impact to our results of operations, even in a stable economic environment.

In addition, our loss reserving methodology incorporates the effects rescission activity is expected to have on the losses we will pay on our delinquent inventory. We do not utilize an explicit rescission rate in our reserving methodology, but rather our reserving methodology incorporates the effects rescission activity has had on our historical claim rate and claim severities. A variance between ultimate actual rescission rates and these estimates could materially affect our losses. The estimation of the impact of rescissions on incurred losses, as shown in the table below, must be considered together with the various other factors impacting incurred losses and not in isolation.

The table below represents our estimate of the impact rescissions have had on reducing our loss reserves, paid losses and losses incurred.

	2010	2009	2008
		(In billions)	
Estimated rescission reduction - beginning reserve	$ 2.1	$ 0.5	$ 0.2
Estimated rescission reduction - losses incurred	0.2	2.5	0.4
Rescission reduction - paid claims	1.2	1.2	0.2
Amounts that may have been applied to a deductible	(0.2)	(0.3)	(0.1)
Net rescission reduction - paid claims	1.0	0.9	0.1
Estimated rescission reduction - ending reserve	$ 1.3	$ 2.1	$ 0.5

The $2.5 billion estimated mitigation of incurred losses during 2009 represents both the claims not paid in the period due to rescissions, as well as an increasing default inventory and an increasing expected rescission rate for loans in default. Even though rescissions mitigated our paid losses by a similar amount in 2010 as compared to 2009, the estimated mitigation of incurred losses declined to $0.2 billion for 2010. This decrease was caused by a decline in our default inventory in 2010, compared to an increase in 2009, as well as a modest decline in the expected rescission rate for loans in our default inventory during 2010, compared to a significant increase in the expected rescission rate during 2009, and a decrease in the exposure on expected rescissions.

At December 31, 2010, our loss reserves continued to be significantly impacted by expected rescission activity. We expect that the reduction of our loss reserves due to rescissions will continue to decline because our recent experience indicates new notices in our default inventory have a lower likelihood of being rescinded than those already in the inventory due to their product mix, geographic location and vintage.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Actions disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20 an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 20 – "Litigation and contingencies" to our consolidated financial statements.

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

As of December 31, 2010
Ever-to-Date Rescission Rates on Claims Received
(based on count)

Quarter in Which the Claim was Received	ETD Rescission Rate (1)	ETD Claims Resolution Percentage (2)
Q2 2009	28.0%	99.8%
Q3 2009	27.5%	99.9%
Q4 2009	24.0%	99.5%
Q1 2010	20.7%	97.6%
Q2 2010	18.5%	92.5%

(1) This percentage is claims received during the quarter shown that have been rescinded as of our most recently completed quarter divided by the total claims received during the quarter shown. In certain cases we rescind coverage before a claim is received. Such rescissions, which have not been material, are not included in the statistics in the table.

(2) This percentage is claims received during the quarter shown that have been resolved as of our most recently completed quarter divided by the total claims received during the quarter shown. Claims resolved principally consist of claims paid plus claims for which we have informed the insured of our decision not to pay the claim. Although our decision to not pay a claim is made after we have given the insured an opportunity to dispute the facts underlying our decision to not pay the claim, these decisions are sometimes reversed after further discussion with the insured. The number of rescission reversals has been immaterial.

Our estimates could also be positively affected by government efforts to assist current borrowers in refinancing to new loans, assisting delinquent borrowers and lenders in reducing their mortgage payments, and forestalling foreclosures.

Loss reserves in the most recent years contain a greater degree of uncertainty, even though the estimates are based on the best available data.

Premium deficiency reserve

After our reserves are established, we perform premium deficiency calculations using best estimate assumptions as of the testing date. The calculation of premium deficiency reserves requires the use of significant judgments and estimates to determine the present value of future premium and present value of expected losses and expenses on our business. The present value of future premium relies on, among other things, assumptions about persistency and repayment patterns on underlying loans. The present value of expected losses and expenses depends on assumptions relating to severity of claims and claim rates on current defaults, and expected defaults in future periods. These assumptions also include an estimate of expected rescission activity. Assumptions used in calculating the deficiency reserves can be affected by volatility in the current housing and mortgage lending industries. To the extent premium patterns and actual loss experience differ from the assumptions used in calculating the premium deficiency reserves, the differences between the actual results and our estimate will affect future period earnings.

The establishment of premium deficiency reserves is subject to inherent uncertainty and requires judgment by management. The actual amount of claim payments and premium collections may vary significantly from the premium deficiency reserve estimates. Similar to our loss reserve estimates, our estimates for premium deficiency reserves could be adversely affected by several factors, including a deterioration of regional or economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values that could expose us to greater losses. Changes to our estimates could result in material changes in our operations, even in a stable economic environment. Adjustments to premium deficiency reserves estimates are reflected in the financial statements in the years in which the adjustments are made.

As is the case with our loss reserves, as discussed above, the severity of claims and claim rates, as well as persistency for the premium deficiency calculation, are likely to be affected by external events, including actual economic conditions, as well as future rescission activity. However, our estimation process does not include a correlation between these economic conditions and our assumptions because it is our experience that an analysis of that nature would not produce reliable results. In considering the potential sensitivity of the factors underlying management's best estimate of premium deficiency reserves, it is possible that even a relatively small change in estimated claim rate or a relatively small percentage change in estimated claim amount could have a significant impact on the premium deficiency reserve and, correspondingly, on our results of operations. For example, a $1,000 change in the average severity combined with a 1% change in the average claim rate could change the Wall Street bulk premium deficiency reserve amount by approximately $83 million. Additionally, a 5% change in the persistency of the underlying loans could change the Wall Street bulk premium deficiency reserve amount by approximately $16 million. We do not anticipate changes in the discount rate will be significant enough as to result in material changes in the calculation.

Revenue recognition

When a policy term ends, the primary mortgage insurance written by us is renewable at the insured's option through continued payment of the premium in accordance with the schedule established at the inception of the policy term. We have no ability to reunderwrite or reprice these policies after issuance. Premiums written under policies having single and annual premium payments are initially deferred as unearned premium reserve and earned over the policy term. Premiums written on policies covering more than one year are amortized over the policy life in accordance with the expiration of risk which is the anticipated claim payment pattern based on historical experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as the monthly coverage is provided. When a policy is cancelled, all premium that is non-refundable is immediately earned. Any refundable premium is returned to the lender. Cancellations include rescissions and policies cancelled due to claim payment. When a policy is rescinded, all previously collected premium is returned to the lender and when a claim is paid we return any premium received since the date of default. The liability associated with our estimate of premium to be returned is accrued for separately and separate components of this liability are included in "Other liabilities" and "Premium deficiency reserves" on our consolidated balance sheet. Changes in these liabilities effect premiums written and earned and change in premium deficiency reserve, respectively. In periods prior to 2010, the liability associated with premium to be returned on claim payments was included in loss reserves and changes to this estimate affected losses incurred. This policy did not have a significant impact on premiums written and earned or losses incurred in periods prior to 2010. The actual return of premium for all periods affects premiums written and earned. Policy cancellations also lower the persistency rate which is a variable used in calculating the rate of amortization of deferred policy acquisition costs discussed below.

Fee income of our non-insurance subsidiaries is earned and recognized as the services are provided and the customer is obligated to pay.

Deferred insurance policy acquisition costs

Costs associated with the acquisition of mortgage insurance policies, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs. Deferred insurance policy acquisition costs arising from each book of business are charged against revenue in the same proportion that the underwriting profit for the period of the charge bears to the total underwriting profit over the life of the policies. The underwriting profit and the life of the policies are estimated and are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development. Interest is accrued on the unamortized balance of deferred insurance policy acquisition costs.

Because our insurance premiums are earned over time, changes in persistency result in deferred insurance policy acquisition costs being amortized against revenue over a comparable period of time. At December 31, 2010, the persistency rate of our primary mortgage insurance was 84.4%, compared to 84.7% at December 31, 2009. This change did not significantly affect the amortization of deferred insurance policy acquisition costs for the period ended December 31, 2010. A 10% change in persistency would not have a material effect on the amortization of deferred insurance policy acquisition costs in the subsequent year.

If a premium deficiency exists, we reduce the related deferred insurance policy acquisition costs by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the deferred insurance policy acquisition costs balance, we then establish a premium deficiency reserve equal to the excess, by means of a charge to current period earnings.

Fair Value Measurements

We adopted fair value accounting guidance that became effective January 1, 2008. This guidance addresses aspects of the expanding application of fair-value accounting. The guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements regarding fair-value measurements and provides companies with an option to report selected financial assets and liabilities at fair value with changes in fair value reported in earnings. The option to account for selected financial assets and liabilities at fair value is made on an instrument-by-instrument basis at the time of acquisition. For the years ended December 31, 2010, 2009 and 2008, we did not elect the fair value option for any financial instruments acquired for which the primary basis of accounting is not fair value.

In accordance with fair value guidance, we applied the following fair value hierarchy in order to measure fair value for assets and liabilities:

Level 1 – Quoted prices for identical instruments in active markets that we have the ability to access. Financial assets utilizing Level 1 inputs primarily include certain U.S. Treasury securities and obligations of the U.S. government.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and inputs, other than quoted prices, that are observable in the marketplace for the financial instrument. The observable inputs are used in valuation models to calculate the fair value of the financial instruments. Financial assets utilizing Level 2 inputs primarily include certain municipal and corporate bonds.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. Level 3 inputs reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. Financial assets utilizing Level 3 inputs include certain state and auction rate (backed by student loans) securities. Non-financial assets which utilize Level 3 inputs include real estate acquired through claim settlement.

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. Quality controls are performed throughout this process which includes reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. This model combines all inputs to arrive at a value assigned to each security. On a quarterly basis, we perform quality controls over values received from the pricing sources which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. We have not made any adjustments to the prices obtained from the independent pricing sources.

Assets and liabilities classified as Level 3 are as follows:

- Securities available-for-sale classified in Level 3 are not readily marketable and are valued using internally developed models based on the present value of expected cash flows. Our Level 3 securities primarily consist of auction rate securities as observable inputs or value drivers are unavailable due to events described in Note 6 – "Investments" to our consolidated financial statements. Due to limited market information, we utilized a discounted cash flow ("DCF") model to derive an estimate of fair value of these assets at December 31, 2010 and 2009. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, the probability of full repayment of the principal considering the credit quality and guarantees in place, and the rate of return required by investors to own such securities given the current liquidity risk associated with them. The DCF model is based on the following key assumptions.

  - Nominal credit risk as substantially all of the underlying collateral of these securities is ultimately guaranteed by the United States Department of Education;
  - Liquidity by December 31, 2012 through December 31, 2014;
  - Continued receipt of contractual interest; and
  - Discount rates ranging from 2.26% to 3.26%, which include a spread for liquidity risk.

A 1.00% change in the discount rate would change the value of our ARS by approximately $8.5 million. A two year change to the years to liquidity assumption would change the value of our ARS by approximately $9.7 million.

- Real estate acquired through claim settlement is fair valued at the lower of our acquisition cost or a percentage of appraised value. The percentage applied to appraised value is based upon our historical sales experience adjusted for current trends.

Investment Portfolio

Our entire investment portfolio is classified as available-for-sale and is reported at fair value. The related unrealized gains or losses are, after considering the related tax expense or benefit, recognized as a component of accumulated other comprehensive income in shareholders' equity. Realized investment gains and losses are reported in income based upon specific identification of securities sold.

In April 2009, new accounting guidance regarding the recognition and presentation of other-than-temporary impairments was issued. The new guidance required us to separate an other-than-temporary impairment ("OTTI") of a debt security into two components when there are credit related losses associated with the impaired debt security for which we assert that we do not have the intent to sell the security, and it is more likely than not that we will not be required to sell the security before recovery of our cost basis. Under this guidance the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors (such as changes in interest rates or market conditions) is recorded as a component of other comprehensive income (loss). In instances where no credit loss exists but it is more likely than not that we will have to sell the debt security prior to the anticipated recovery, the decline in fair value below amortized cost is recognized as an OTTI in earnings. In periods after recognition of an OTTI on debt securities, we account for such securities as if they had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. For debt securities for which OTTI were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted or amortized into net investment income. This guidance was effective beginning with the quarter ending June 30, 2009.

Each quarter we perform reviews of our investments in order to determine whether declines in fair value below amortized cost were considered other-than-temporary in accordance with applicable guidance. In evaluating whether a decline in fair value is other-than-temporary, we consider several factors including, but not limited to:

- our intent to sell the security or whether it is more likely than not that we will be required to sell the security before recovery;
- extent and duration of the decline;
- failure of the issuer to make scheduled interest or principal payments;
- change in rating below investment grade; and
- adverse conditions specifically related to the security, an industry, or a geographic area.

Under the current guidance a debt security impairment is deemed other than temporary if we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery or we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security. During 2010 we recognized OTTI losses in earnings of $9.6 million. During 2009 we recognized OTTI losses in earnings of $40.9 million and an additional $1.8 million of OTTI losses in other comprehensive income. During 2008 we recognized OTTI losses in earnings of approximately $65.4 million.

Risk Factors

Forward-Looking Statements and Risk Factors

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

These factors may also cause actual results to differ materially from the results contemplated by forward looking statements that we may make. Forward looking statements consist of statements which relate to matters other than historical fact, including matters that inherently refer to future events. Among others, statements that include words such as we "believe", "anticipate", or "expect", or words of similar import, are forward looking statements. We are not undertaking any obligation to update any forward looking statements or other statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. No reader of this annual report should rely on these statements being current at any time other than the time at which our Annual Report on Form 10-K for the year ended December 31, 2010 was filed with the Securities and Exchange Commission.

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

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

- the level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters (which may be changed by federal legislation) when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,

- the amount of loan level delivery fees (which result in higher costs to borrowers) that the GSEs assess on loans that require mortgage insurance,

- whether the GSEs influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,

- the underwriting standards that determine what loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,

- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law,

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

- whether the GSEs intervene in mortgage insurers' rescission practices or processes and whether the GSEs establish parameters pursuant to which mortgage insurers may settle rescission disputes or require advance approval of such settlements.

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

For a number of years, the GSEs have had programs under which on certain loans lenders could choose a mortgage insurance coverage percentage that was only the minimum required by their charters, with the GSEs paying a lower price for these loans ("charter coverage"). The GSEs have also had programs under which on certain loans they would accept a level of mortgage insurance above the requirements of their charters but below their standard coverage without any decrease in the purchase price they would pay for these loans ("reduced coverage"). Freddie Mac eliminated its reduced coverage program in 2009. Effective January 1, 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage and in the second quarter of 2010 Fannie Mae eliminated its reduced coverage program. In recent years, a majority of our volume was on loans with GSE standard coverage; almost all of the rest of our volume was on loans with reduced coverage, with only a minor portion of our volume on loans with charter coverage. The pricing changes we implemented on May 1, 2010 (see "—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") may eliminate a lender's incentive to use Fannie Mae charter coverage in place of standard coverage. During 2010, the portion of our volume insured either at charter coverage or reduced coverage has decreased compared to recent years and the portion of our volume insured at standard coverage has increased. We charge higher premium rates for higher coverage percentages. To the extent lenders selling loans to Fannie Mae in the future choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

Both of the GSEs have guidelines on terms under which they can conduct business with mortgage insurers, such as MGIC, with financial strength ratings below Aa3/AA-. (MGIC's financial strength rating from Moody's is Ba3, with a positive outlook and from Standard & Poor's is B+, with a negative outlook.) For information about how these guidelines could affect us, see "—MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements."

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

Alternatives to private mortgage insurance include:

- lenders using government mortgage insurance programs, including those of the Federal Housing Administration, or FHA, and the Veterans Administration,

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

- investors using credit enhancements other than private mortgage insurance, using other credit enhancements in conjunction with reduced levels of private mortgage insurance coverage, or accepting credit risk without credit enhancement, and

- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10%, 15% or 20% loan-to-value ratio (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% loan-to-value ratio that has private mortgage insurance.

The FHA substantially increased its market share beginning in 2008. We believe that the FHA's market share increased, in part, because mortgage insurers have tightened their underwriting guidelines (which has led to increased utilization of the FHA's programs) and because of increases in the amount of loan level delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). Recent federal legislation and programs have also provided the FHA with greater flexibility in establishing new products and have increased the FHA's competitive position against private mortgage insurers. Effective October 4, 2010, the FHA simultaneously reduced its upfront mortgage insurance premium and increased its annual premium. The new FHA pricing, when compared to our credit-tiered pricing introduced May 1, 2010, may allow us to be more competitive with the FHA than in the recent past for loans with high FICO credit scores. We cannot predict, however, what impact these premium changes will have on new insurance written in the future.

Dodd-Frank requires a securitizer and a lender who sells residential mortgage loans to a securitizer to retain collectively 5% of the risk associated with such mortgage loans that are securitized, with the retained risk allocated between the securitizer and the lender as defined by regulations to be adopted under Dodd-Frank by various federal financial institutions regulators. This risk retention requirement does not apply to mortgage loans that are QRMs or that are insured by the FHA or another federal agency (the GSEs are not federal agencies for this purpose). In defining a QRM the federal regulators are to take into account underwriting and product features, which we understand from reports about the scope of the definition that could be proposed include the amount of the down payment. The federal regulators are also to take into account for such purpose, among other things, "standards with respect to mortgage guarantee insurance or other types of insurance or credit enhancement obtained at the time of origination, to the extent such insurance or credit enhancement reduces the risk of default." Although the definition of QRM had yet to be proposed at the time this Form 10-K was finalized, the federal regulators are expected to propose the definition in the near future. Depending on the extent of the down payment required for a QRM and to what extent, if any, the presence of mortgage insurance would be a substitute for a higher down payment, the amount of new insurance that we write may be materially adversely affected. The following table shows the percentage of our new risk written by LTV for the years ended December 31, 2010 and 2009.

	Percentage of new risk written	
	2010	**2009**
LTV:		
85% and under	7%	12%
85.1% - 90%	48%	53%
90.1% - 95%	44%	34%
95.1% - 97%	1%	1%
> 97%	0%	0%

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

The majority of our insurance written is for loans sold to Fannie Mae and Freddie Mac, each of which has mortgage insurer eligibility requirements. Currently, MGIC is operating with each GSE as an eligible insurer under a remediation plan. We believe that the GSEs view remediation plans as a continuing process of interaction with a mortgage insurer and MGIC will continue to operate under a remediation plan for the foreseeable future. There can be no assurance that MGIC will be able to continue to operate as an eligible mortgage insurer under a remediation plan. In particular, the GSEs are currently in discussions with mortgage insurers regarding their standard mortgage insurer eligibility requirements and may make changes to them in the near future that may make them more stringent than the current requirements. The GSEs may include the eligibility requirements, as finally adopted, as part of our current remediation plan. If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

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

For the years ended December 31, 2010, 2009, 2008 and 2007, we had a net loss of $0.4 billion, $1.3 billion, $0.5 billion and $1.7 billion, respectively. We currently expect to continue to report annual net losses, the size of which will depend primarily on the amount of our incurred and paid losses from our existing business and to a lesser extent on the amount and profitability of our new business. Our incurred and paid losses are dependent on factors that make prediction of their amounts difficult and any forecasts are subject to significant volatility. Although we currently expect to return to profitability on an annual basis, we cannot assure you when, or if, this will occur. Among the assumptions underlying our forecasts are that loan modification programs will only modestly mitigate losses; that the cure rate steadily improves but does not return to historic norms until 2013; there is no change to our current rescission practices and any foreclosure moratoriums will have no significant effect on earnings. In this regard, see "— It is uncertain what effect foreclosure moratoriums and issues arising from the investigation of servicers' foreclosure procedures will have on us" and "— We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper." The net losses we have experienced have eroded, and any future net losses will erode, our shareholders' equity and could result in equity being negative.

Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis.

The insurance laws or regulations of 17 jurisdictions, including Wisconsin, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the risk-to-capital requirement. While formulations of minimum capital may vary in certain jurisdictions, the most common measure applied allows for a maximum permitted risk-to-capital ratio of 25 to 1. At December 31, 2010, MGIC's risk-to-capital ratio was 19.8 to 1 and the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 23.2 to 1. A high risk-to-capital ratio on a combined basis could affect MGIC's ability to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, absent a contribution of capital to such subsidiaries. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. Based upon internal company estimates, MGIC's risk-to-capital ratio over the next few years, after giving effect to any contribution to MGIC of the proceeds from our April 2010 common stock and convertible notes offerings beyond the contribution already made, could reach 40 to 1 or even higher under a stress loss scenario. For more information regarding the assumptions underlying our forecasts, see "— We have reported net losses for the last four years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability."

In December 2009, the OCI issued an order waiving, until December 31, 2011, its risk-to-capital requirement. MGIC has also applied for waivers in all other jurisdictions that have risk-to-capital requirements. MGIC has received waivers from some of these jurisdictions which expire at various times. One waiver expired on December 31, 2010 and was not immediately renewed because the need for a waiver was not considered imminent. MGIC may reapply for the waiver. Some jurisdictions have denied the request and others may deny the request. The OCI and insurance departments of other jurisdictions, in their sole discretion, may modify, terminate or extend their waivers. If the OCI or another insurance department modifies or terminates its waiver, or if it fails to renew its waiver after expiration, depending on the circumstances, MGIC could be prevented from writing new business anywhere, in the case of the waiver from the OCI, or in the particular jurisdiction, in the case of the other waivers, if MGIC's risk-to-capital ratio exceeds 25 to 1 unless MGIC obtained additional capital to enable it to comply with the risk-to-capital requirement. New insurance written in the jurisdictions that have risk-to-capital requirements represented approximately 50% of new insurance written in 2010. If we were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the applicable risk-to-capital requirement or obtained a necessary waiver to allow it to once again write new business.

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

We have implemented a plan to write new mortgage insurance in MIC in selected jurisdictions in order to address the likelihood that in the future MGIC will not meet the minimum regulatory capital requirements discussed above and may not be able to obtain appropriate waivers of these requirements in all jurisdictions in which minimum requirements are present. MIC has received the necessary approvals, including from the OCI, to write business in all of the jurisdictions in which MGIC would be prohibited from continuing to write new business in the event of MGIC's failure to meet applicable regulatory capital requirements and obtain waivers of those requirements.

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

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

Under the Fannie Mae Agreement, Fannie Mae approved MIC as an eligible mortgage insurer only through December 31, 2011. Freddie Mac has approved MIC as a "Limited Insurer" only through December 31, 2012. Whether MIC will continue as an eligible mortgage insurer after these dates will be determined by the applicable GSE's mortgage insurer eligibility requirements then in effect. For more information, see "— MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements." Further, under the Fannie Mae Agreement and the Freddie Mac Notification, MGIC cannot capitalize MIC with more than the $200 million contribution already made without prior approval from each GSE, which limits the amount of business MIC can write. We believe that the amount of capital that MGIC has contributed to MIC will be sufficient to write business for the term of both the Fannie Mae Agreement and the Freddie Mac Notification in the jurisdictions in which MIC is eligible to do so. Depending on the level of losses that MGIC experiences in the future, however, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific regulatory capital requirements applicable to mortgage insurers, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC is not eligible to write business.

A failure to meet the specific minimum regulatory capital requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force, even in scenarios in which it fails to meet regulatory capital requirements, we cannot assure you that the events that led to MGIC failing to meet regulatory capital requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include our anticipated rescission activity, future housing values and future unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about housing values and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims that will be rescinded and the outcome of any legal proceedings related to rescissions that we make, including those with Countrywide.

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

Historically, rescissions of policies for which claims have been submitted to us were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of policies have materially mitigated our paid losses. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately $1.2 billion (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue at the same rates (as a percentage of claims received) we have previously experienced. See the table labeled "Ever-To-Date Rescission Rates on Primary Claims Received" under "Management's Discussion and Analysis of Financial Condition and Results of Operations-Losses-Losses incurred."

In addition, our loss reserving methodology incorporates the effects we expect rescission activity to have on the losses we will pay on our delinquent inventory. A variance between ultimate actual rescission rates and these estimates, as a result of the outcome of claims investigations, litigation, settlements or other factors, could materially affect our losses. See "—Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves." We estimate rescissions mitigated our incurred losses by approximately $0.4 billion in 2008, $2.5 billion in 2009 and $0.2 billion in 2010. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In recent quarters, between 20% and 28% of claims received in a quarter have been resolved by rescissions. At December 31, 2010, we had 214,724 loans in our primary delinquency inventory; the resolution of a significant portion of these loans will not involve paid claims.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under Accounting Standards Codification ("ASC") 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see the risk factor titled, "We are subject to the risk of private litigation and regulatory proceedings" as well as Item 3 in our Annual Report on Form 10-K, "Legal Proceedings."

In the second quarter of 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. Loans covered by this settlement agreement represented fewer than 10% of our policies in force as well as our delinquent inventory. Under this agreement, we waived certain of our rescission rights on loans subject to the agreement and the customer agreed to contribute to the cost of claims that we pay on those loans. The rescission rights we waived are for matters related to loan origination, which historically have been the basis for substantially all of our rescissions. In addition, under the agreement we reversed certain rescissions and the customer waived claims regarding certain other past rescissions. This agreement did not have a significant impact on our established loss reserves. We continue to discuss with other lenders their objections to material rescissions and/or the possibility of entering into a settlement agreement. In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability.

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

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. Seven mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC settled class action litigation against it under RESPA in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in December 2004 following denial of class certification in June 2004. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. On November 29, 2010, six mortgage insurers (including MGIC) and a large mortgage lender (which was the named plaintiffs' lender) were named as defendants in a complaint, alleged to be a class action, filed in Federal District Court for the District of Columbia. The complaint alleges various causes of action related to the captive mortgage reinsurance arrangements of this mortgage lender, including that the defendants violated RESPA by paying the lender's captive reinsurer excessive premiums in relation to the risk assumed by that captive. The named plaintiffs' loan was not insured by MGIC and it is our understanding that it was not reinsured by this mortgage lender's captive reinsurance affiliates. We intend to defend MGIC against this complaint vigorously but we are unable to predict the outcome of the litigation or its effect on us. While we are only a defendant in this RESPA case, there can be no assurance that we will not be subject to future litigation under RESPA (or FCRA) or that the outcome of any such litigation would not have a material adverse effect on us.

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. In addition, the Dodd-Frank Act, the financial reform legislation that was passed in July 2010, establishes the Bureau of Consumer Financial Protection to regulate the offering and provision of consumer financial products or services under federal law. We are uncertain whether this Bureau will issue any rules or regulations that affect our business. Such rules and regulations could have a material adverse effect on us.

In June 2005, in response to a letter from the New York Insurance Department, we provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the New York Insurance Department requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the New York Insurance Department that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the "MN Department"), which regulates insurance, we provided the MN Department with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the MN Department, and beginning in March 2008 the MN Department has sought additional information as well as answers to questions regarding captive mortgage reinsurance on several occasions. In addition, beginning in June 2008, we have received subpoenas from the Department of Housing and Urban Development, commonly referred to as HUD, seeking information about captive mortgage reinsurance similar to that requested by the MN Department, but not limited in scope to the state of Minnesota. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The anti-referral fee provisions of RESPA provide that HUD as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While we believe our captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

Since October 2007 we had been involved in an investigation conducted by the Division of Enforcement of the SEC. The investigation had focused on disclosure and financial reporting by us and by a co-investor in 2007 regarding our respective investments in our C-BASS joint venture. We have provided documents to the SEC and a number of our executive officers, as well as other employees, have testified. On January 18, 2011, the staff of the Division of Enforcement issued a formal closing letter advising us that the investigation has been terminated against us, our executive officers and other employees, and that it did not intend to recommend any enforcement action by the SEC.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees' Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the "Complaint") on June 22, 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS, including its liquidity. Our motion to dismiss the Complaint was granted on February 18, 2010. On March 18, 2010, plaintiffs filed a motion for leave to file an amended complaint. Attached to this motion was a proposed Amended Complaint (the "Amended Complaint"). The Amended Complaint alleged that we and two of our officers named in the Amended Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about C-BASS, including its liquidity, and by failing to properly account for our investment in C-BASS. The Amended Complaint also named two officers of C-BASS with respect to the Amended Complaint's allegations regarding C-BASS. The purported class period covered by the Amended Complaint began on February 6, 2007 and ended on August 13, 2007. The Amended Complaint sought damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported violations of federal securities laws. On April 12, 2010, we filed a motion in opposition to Plaintiff's motion for leave to amend its complaint. On December 8, 2010, the plaintiff's motion to file an amended complaint was denied and the Complaint was dismissed with prejudice. On January 6, 2011, the plaintiff appealed the February 18, 2010 and December 8, 2010 decisions to the United States Court of Appeals for the Seventh Circuit. We are unable to predict the outcome of these consolidated cases or estimate our associated expenses or possible losses. Other lawsuits alleging violations of the securities laws could be brought against us.

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

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

On December 17, 2009, Countrywide filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco (the "California State Court") against MGIC. This complaint alleges that MGIC has denied, and continues to deny, valid mortgage insurance claims submitted by Countrywide and says it seeks declaratory relief regarding the proper interpretation of the insurance policies at issue. On January 19, 2010, we removed this case to the United States District Court for the Northern District of California (the "District Court"). On March 30, 2010, the District Court ordered the case remanded to the California State Court. We have appealed this decision to the United States Court of Appeals for the Ninth Circuit (the "Court of Appeals") and asked the Court of Appeals to vacate the remand and stay proceedings in the District Court. On May 17, 2010, the Court of Appeals denied a stay of the District Court's remand order. On May 28, 2010, Countrywide filed an amended complaint substantially similar to the original complaint in the California State Court. On July 2, 2010, we filed a petition in the California State Court to compel arbitration and stay the litigation in that court. On August 26, 2010, Countrywide filed an opposition to our petition. Countrywide's opposition states that there are thousands of loans for which it disputes MGIC's interpretation of the flow insurance policies at issue. On September 16, 2010, we filed a reply to Countrywide's opposition. On October 1, 2010, the California State Court stayed the litigation in that court pending a final ruling on our appeal.

In connection with the Countrywide dispute discussed above, on February 24, 2010, we commenced an arbitration action against Countrywide seeking a determination that MGIC was entitled to deny and/or rescind coverage on the loans involved in the arbitration action, which were insured through the flow channel and numbered more than 1,400 loans as of the filing of the action. On March 16, 2010, Countrywide filed a response to our arbitration action objecting to the arbitrator's jurisdiction in view of the case initiated by Countrywide in the California State Court and asserting various defenses to the relief sought by MGIC in the arbitration. On December 20, 2010, we filed an amended demand in the arbitration proceeding. This amended demand increased the number of loans for which we denied and/or rescinded coverage and which were insured through the flow channel to more than 3,300. We continue to rescind insurance coverage on additional Countrywide loans. On December 20, 2010 Countrywide filed an amended response. In the amended response, Countrywide is seeking relief for rescissions on loans insured by MGIC through the flow channel and more than 30 bulk insurance policies. In correspondence with MGIC, Countrywide has indicated that it believes MGIC has improperly rescinded coverage on approximately 4,700 loans. The amended response also seeks damages as a result of purported breaches of insurance policies issued by MGIC and additional damages, including exemplary damages, on account of MGIC's purported breach of an implied covenant of good faith and fair dealing. The amended response states that Countrywide seeks damages "well-exceeding" $150 million; the original response sought damages of at least $150 million. On January 17, 2011, Countrywide filed an answer to MGIC's amended demand and MGIC filed an answer to Countrywide's amended response. Countrywide and MGIC have each selected 12 loans for which a three-member arbitration panel will determine coverage. While the panel's determination will not be binding on the other loans at issue, the panel will identify the issues for these 24 "bellwether" loans and strive to set forth findings of fact and conclusions of law in such a way as to aid the parties to apply them to the other loans at issue. The hearing before the panel on the bellwether loans is scheduled to begin in October, 2011.

During 2008-2010, rescissions of Countrywide-related loans mitigated our paid losses on the order of $315 million. This amount is the amount we estimate we would have paid had the loans not been rescinded. On a per loan basis, the average amount that we would have paid had the loans not been rescinded was approximately $72 thousand. At December 31, 2010, 44,838 loans in our primary delinquency inventory were Countrywide-related loans (approximately 21% of our primary delinquency inventory). Of these 44,838 loans, some will cure their delinquency and the remainder will either become paid claims or will be rescinded. During 2008-2010, of the claims on Countrywide-related loans that were resolved (a claim is resolved when it is paid or rescinded; claims that are submitted but which are under review are not resolved until one of these two outcomes occurs), approximately 72% were paid and the remaining 28% were rescinded.

The flow policies at issue with Countrywide are in the same form as the flow policies that we use with all of our customers, and the bulk policies at issue vary from one another, but are generally similar to those used in the majority of our Wall Street bulk transactions. Because our rescission practices with Countrywide do not differ from our practices with other servicers, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. As discussed in Note 9 – "Loss reserves" to our consolidated financial statements, during 2008-2010 we estimated that total rescissions mitigated our incurred losses by approximately $3.1 billion, which included approximately $2.0 billion of mitigation on paid losses, excluding amounts that would have been applied to a deductible. At December 31, 2010 we estimate that our total loss reserves were benefited from rescissions by approximately $1.3 billion.

We intend to defend MGIC against Countrywide's complaint and arbitration response, and to pursue MGIC's claims in the arbitration, vigorously. However, we are unable to predict the outcome of these proceedings or their effect on us. Also, although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, we have not accrued any reserves that would reflect an adverse outcome in this proceeding. An accrual for an adverse outcome in this (or any other) proceeding would be a reduction to our capital. In this regard, see our risk factor titled "Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis."

In addition to the rescissions at issue with Countrywide, we have a substantial pipeline of claims investigations (including investigations involving loans related to Countrywide) that we expect will eventually result in future rescissions. In the second quarter of 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. We continue to discuss with other lenders their objections to material rescissions. In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Because our rescission practices with Countrywide do not differ from our practices with other servicers, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. For additional information about rescissions as well as the settlement referred to above, see "—We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper."

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

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

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

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

We establish reserves using estimated claim rates and claim amounts in estimating the ultimate loss on delinquent loans. The estimated claim rates and claim amounts represent our best estimates of what we will actually pay on the loans in default as of the reserve date and incorporate anticipated mitigation from rescissions. We rescind policies and deny claims in cases where we believe our policy allows us to do so. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse development from ongoing dispute resolution proceedings, including those with Countrywide, or from ongoing disagreements over the interpretation of our policy, including those with one of our pool insurance insureds related to the computation of the aggregate loss limit under a pool insurance policy. For more information regarding Countrywide, see "—We are subject to the risk of private litigation and regulatory proceedings" and for more information regarding the pool insurance disagreement, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Consolidated Operations – Pool Insurance."

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

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

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

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

We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP. We are aware of approximately 16,800 loans in our primary delinquent inventory at December 31, 2010 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through December 31, 2010 approximately 24,600 delinquent primary loans have cured their delinquency after entering HAMP are not in default. We believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly in recent months and most of the loans currently in a trial period will not receive HAMP modifications. In September 2010, the U.S. Department of the Treasury directed several large loan servicers to change their processes for soliciting borrowers and determining eligibility for participation in HAMP. We are uncertain what effect such changes in processes will have on HAMP participation and any benefits we may receive from such participation.

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

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

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

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

- restrictions on mortgage credit due to more stringent underwriting standards and liquidity issues affecting lenders,
- the level of home mortgage interest rates and their deductibility for income tax purposes,
- the health of the domestic economy as well as conditions in regional and local economies,
- housing affordability,
- population trends, including the rate of household formation,
- the rate of home price appreciation, which in times of heavy refinancing can affect whether refinance loans have loan-to-value ratios that require private mortgage insurance, and
- government housing policy encouraging loans to first-time homebuyers.

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

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

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

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

- PMI Mortgage Insurance Company,
- Genworth Mortgage Insurance Corporation,
- United Guaranty Residential Insurance Company,
- Radian Guaranty Inc.,
- Republic Mortgage Insurance Company, whose parent, based on information filed with the SEC through January 13, 2011, is our largest shareholder,
- CMG Mortgage Insurance Company, and
- Essent Guaranty, Inc.

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

Our relationships with our customers could be adversely affected by a variety of factors, including tightening of and adherence to our underwriting guidelines, which have resulted in our declining to insure some of the loans originated by our customers, rescission of loans that affect the customer and our decision to discontinue ceding new business under excess of loss captive reinsurance programs. In the fourth quarter of 2009, Countrywide commenced litigation against us as a result of its dissatisfaction with our rescission practices shortly after Countrywide ceased doing business with us. See "—We are subject to the risk of private litigation and regulatory proceedings" for more information about this litigation and the arbitration case we filed against Countrywide regarding rescissions. Countrywide and its Bank of America affiliates accounted for 12.0% of our flow new insurance written in 2008 and 8.3% of our new insurance written in the first three quarters of 2009. In addition, we continue to have discussions with other lenders who are significant customers regarding their objections to rescissions.

We believe some lenders assess a mortgage insurer's financial strength rating as an important element of the process through which they select mortgage insurers. MGIC's financial strength rating from Moody's is Ba3 with a positive outlook and from Standard & Poor's is B+ with a negative outlook. It is possible that MGIC's financial strength ratings could decline from these levels. As a result of MGIC's less than investment grade financial strength rating, MGIC may be competitively disadvantaged with these lenders.

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

Losses result from events that reduce a borrower's ability to continue to make mortgage payments, such as unemployment, and whether the home of a borrower who defaults on his mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. In general, favorable economic conditions reduce the likelihood that borrowers will lack sufficient income to pay their mortgages and also favorably affect the value of homes, thereby reducing and in some cases even eliminating a loss from a mortgage default. A deterioration in economic conditions, including an increase in unemployment, generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values, which in turn can influence the willingness of borrowers with sufficient resources to make mortgage payments to do so when the mortgage balance exceeds the value of the home. Housing values may decline even absent a deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers' perceptions of the potential for future appreciation, restrictions on and the cost of mortgage credit due to more stringent underwriting standards, liquidity issues affecting lenders, higher interest rates generally or changes to the deductibility of mortgage interest for income tax purposes, or other factors. The residential mortgage market in the United States has for some time experienced a variety of poor or worsening economic conditions, including a material nationwide decline in housing values, with declines continuing in 2010 in a number of geographic areas. Home values may continue to deteriorate and unemployment levels may remain elevated or increase.

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

Even when housing values are stable or rising, certain types of mortgages have higher probabilities of claims. These types include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or total debt-to-income ratios of 38% or higher, as well as loans having combinations of higher risk factors. As of December 31, 2010, approximately 57.6% of our primary risk in force consisted of loans with loan-to-value ratios equal to or greater than 95%, 8.7% had FICO credit scores below 620, and 11.3% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material portion of these loans were written in 2005 — 2007 or the first quarter of 2008. In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." For additional information about such loans, see footnote 4 to the table titled "Default Statistics for the MGIC Book" in Item 1 of our Annual Report on Form 10-K.

Beginning in the fourth quarter of 2007 we made a series of changes to our underwriting guidelines in an effort to improve the risk profile of our new business. From time to time, in response to market conditions, we change the types of loans that we insure and the guidelines under which we insure them. In addition, we make exceptions to our underwriting guidelines on a loan-by-loan basis and for certain customer programs. Together these exceptions accounted for fewer than 5% of the loans we insured in recent quarters. Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future. Our underwriting guidelines are available on our website at http://www.mgic.com/guides/underwriting.html.

As of December 31, 2010, approximately 3.2% of our primary risk in force written through the flow channel, and 36.4% of our primary risk in force written through the bulk channel, consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing ("ARMs"). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. We believe that when the reset interest rate significantly exceeds the interest rate at loan origination, claims on ARMs would be substantially higher than for fixed rate loans. Moreover, even if interest rates remain unchanged, claims on ARMs with a "teaser rate" (an initial interest rate that does not fully reflect the index which determines subsequent rates) may also be substantially higher because of the increase in the mortgage payment that will occur when the fully indexed rate becomes effective. In addition, we have insured "interest-only" loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

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

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

During 2010, we began pricing our new insurance written considering, among other things, the borrower's credit score ("credit-tiered pricing"). We made these rate changes to be more competitive with insurance programs offered by the FHA. These rate changes have resulted in lower premiums being charged for a substantial majority of our new insurance written. However, beginning in the fourth quarter of 2009, the average coverage percentage of our new insurance written increased. We believe the increased coverage was due in part to the elimination of Fannie Mae's reduced coverage program. See "—Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses." Because we charge higher premiums for higher coverages, the effect of lower premium rates under our new pricing plan has been mitigated by the increase in premiums due to higher coverages. We cannot predict whether our new business written in the future will continue to have higher coverages. For more information about our rate changes, see our Form 8-K that was filed with the SEC on February 23, 2010.

In January 2008, we announced that we had decided to stop writing the portion of our bulk business that insures loans which are included in Wall Street securitizations because the performance of loans included in such securitizations deteriorated materially in the fourth quarter of 2007 and this deterioration was materially worse than we experienced for loans insured through the flow channel or loans insured through the remainder of our bulk channel. As of December 31, 2007 we established a premium deficiency reserve of approximately $1.2 billion. As of December 31, 2010, the premium deficiency reserve was $179.0 million, which reflects the present value of expected future losses and expenses that exceeds the present value of expected future premium and already established loss reserves on these bulk transactions.

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

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

Various government entities and private parties have from time to time enacted foreclosure (or equivalent) moratoriums and suspensions (which we collectively refer to as moratoriums). There has been public discussion that additional government moratoriums may be effected in the near future if investigations by various government agencies indicate that large mortgage servicers and other parties acted improperly in foreclosure proceedings. We do not know what effect improprieties that may have occurred in a particular foreclosure have on the validity of that foreclosure, once it was completed and the property transferred to the lender. Under our policy, in general, completion of a foreclosure is a condition precedent to the filing of a claim.

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

In early January, 2011, the highest court in Massachusetts, a state in which foreclosures are accomplished by private sale rather than judicial action, held the foreclosure laws of that state required a person seeking to foreclose a mortgage to be the holder of the mortgage at the time notice of foreclosure was published. The servicers who had foreclosed in this case did not provide sufficient evidence that they were the holders of the mortgages and therefore they lacked authority to foreclose. We are studying the effect this decision has on our claims process.

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

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

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

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

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

As noted above under "— Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis," we may be required to raise additional equity capital. Any such future sales would dilute your ownership interest in our company. In addition, the market price of our common stock could decline as a result of sales of a large number of shares or similar securities in the market or the perception that such sales could occur.

We have $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures outstanding. The principal amount of the debentures is currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per $1,000 principal amount of debentures. This represents an initial conversion price of approximately $13.50 per share. On October 1, 2010, we paid interest that we had previously elected to defer on these debentures. We continue to have the right, and may elect, to defer interest payable under the debentures in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also converted into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We also have $345 million principal amount of 5% Convertible Senior Notes outstanding. The Senior Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per $1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately $13.44 per share. We do not have the right to defer interest on these Senior Notes.

While we believe we have settled this matter on a preliminary basis, the Internal Revenue Service had proposed significant adjustments to our taxable income for 2000 through 2007.

The Internal Revenue Service ("IRS") completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and issued assessments for unpaid taxes, interest and penalties. The primary adjustment in both examinations related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICS"). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We appealed those adjustments and, in August 2010, we reached a tentative settlement agreement with the IRS. The settlement agreement is subject to review by the Joint Committee on Taxation of Congress because net operating losses incurred in 2009 were carried back to taxable years that were included in the agreement. A final agreement is expected to be entered into when the review is complete, although we do not expect there will be any substantive change in the terms of a final agreement from those in the tentative agreement. We adjusted our tax provision and liabilities for the effects of this agreement in 2010 and believe that they accurately reflect our exposure in regard to this issue.

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

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

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

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

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

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

Our Australian operations may suffer significant losses.

We have committed significant resources to begin international operations, primarily in Australia, where we started to write business in June 2007. In view of our need to dedicate capital to our domestic mortgage insurance operations, we have reduced our Australian headcount and are no longer writing new business in Australia. Our existing risk in force in Australia is subject to the risks described in the general economic and insurance business-related factors discussed above. Recent significant increases in housing values in Australia may make these risks more significant than they have been in the past because these increases may make Australian housing values more susceptible to significant future price declines. In addition to these risks, we are subject to a number of other risks from having deployed capital in Australia, including foreign currency exchange rate fluctuations and interest-rate volatility particular to Australia.

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

We depend on reliable, consistent third-party servicing of the loans that we insure. A recent trend in the mortgage lending and mortgage loan servicing industry has been towards consolidation of loan servicers. This reduction in the number of servicers could lead to disruptions in the servicing of mortgage loans covered by our insurance policies. In addition, current housing market trends have led to significant increases in the number of delinquent mortgage loans requiring servicing. These increases have strained the resources of servicers, reducing their ability to undertake mitigation efforts that could help limit our losses. Future housing market conditions could lead to additional increases in delinquencies. Managing a substantially higher volume of non-performing loans could lead to disruptions in the servicing of mortgages. Investigations into whether servicers have acted improperly in foreclosure proceedings may further strain the resources of servicers.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)). Our internal control over financial reporting is designed 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. Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our internal control over financial reporting using the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

PricewaterhouseCoopers LLP, an independent registered public accounting firm has audited the consolidated financial statements and effectiveness of internal control over financial reporting, as of December 31, 2010 as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
MGIC Investment Corporation

In our opinion, the consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and of cash flows present fairly, in all material respects, the financial position of MGIC Investment Corporation and its subsidiaries (the "Company") at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
March 1, 2011

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2010, 2009 and 2008

Consolidated Statements of Operations

	2010	2009	2008
	(In thousands, except per share data)		
Revenues:			
Premiums written:			
Direct	$ 1,169,081	$ 1,346,191	$ 1,661,544
Assumed	3,090	3,947	12,221
Ceded (note 11)	(70,376)	(107,111)	(207,718)
Net premiums written	1,101,795	1,243,027	1,466,047
Decrease (increase) in unearned premiums	66,952	59,314	(72,867)
Net premiums earned (note 11)	1,168,747	1,302,341	1,393,180
Investment income, net of expenses (note 6)	247,253	304,678	308,517
Realized investment gains, net (note 6)	102,581	92,874	52,889
Total other-than-temporary impairment losses	(9,644)	(42,704)	(65,375)
Portion of losses recognized in other comprehensive income (loss), before taxes (note 3)	-	1,764	-
Net impairment losses recognized in earnings	(9,644)	(40,940)	(65,375)
Other revenue	11,588	49,573	32,315
Total revenues	1,520,525	1,708,526	1,721,526
Losses and expenses:			
Losses incurred, net (notes 9 and 11)	1,607,541	3,379,444	3,071,501
Change in premium deficiency reserves (note 10)	(51,347)	(261,150)	(756,505)
Amortization of deferred policy acquisition costs	7,062	8,204	10,024
Other underwriting and operating expenses, net	218,080	231,408	261,290
Reinsurance fee (note 11)	-	26,407	1,781
Interest expense (note 8)	98,589	89,266	81,074
Total losses and expenses	1,879,925	3,473,579	2,669,165
Loss before tax and joint ventures	(359,400)	(1,765,053)	(947,639)
Provision for (benefit from) income taxes (note 14)	4,335	(442,776)	(397,798)
Income from joint ventures, net of tax (note 12)	-	-	24,486
Net loss	$ (363,735)	$ (1,322,277)	$ (525,355)
Loss per share (notes 3 and 18):			
Basic	$ (2.06)	$ (10.65)	$ (4.61)
Diluted	$ (2.06)	$ (10.65)	$ (4.61)
Weighted average common shares outstanding - basic (shares in thousands, note 3)	176,406	124,209	113,962
Weighted average common shares outstanding - diluted (shares in thousands, note 3)	176,406	124,209	113,962
Dividends per share	$ -	$ -	$ 0.075

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
December 31, 2010 and 2009

Consolidated Balance Sheets

	2010	2009
	(In thousands)	
ASSETS		
Investment portfolio (notes 6 and 7):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2010 - $7,366,808; 2009 - $7,091,840)	$ 7,455,238	$ 7,251,574
Equity securities	3,044	2,891
Total investment portfolio	7,458,282	7,254,465
Cash and cash equivalents	1,304,154	1,185,739
Accrued investment income	70,305	79,828
Reinsurance recoverable on loss reserves (note 11)	275,290	332,227
Reinsurance recoverable on paid losses (note 11)	34,160	9,297
Prepaid reinsurance premiums (note 11)	2,637	3,554
Premiums receivable	79,567	90,139
Home office and equipment, net	28,638	29,556
Deferred insurance policy acquisition costs	8,282	9,022
Income taxes recoverable (note 14)	-	275,187
Other assets	72,327	135,405
Total assets	$ 9,333,642	$ 9,404,419
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (notes 9 and 11)	$ 5,884,171	$ 6,704,990
Premium deficiency reserve (note 10)	178,967	193,186
Unearned premiums (note 11)	215,157	280,738
Senior notes (note 8)	376,329	377,098
Convertible senior notes (note 8)	345,000	-
Convertible junior debentures (note 8)	315,626	291,785
Other liabilities	349,337	254,041
Total liabilities	7,664,587	8,101,838
Contingencies (note 20)		
Shareholders' equity (note 15):		
Common stock, $1 par value, shares authorized 460,000,000; shares issued 2010 - 205,046,780; 2009 - 130,163,060; outstanding 2010 - 200,449,588; 2009 - 125,101,057	205,047	130,163
Paid-in capital	1,138,942	443,294
Treasury stock (shares at cost 2010 - 4,597,192; 2009 - 5,062,003)	(222,632)	(269,738)
Accumulated other comprehensive income, net of tax (note 3)	22,136	74,155
Retained earnings	525,562	924,707
Total shareholders' equity	1,669,055	1,302,581
Total liabilities and shareholders' equity	$ 9,333,642	$ 9,404,419

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2008, 2009 and 2010

Consolidated Statements of Shareholders' Equity

	Common stock	Paid-in capital	Treasury stock	Accumulated other comprehensive income (loss) (note 3)	Retained earnings	Comprehensive loss
			(In thousands)			
Balance, December 31, 2007	$ 123,067	$ 316,649	$ (2,266,364)	$ 70,675	$ 4,350,316	
Net loss					(518,914)	$ (518,914)
Change in unrealized investment gains and losses, net	-	-	-	(116,939)	-	(116,939)
Dividends declared (note 16)	-	-	-	-	(8,159)	
Common stock shares issued	7,052	68,706	-	-	-	
Reissuance of treasury stock, net	-	(41,686)	1,989,491	-	(1,569,567)	
Equity compensation	-	20,562	-	-	-	
Defined benefit plan adjustments, net	-	-	-	(44,649)	-	(44,649)
Unrealized foreign currency translation adjustment, net	-	-	-	(16,354)	-	(16,354)
Other	-	2,836	-	478	-	478
Comprehensive loss						$ (696,378)
Balance, December 31, 2008 (as originally reported)	$ 130,119	$ 367,067	$ (276,873)	$ (106,789)	$ 2,253,676	
Cumulative effect of accounting change (convertible debt)	-	73,475	-	-	(6,442)	
Balance, December 31, 2008 (as adjusted)	$ 130,119	$ 440,542	$ (276,873)	$ (106,789)	$ 2,247,234	
Net loss					(1,322,277)	(1,322,277)
Change in unrealized investment gains and losses, net	-	-	-	154,358	-	154,358
Noncredit component of impairment losses, net (note 6)	-	-	-	(1,764)	-	(1,764)
Common stock shares issued upon debt conversion (note 8)	44	263	-	-	-	
Reissuance of treasury stock, net	-	(11,613)	7,135	-	(545)	
Equity compensation	-	14,102	-	-	-	
Defined benefit plan adjustments, net	-	-	-	10,704	-	10,704
Unrealized foreign currency translation adjustment, net	-	-	-	17,646	-	17,646
Other	-	-	-	-	295	
Comprehensive loss						$ (1,141,333)
Balance, December 31, 2009	$ 130,163	$ 443,294	$ (269,738)	$ 74,155	$ 924,707	
Net loss					(363,735)	(363,735)
Change in unrealized investment gains and losses, net (notes 6 and 7)	-	-	-	(69,074)	-	(69,074)
Common stock shares issued (note 15)	74,884	697,492	-	-	-	
Reissuance of treasury stock, net (note 15)	-	(14,425)	47,106	-	(35,410)	
Equity compensation (note 18)	-	12,581	-	-	-	
Defined benefit plan adjustments, net (note 13)	-	-	-	6,390	-	6,390
Unrealized foreign currency translation adjustment, net	-	-	-	10,665	-	10,665
Comprehensive loss						$ (415,754)
Balance, December 31, 2010	$ 205,047	$ 1,138,942	$ (222,632)	$ 22,136	$ 525,562	

See accompanying notes to consolidated financial statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flow

	2010	2009	2008
		(In thousands)	
Cash flows from operating activities:			
Net loss	$ (363,735)	$ (1,322,277)	$ (525,355)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Amortization of deferred insurance policy acquisition costs	7,062	8,204	10,024
Capitalized deferred insurance policy acquisition costs	(6,322)	(5,722)	(10,360)
Depreciation and other amortization	60,882	60,349	33,688
Decrease (increase) in accrued investment income	9,523	11,028	(18,027)
Decrease (increase) in reinsurance recoverable on loss reserves	56,937	(99,239)	(197,744)
Decrease in prepaid reinsurance premiums	917	862	4,299
Decrease in premiums receivable	10,572	7,462	9,732
(Increase) decrease in real estate	(2,390)	29,028	112,340
(Decrease) increase in loss reserves	(820,819)	1,929,438	2,133,073
Decrease in premium deficiency reserve	(14,219)	(261,150)	(756,505)
(Decrease) increase in unearned premiums	(65,581)	(55,360)	63,865
Deferred tax (benefit) provision	(75)	176,279	411,683
Decrease (increase) in income taxes recoverable (current)	293,681	(179,006)	140,460
Equity earnings from joint ventures	-	-	(33,794)
Distributions from joint ventures	-	-	22,195
Realized investment gains, net	(102,581)	(92,874)	(52,889)
Net investment impairment losses	9,644	40,940	65,375
Other	51,074	81,992	(47,152)
Net cash (used in) provided by operating activities	(875,430)	329,954	1,364,908
Cash flows from investing activities:			
Purchase of equity securities	(156)	(1,387)	(89)
Purchase of fixed maturities	(5,225,794)	(4,147,412)	(3,592,600)
Additional investment in joint ventures	-	-	(546)
Proceeds from sale of investment in joint ventures	-	-	150,316
Proceeds from sale of equity securities	-	1,273	-
Repayment of note receivable from joint ventures	83,500	-	-
Proceeds from sale of fixed maturities	4,287,312	3,663,239	1,724,780
Proceeds from maturity of fixed maturities	740,959	554,980	413,328
Net increase (decrease) in payable for securities	2,275	(17,890)	19,547
Net cash (used in) provided by investing activities	(111,904)	52,803	(1,285,264)
Cash flows from financing activities:			
Dividends paid to shareholders	-	-	(8,159)
Repayment of note payable	-	(200,000)	(100,000)
Repayment of long-term debt	(1,000)	(94,352)	-
Net proceeds from convertible debentures	-	-	377,199
Proceeds from reissuance of treasury stock	-	-	383,959
Net proceeds from convertible senior notes	334,373	-	-
Common stock shares issued	772,376	-	75,758
Net cash provided by (used in) financing activities	1,105,749	(294,352)	728,757
Net increase in cash and cash equivalents	118,415	88,405	808,401
Cash and cash equivalents at beginning of year	1,185,739	1,097,334	288,933
Cash and cash equivalents at end of year	$ 1,304,154	$ 1,185,739	$ 1,097,334

See accompanying notes to consolidated financial statements.

Notes Consolidated Financial Statements

1. Nature of business

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC") and several other subsidiaries, is principally engaged in the mortgage insurance business. We provide mortgage insurance to lenders throughout the United States and to government sponsored entities ("GSEs") to protect against loss from defaults on low down payment residential mortgage loans. Our principal product is primary mortgage insurance. Primary mortgage insurance may be written through the flow channel, in which loans are insured in individual, loan-by-loan transactions. Primary mortgage insurance may also be written through the bulk channel, in which portfolios of loans are individually insured in single, bulk transactions. Prior to 2008, we wrote significant volume through the bulk channel, substantially all of which was Wall Street bulk business, which we discontinued writing in 2007. We did not write any business through the bulk channel during 2009 or 2010. Prior to 2009, we also wrote pool mortgage insurance. We wrote an insignificant amount of pool business during 2009 and none in 2010. Through certain other non-insurance subsidiaries, we also provide various services for the mortgage finance industry, such as contract underwriting and portfolio analysis and retention. In 2007, we began providing mortgage insurance to lenders in Australia. In view of our need to dedicate capital to our domestic mortgage insurance operations, we have reduced our Australian headcount and are no longer writing new business in Australia. Our Australian operations are included in our consolidated financial statements; however they are not material to our consolidated results.

At December 31, 2010, our direct domestic primary insurance in force (representing the principal balance in our records of all mortgage loans that we insure) and direct domestic primary risk in force (representing the insurance in force multiplied by the insurance coverage percentage) was approximately $191.3 billion and $49.0 billion, respectively. Our direct pool risk in force at December 31, 2010 was approximately $2.7 billion. The $2.7 billion includes $1.5 billion of risk on pool policies with no aggregate loss limits. Prior to December 31, 2010, we disclosed the estimated risk amount that would credit enhance these loans to a 'AA' level based on a rating agency model. In 2010, we did not renew our subscription to this model and no longer estimate this amount. At December 31, 2009 for $2.0 billion of risk with no aggregate loss limits, risk in force under the model was estimated at $190 million. Our risk in force in Australia at December 31, 2010 was approximately $1.0 billion which represents the risk associated with 100% coverage on the insurance in force. However the mortgage insurance we provided in Australia only covers the unpaid loan balance after the sale of the underlying property.

Capital

The insurance laws or regulations of 17 jurisdictions, including Wisconsin, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the risk-to-capital requirement. While formulations of minimum capital may vary in certain jurisdictions, the most common measure applied allows for a maximum permitted risk-to-capital ratio of 25 to 1. At December 31, 2010, MGIC's risk-to-capital ratio was 19.8 to 1 and the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 23.2 to 1. Also, at December 31, 2010, MGIC's policyholders position (policyholders position is the insurer's net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums) exceeded the required regulatory minimum of our domiciliary state by approximately $225 million, and we exceeded the required minimum by approximately $290 million on a combined statutory basis. A high risk-to-capital ratio on a combined basis could affect MGIC's ability to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, absent a contribution of capital to such subsidiaries. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. Based upon internal company estimates, MGIC's risk-to-capital ratio over the next few years, after giving effect to any contribution to MGIC of the proceeds from our April 2010 common stock and convertible notes offerings beyond the contribution already made, could reach 40 to 1 or even higher under a stress loss scenario.

In December 2009, the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") issued an order waiving, until December 31, 2011, its risk-to-capital requirement. MGIC has also applied for waivers in all other jurisdictions that have risk-to-capital requirements. MGIC has received waivers from some of these jurisdictions which expire at various times. One waiver expired on December 31, 2010 and was not immediately renewed because the need for a waiver was not considered imminent. MGIC may reapply for the waiver. Some jurisdictions have denied the request and others may deny the request. The OCI and insurance departments of other jurisdictions, at their sole discretion, may modify, terminate or extend their waivers. If the OCI or another insurance department modifies or terminates its waiver, or if it fails to renew its waiver after expiration, depending on the circumstances, MGIC could be prevented from writing new business anywhere, in the case of the waiver from the OCI, or in the particular jurisdiction, in the case of the other waivers, if MGIC's risk-to-capital ratio exceeds 25 to 1 unless MGIC obtained additional capital to enable it to comply with the risk-to-capital requirement. New insurance written in the jurisdictions that have risk-to-capital requirements represented approximately 50% of new insurance written in 2010. If we were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the applicable risk-to-capital requirement or obtained a necessary waiver to allow it to once again write new business.

We cannot assure you that the OCI or any other jurisdiction that has granted a waiver of its risk-to-capital requirements will not modify or revoke the waiver, that it will renew the waiver when it expires or that MGIC could obtain the additional capital necessary to comply with the risk-to-capital requirement. Depending on the circumstances, the amount of additional capital we might need could be substantial.

We have implemented a plan to write new mortgage insurance in MGIC Indemnity Corporation ("MIC") in selected jurisdictions in order to address the likelihood that in the future MGIC will not meet the minimum regulatory capital requirements discussed above and may not be able to obtain appropriate waivers of these requirements in all jurisdictions in which minimum requirements are present. MIC has received the necessary approvals, including from the OCI, to write business in all of the jurisdictions in which MGIC would be prohibited from continuing to write new business in the event of MGIC's failure to meet applicable regulatory capital requirements and obtain waivers of those requirements.

In October 2009, we, MGIC and MIC entered into an agreement with Fannie Mae (the "Fannie Mae Agreement") under which MGIC agreed to contribute $200 million to MIC (which MGIC has done) and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011 subject to the terms of the Fannie Mae Agreement. Under the Fannie Mae Agreement, MIC will be eligible to write mortgage insurance only in those jurisdictions (other than Wisconsin) in which MGIC cannot write new insurance due to MGIC's failure to meet regulatory capital requirements and if MGIC fails to obtain relief from those requirements or a specific waiver of them.

On February 11, 2010, Freddie Mac notified MGIC that it may utilize MIC to write new business in jurisdictions in which MGIC does not meet minimum regulatory capital requirements to write new business and does not obtain appropriate waivers of those requirements. This conditional approval to use MIC as a "Limited Insurer" (the "Freddie Mac Notification") will expire December 31, 2012. This conditional approval includes terms substantially similar to those in the Fannie Mae Agreement.

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

A failure to meet the specific minimum regulatory capital requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force, even in scenarios in which it fails to meet regulatory capital requirements, we cannot assure you that the events that led to MGIC failing to meet regulatory capital requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include our anticipated rescission activity, future housing values and future unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about housing values and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims that will be rescinded and the outcome of any legal proceedings related to rescissions that we make, including those with Countrywide.

Historically, rescissions of policies for which claims have been submitted to us were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of policies have materially mitigated our paid losses. In 2008, 2009 and 2010, rescissions mitigated our paid losses by approximately $0.2 billion, $1.2 billion and $1.2 billion, respectively, (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible or aggregate loss limit under a bulk or pool policy, and may have been charged to a captive reinsurer). While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue at the same rates (as a percentage of claims received) we have previously experienced.

In addition, our loss reserving methodology incorporates the effects we expect rescission activity to have on the losses we will pay on our delinquent inventory. A variance between ultimate actual rescission rates and these estimates, as a result of the outcome of claims investigations, litigation, settlements or other factors, could materially affect our losses. We estimate rescissions mitigated our incurred losses by approximately $0.4 billion in 2008, $2.5 billion in 2009 and $0.2 billion in 2010. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In recent quarters, between 20% and 28% of claims received in a quarter have been resolved by rescissions. At December 31, 2010, we had 214,724 loans in our primary delinquency inventory; the resolution of a significant portion of these loans will not involve paid claims.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 20 – "Litigation and contingencies."

In the second quarter of 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. Loans covered by this settlement agreement represented fewer than 10% of our policies in force as well as our delinquent inventory. Under this agreement, we waived certain of our rescission rights on loans subject to the agreement and the customer agreed to contribute to the cost of claims that we pay on those loans. The rescission rights we waived are for matters related to loan origination, which historically have been the basis for substantially all of our rescissions. In addition, under the agreement we reversed certain rescissions and the customer waived claims regarding certain other past rescissions. This agreement did not have a significant impact on our established loss reserves. We continue to discuss with other lenders their objections to material rescissions and/or the possibility of entering into a settlement agreement. In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or legal proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability.

See additional disclosure regarding statutory capital in Note 17 – "Statutory capital."

2. Basis of presentation

The accompanying financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP), as codified in the Accounting Standards Codification ("ASC"). In accordance with GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of MGIC Investment Corporation and its majority-owned subsidiaries. All intercompany transactions have been eliminated. Historically, our investments in joint ventures and related loss or income from joint ventures principally consisted of our investment and related earnings in two less than majority owned joint ventures, Credit-Based Asset Servicing and Securitization LLC (C-BASS), and Sherman Financial Group LLC (Sherman). In 2007, we reduced the carrying value of C-BASS to zero. As a result, beginning in 2008, our joint venture income principally consisted of income from Sherman. In August of 2008, we sold our entire interest in Sherman to Sherman. Our equity in the earnings of joint ventures is shown separately, net of tax, on the statement of operations. (See Note 12 – "Investments in joint ventures")

3. Summary of significant accounting policies

Fair Value Measurements

In accordance with fair value guidance, we applied the following fair value hierarchy in order to measure fair value for assets and liabilities:

Level 1 – Quoted prices for identical instruments in active markets that we have the ability to access. Financial assets utilizing Level 1 inputs primarily include certain U.S. Treasury securities and obligations of the U.S. government.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and inputs, other than quoted prices, that are observable in the marketplace for the financial instrument. The observable inputs are used in valuation models to calculate the fair value of the financial instruments. Financial assets utilizing Level 2 inputs primarily include certain municipal and corporate bonds.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. Level 3 inputs reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. Financial assets utilizing Level 3 inputs include certain state and auction rate (backed by student loans) securities. Non-financial assets which utilize Level 3 inputs include real estate acquired through claim settlement.

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. Quality controls are performed throughout this process, which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. This model combines all inputs to arrive at a value assigned to each security. In addition, on a quarterly basis, we perform quality controls over values received from the pricing sources which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. We have not made any adjustments to the prices obtained from the independent pricing sources.

Assets classified as Level 3 are as follows:

- Securities available-for-sale classified in Level 3 are not readily marketable and are valued using internally developed models based on the present value of expected cash flows. Our Level 3 securities primarily consist of auction rate securities as observable inputs or value drivers are unavailable due to events described in Note 6 – "Investments". Due to limited market information, we utilized a discounted cash flow ("DCF") model to derive an estimate of fair value of these assets at December 31, 2010 and 2009. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, the probability of full repayment of the principal considering the credit quality and guarantees in place, and the rate of return required by investors to own such securities given the current liquidity risk associated with them. The DCF model is based on the following key assumptions:

    - Nominal credit risk as substantially all of the underlying collateral of these securities is ultimately guaranteed by the United States Department of Education;
    - Liquidity by December 31, 2012 through December 31, 2014;
    - Continued receipt of contractual interest; and
    - Discount rates ranging from 2.26% to 3.26%, which include a spread for liquidity risk.

- Real estate acquired through claim settlement is fair valued at the lower of our acquisition cost or a percentage of appraised value. The percentage applied to appraised value is based upon our historical sales experience adjusted for current trends.

Investments

Our entire investment portfolio is classified as available-for-sale and is reported at fair value. The related unrealized gains or losses are, after considering the related tax expense or benefit, recognized as a component of accumulated other comprehensive income in shareholders' equity. Realized investment gains and losses are reported in income based upon specific identification of securities sold. (See Note 6 – "Investments")

In April 2009, new accounting guidance regarding the recognition and presentation of other-than-temporary impairments was issued. This guidance was effective beginning with the quarter ending June 30, 2009. The guidance required us to separate an other-than-temporary impairment ("OTTI") of a debt security into two components when there are credit related losses associated with the impaired debt security; we assert that we do not have the intent to sell the security, and it is more likely than not that we will not be required to sell the security before recovery of our cost basis. Under this guidance the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors (such as changes in interest rates or market conditions) is recorded as a component of other comprehensive income (loss). In instances where no credit loss exists but it is more likely than not that we will have to sell the debt security prior to the anticipated recovery, the decline in fair value below amortized cost is recognized as an OTTI in earnings. In periods after recognition of an OTTI on debt securities, we account for such securities as if they had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. For debt securities for which OTTI were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted into net investment income.

Each quarter we perform reviews of our investments in order to determine whether declines in fair value below amortized cost were considered other-than-temporary in accordance with applicable guidance.

In evaluating whether a decline in fair value is other-than-temporary, we consider several factors including, but not limited to:

- our intent to sell the security or whether it is more likely than not that we will be required to sell the security before recovery;
- extent and duration of the decline;
- failure of the issuer to make scheduled interest or principal payments;
- change in rating below investment grade; and
- adverse conditions specifically related to the security, an industry, or a geographic area.

Under the current guidance a debt security impairment is deemed other than temporary if (1) we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery or (2) we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security.

Home office and equipment

Home office and equipment is carried at cost net of depreciation. For financial statement reporting purposes, depreciation is determined on a straight-line basis for the home office, equipment and data processing hardware over estimated lives of 45, 5 and 3 years, respectively. For income tax purposes, we use accelerated depreciation methods.

Home office and equipment is shown net of accumulated depreciation of $62.9 million, $60.1 million and $56.3 million at December 31, 2010, 2009 and 2008, respectively. Depreciation expense for the years ended December 31, 2010, 2009 and 2008 was $2.9 million, $4.3 million and $4.5 million, respectively.

Deferred insurance policy acquisition costs

Costs associated with the acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs ("DAC"). For each underwriting year of business, these costs are amortized to income in proportion to estimated gross profits over the estimated life of the policies. We utilize anticipated investment income in our calculation. This includes accruing interest on the unamortized balance of DAC. The estimates for each underwriting year are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development. If a premium deficiency exists, we reduce the related DAC by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the related DAC balance, we then establish a premium deficiency reserve equal to the excess, by means of a charge to current period earnings.

Loss reserves

Reserves are established for reported insurance losses and loss adjustment expenses based on when we receive notices of default on insured mortgage loans. We define a default as an insured loan with a mortgage payment that is 45 days or more past due. Reserves are also established for estimated losses incurred on notices of default not yet reported to us. Even though the accounting standard, ASC 944, regarding accounting and reporting by insurance entities specifically excludes mortgage insurance from its guidance relating to loss reserves, we establish loss reserves using the general principles contained in the insurance standard. However, consistent with industry standards for mortgage insurers, we do not establish loss reserves for future claims on insured loans which are not currently in default. Loss reserves are established by estimating the number of loans in our inventory of delinquent loans 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. Our loss estimates are established based upon historical experience, including rescission and loan modification activity. Amounts for salvage recoverable are considered in the determination of the reserve estimates. Adjustments to reserve estimates are reflected in the financial statements in the years in which the adjustments are made. The liability for reinsurance assumed is based on information provided by the ceding companies.

The incurred but not reported ("IBNR") reserves result from defaults occurring prior to the close of an accounting period, but which have not been reported to us. Consistent with reserves for reported defaults, IBNR reserves are established using estimated claim rates and claim amounts for the estimated number of defaults not reported.

Reserves also provide for the estimated costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process. (See Note 9 – "Loss reserves")

Premium deficiency reserves

After our loss reserves are initially established, we perform premium deficiency tests using our best estimate assumptions as of the testing date. Premium deficiency reserves are established, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premium and already established reserves. The discount rate used in the calculation of the premium deficiency reserve was based upon our pre-tax investment yield at year-end. Products are grouped for premium deficiency purposes based on similarities in the way the products are acquired, serviced and measured for profitability.

Calculations of premium deficiency reserves require the use of significant judgments and estimates to determine the present value of future premium and present value of expected losses and expenses on our business. The present value of future premium relies on, among other factors, assumptions about persistency and repayment patterns on underlying loans. The present value of expected losses and expenses depends on assumptions relating to severity of claims and claim rates on current defaults, and expected defaults in future periods. These assumptions also include an estimate of expected rescission activity. Assumptions used in calculating the deficiency reserves can be affected by volatility in the current housing and mortgage lending industries and these effects could be material. To the extent premium patterns and actual loss experience differ from the assumptions used in calculating the premium deficiency reserves, the differences between the actual results and our estimate will affect future period earnings. (See Note 10 - "Premium deficiency reserve")

Revenue recognition

We write policies which are guaranteed renewable contracts at the insured's option on a single, annual or monthly premium basis. We have no ability to reunderwrite or reprice these contracts. Premiums written on a single premium basis and an annual premium basis are initially deferred as unearned premium reserve and earned over the policy term. Premiums written on policies covering more than one year are amortized over the policy life in accordance with the expiration of risk which is the anticipated claim payment pattern based on historical experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as coverage is provided. When a policy is cancelled, all premium that is non-refundable is immediately earned. Any refundable premium is returned to the lender. Cancellations include rescissions and policies cancelled due to claim payment. When a policy is rescinded, all previously collected premium is returned to the lender and when a claim is paid we return any premium received since the date of default. The liability associated with our estimate of premium to be returned is accrued for separately and separate components of this liability are included in "Other liabilities" and "Premium deficiency reserves" on our consolidated balance sheet. Changes in these liabilities affect premiums written and earned and change in premium deficiency reserve, respectively. In periods prior to 2010, the liability associated with premium to be returned on claim payments is included in loss reserves and changes to this estimate affect losses incurred. This policy did not have a significant impact on premiums written and earned or losses incurred in periods prior to 2010. The actual return of premium for all periods affects premiums written and earned. Policy cancellations also lower the persistency rate which is a variable used in calculating the rate of amortization of deferred insurance policy acquisition costs.

Fee income of our non-insurance subsidiaries is earned and recognized as the services are provided and the customer is obligated to pay. Fee income consists primarily of contract underwriting and related fee-based services provided to lenders and is included in "Other revenue" on the statement of operations.

Income taxes

Federal tax law permits mortgage guaranty insurance companies to deduct from taxable income, subject to certain limitations, the amounts added to contingency loss reserves, which are recorded for regulatory purposes. Generally, the amounts so deducted must be included in taxable income in the tenth subsequent year. However, to the extent incurred losses exceed 35% of net premiums earned in a calendar year, early withdrawals may be made from the contingency reserves with regulatory approval, which would lead to amounts being included in taxable income earlier than the tenth year. The deduction is allowed only to the extent that U.S. government non-interest bearing tax and loss bonds are purchased and held in an amount equal to the tax benefit attributable to such deduction. We account for these purchases as a payment of current federal income taxes. There were no purchases of tax and loss bonds in 2008, 2009 or 2010. The last tax and loss bonds we held were redeemed in 2009.

Deferred income taxes are provided under the liability method, which recognizes the future tax effects of temporary differences between amounts reported in the financial statements and the tax bases of these items. The expected tax effects are computed at the current federal tax rate. We review the need to establish a deferred tax asset valuation allowance on a quarterly basis. We analyze several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the expected occurrence of future income or loss and available tax planning alternatives. As discussed in Note 14 –"Income Taxes", beginning in 2009, we have reduced our benefit from income tax by establishing a valuation allowance.

We provide for uncertain tax positions and the related interest and penalties based on our assessment of whether a tax benefit is more likely than not to be sustained under any examination by taxing authorities.

Benefit plans

We have a non-contributory defined benefit pension plan covering substantially all employees, as well as a supplemental executive retirement plan. Retirement benefits are based on compensation and years of service. We recognize these retirement benefit costs over the period during which employees render the service that qualifies them for benefits. Our policy is to fund pension cost as required under the Employee Retirement Income Security Act of 1974.

We offer both medical and dental benefits for retired domestic employees, their spouses and eligible dependents until the retiree reaches the age of 65. Under the plan retirees pay a premium for these benefits. We accrue the estimated costs of retiree medical and dental benefits over the period during which employees render the service that qualifies them for benefits. Historically benefits were generally funded as they were due, however beginning in 2009 some benefits have been paid from the fund. The cost to us has not been significant. (See Note 13 – "Benefit plans")

Reinsurance

Loss reserves and unearned premiums are reported before taking credit for amounts ceded under reinsurance treaties. Ceded loss reserves are reflected as "Reinsurance recoverable on loss reserves". Ceded unearned premiums are reflected as "Prepaid reinsurance premiums". Ceded losses paid are reflected as "Reinsurance recoverable on paid losses". Ceded premiums payable are included in "Other liabilities". We remain liable for all reinsurance ceded. (See Note 11 – "Reinsurance")

Foreign Currency Translation

Assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates. Operating results are translated at average rates of exchange prevailing during the year. Unrealized gains and losses, net of deferred taxes, resulting from translation are included in accumulated other comprehensive income in stockholders' equity. Gains and losses resulting from transactions in a foreign currency are recorded in current period net income at the rate on the transaction date.

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 five years. (See Note 18 – "Share-based compensation plans")

Earnings per share

Our basic EPS is based on the weighted average number of common shares outstanding, which excludes participating securities with non-forfeitable rights to dividends of 1.8 million, 1.9 million and 1.5 million, respectively, for the years ended December 31, 2010, 2009 and 2008 because they were anti-dilutive due to our reported net loss. Typically, diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include certain stock awards, stock options and the dilutive effect of our convertible debt. In accordance with accounting guidance, if we report a net loss from continuing operations, then our diluted EPS is computed in the same manner as the basic EPS. In addition, if any common stock equivalents are anti-dilutive they are always excluded from the calculation. The following is a reconciliation of the weighted average number of shares; however for the years ended December 31, 2010, 2009 and 2008, common stock equivalents of 47.4 million, 37.6 million and 22.8 million, respectively, were not included because they were anti-dilutive.

	Years Ended December 31,		
	2010	2009	2008
	(In thousands, except per share data)		
Basic (loss) earnings per share:			
Average common shares outstanding	176,406	124,209	113,962
Net loss	$ (363,735)	$ (1,322,277)	$ (525,355)
Basic (loss) earnings per share	$ (2.06)	$ (10.65)	$ (4.61)
Diluted (loss) earnings per share:			
Weighted-average shares – Basic	176,406	124,209	113,962
Common stock equivalents	-	-	-
Weighted-average shares – Diluted	176,406	124,209	113,962
Net loss	$ (363,735)	$ (1,322,277)	$ (525,355)
Diluted (loss) earnings per share	$ (2.06)	$ (10.65)	$ (4.61)

Other comprehensive income

Our total other comprehensive income was as follows:

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Net loss	$ (363,735)	$ (1,322,277)	$ (525,355)
Other comprehensive (loss) income	(52,019)	180,944	(177,464)
Total other comprehensive loss	$ (415,754)	$ (1,141,333)	$ (702,819)
Other comprehensive income (loss) (net of tax):			
Change in unrealized gains and losses on investments	$ (69,074)	$ 154,358	$ (116,939)
Noncredit component of impairment loss	-	(1,764)	-
Amortization related to benefit plans	6,390	10,704	(44,649)
Unrealized foreign currency translation adjustment	10,665	17,646	(16,354)
Other	-	-	478
Other comprehensive (loss) income	$ (52,019)	$ 180,944	$ (177,464)

The tax expense (benefit) on other comprehensive income was $5.9 million (adjusted for the valuation allowance, see Note 14 – "Income taxes"), $98.1 million and ($96.3) million for the years ended December 31, 2010, 2009 and 2008, respectively.

At December 31, 2010, accumulated other comprehensive income of $22.1 million included $32.5 million of net unrealized gains on investments, ($30.8) million relating to defined benefit plans and $20.4 million related to foreign currency translation adjustment. At December 31, 2009, accumulated other comprehensive income of $74.2 million included $101.6 million of net unrealized gains on investments, ($37.2) million relating to defined benefit plans and $9.8 million related to foreign currency translation adjustment.

Cash and cash equivalents

We consider cash equivalents to be money market funds and investments with original maturities of three months or less.

Subsequent events

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

4. New accounting policies

In October 2010, new guidance was issued on accounting for costs associated with acquiring or renewing insurance contracts. The new guidance will likely change how insurance companies account for acquisition costs, particularly in determining what costs are deferrable. The new requirements are effective for fiscal years beginning after December 15, 2011, either prospectively or by retrospective adjustment. We are currently evaluating the provisions of this guidance and the impact on our financial statements and disclosures.

In January 2010, new accounting guidance was issued that expanded the required disclosures on fair value measurements. The guidance will require the disclosure of transfers in and out of Levels 1 and 2 of the fair value hierarchy and the reasons for those transfers and separate presentation of purchases, sales, issuances and settlements for Level 3 securities, on a gross basis rather than as one net number. The new guidance also clarifies the level of disaggregation required to be disclosed for each class of assets and liabilities and provides clarification on the appropriate disclosures of inputs and valuation techniques used to measure fair value for both recurring and non recurring measurements in Levels 2 and 3. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements for the Level 3 securities. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We have evaluated the provisions of this guidance and there is no significant impact on our financial statement disclosures.

5. Related party transactions

C-BASS provided certain services to us during 2009 and 2008 in exchange for fees. The impact of these transactions was not material to us.

6. Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at December 31, 2010 and 2009 are shown below.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Fair Value
		(In thousands)		
December 31, 2010:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 1,092,890	$ 16,718	$ (6,822)	$ 1,102,786
Obligations of U.S. states and political subdivisions	3,549,355	85,085	(54,374)	3,580,066
Corporate debt securities	2,521,275	54,975	(11,291)	2,564,959
Residential mortgage-backed securities	53,845	3,255	-	57,100
Debt securities issued by foreign sovereign governments	149,443	1,915	(1,031)	150,327
Total debt securities	7,366,808	161,948	(73,518)	7,455,238
Equity securities	3,049	40	(45)	3,044
Total investment portfolio	$ 7,369,857	$ 161,988	$ (73,563)	$ 7,458,282

(1) There were no other-than-temporary impairment losses recorded in other comprehensive income at December 31, 2010.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Fair Value
		(In thousands)		
December 31, 2009:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 736,668	$ 4,877	$ (6,357)	$ 735,188
Obligations of U.S. states and political subdivisions	4,607,936	187,540	(59,875)	4,735,601
Corporate debt securities	1,532,571	40,328	(9,158)	1,563,741
Residential mortgage-backed securities	102,062	3,976	(1,986)	104,052
Debt securities issued by foreign sovereign governments	112,603	1,447	(1,058)	112,992
Total debt securities	7,091,840	238,168	(78,434)	7,251,574
Equity securities	2,892	3	(4)	2,891
Total investment portfolio	$ 7,094,732	$ 238,171	$ (78,438)	$ 7,254,465

(1) Gross unrealized losses for residential mortgage-backed securities included $1.8 million in other-than-temporary impairment losses recorded in other comprehensive income at December 31, 2009.

The amortized cost and fair values of debt securities at December 31, 2010, by contractual maturity, are shown below. Expected 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 auction rate and mortgage-backed securities provide for periodic payments throughout their lives, they are listed below in separate categories.

	Amortized Cost	Fair Value
	(In thousands)	
December 31, 2010		
Due in one year or less	$ 1,228,536	$ 1,233,290
Due after one year through five years	2,907,310	2,965,004
Due after five years through ten years	1,391,744	1,422,631
Due after ten years	1,413,000	1,418,736
	6,940,590	7,039,661
Residential mortgage-backed securities	53,845	57,100
Auction rate securities (1)	372,373	358,477
Total at December 31, 2010	$ 7,366,808	$ 7,455,238

(1) At December 31, 2010, 97% of auction rate securities had a contractual maturity greater than 10 years.

At December 31, 2010 and 2009, the investment portfolio had gross unrealized losses of $73.6 million and $78.4 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
December 31, 2010						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 258,235	$ 6,822	$ -	$ -	$ 258,235	$ 6,822
Obligations of U.S. states and political subdivisions	1,160,877	32,415	359,629	21,959	1,520,506	54,374
Corporate debt securities	817,471	9,921	28,630	1,370	846,101	11,291
Residential mortgage-backed securities	-	-	-	-	-	-
Debt issued by foreign sovereign governments	105,724	1,031	-	-	105,724	1,031
Equity securities	2,723	45	-	-	2,723	45
Total investment portfolio	$ 2,345,030	$ 50,234	$ 388,259	$ 23,329	$ 2,733,289	$ 73,563

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
December 31, 2009						
	$ 434,362	$ 6,357	$ -	$ -	$ 434,362	$ 6,357
U.S. Treasury securities and obligations of U.S. government corporations and agencies	926,860	29,390	398,859	30,485	1,325,719	59,875
Obligations of U.S. states and political subdivisions	453,804	9,158	-	-	453,804	9,158
Corporate debt securities	8,743	1,764	870	222	9,613	1,986
Residential mortgage-backed securities	56,122	1,058	-	-	56,122	1,058
Debt issued by foreign sovereign governments	2,398	4	-	-	2,398	4
Equity securities	$ 1,882,289	$ 47,731	$ 399,729	$ 30,707	$ 2,282,018	$ 78,438

There were 487 securities in an unrealized loss position at December 31, 2010. The unrealized losses in all categories of our investments were primarily caused by the difference in interest rates at December 31, 2010 and 2009, compared to the interest rates at the time of purchase, as well as the discount rate applied in our auction rate securities discounted cash flow model. The municipal market experienced a significant increase in unrealized losses during the fourth quarter of 2010 due to widening of credit spreads. One security was in an unrealized loss position greater than 12 months at December, 2010, with a fair value less than 80% of amortized cost.

Under the current guidance a debt security impairment is deemed other than temporary if we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery or we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security. During 2010 we recognized OTTI losses in earnings of $9.6 million. During 2009 we recognized OTTI losses in earnings of $40.9 million and an additional $1.8 million of OTTI losses in other comprehensive income. During 2008 we recognized OTTI losses in earnings of approximately $65.4 million. In 2010, our OTTI losses were primarily related to a few securities for which the expected cash flows are not sufficient to recover the amortized cost. In 2009 and 2008, our OTTI losses were primarily related to securities for which we had the intent to sell.

The following table provides a rollforward of the amount related to credit losses recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income (loss) for the years ended December 31, 2010 and 2009.

	2010	2009
	(In thousands)	
Beginning balance	$ 1,021	$ -
Addition for the amount related to the credit loss for which an OTTI was not previously recognized	-	1,021
Additional increases to the amount related to the credit loss for which an OTTI was previously recognized	-	-
Reductions for securities sold during the period (realized)	(1,021)	-
Ending balance	$ -	$ 1,021

We held approximately $358 million and $490 million in auction rate securities ("ARS") backed by student loans at December 31, 2010 and 2009, respectively. ARS are intended to behave like short-term debt instruments because their interest rates are reset periodically through an auction process, most commonly at intervals of 7, 28 and 35 days. The same auction process has historically provided a means by which we may rollover the investment or sell these securities at par in order to provide us with liquidity as needed. The ARS we hold are collateralized by portfolios of student loans, substantially all of which are ultimately 97% guaranteed by the United States Department of Education. At December 31, 2010, our ARS portfolio was 90% AAA/Aaa-rated by one or more of the following major rating agencies: Moody's, Standard & Poor's and Fitch Ratings.

In mid-February 2008, auctions began to fail due to insufficient buyers, as the amount of securities submitted for sale in auctions exceeded the aggregate amount of the bids. For each failed auction, the interest rate on the security moves to a maximum rate specified for each security, and generally resets at a level higher than specified short-term interest rate benchmarks. At December 31, 2010, our entire ARS portfolio, consisting of 34 investments, was subject to failed auctions; however, from the period when the auctions began to fail through December 31, 2010, $165.5 million in par value of ARS was either sold or called, with the average amount we received being approximately 98% of par which approximated the aggregate fair value prior to redemption. To date, we have collected all interest due on our ARS.

As a result of the persistent failed auctions, and the uncertainty of when these investments could be liquidated at par, the investment principal associated with failed auctions will not be accessible until successful auctions occur, a buyer is found outside of the auction process, the issuers establish a different form of financing to replace these securities, or final payments come due according to the contractual maturities of the debt issues. However, we continue to believe we will have liquidity to our ARS portfolio by December 31, 2014.

Net investment income is comprised of the following:

	2010	2009	2008
		(In thousands)	
Fixed maturities	$ 236,734	$ 291,304	$ 287,869
Equity securities	315	819	2,162
Cash equivalents	1,526	3,056	15,487
Interest on Sherman note	10,796	11,323	4,601
Other	1,081	1,389	1,951
Investment income	250,452	307,891	312,070
Investment expenses	(3,199)	(3,213)	(3,553)
Net investment income	$ 247,253	$ 304,678	$ 308,517

The net realized investment gains (losses), including impairment losses, and change in net unrealized appreciation (depreciation) of investments are as follows:

	2010	2009	2008
		(In thousands)	
Net realized investment gains (losses) on investments:			
Fixed maturities	$ 93,017	$ 51,109	$ (76,397)
Equity securities	151	116	107
Joint ventures	(466)	-	61,877
Other	235	709	1,927
	$ 92,937	$ 51,934	$ (12,486)
Change in net unrealized appreciation (depreciation):			
Fixed maturities	$ (71,304)	$ 237,521	$ (179,816)
Equity securities	(4)	144	(98)
Other	-	(2,263)	(710)
	$ (71,308)	$ 235,402	$ (180,624)

The reclassification adjustment relating to the change in investment gains and losses is as follows:

	2010	2009	2008
		(In thousands)	
Unrealized holding gains (losses) arising during the period, net of tax	$ (156,463)	$ 132,083	$ (75,464)
Less: reclassification adjustment for net gains (losses) included in net income, net of tax	87,389	20,511	(41,475)
Change in unrealized investment gains (losses), net of tax	$ (69,074)	$ 152,594	$ (116,939)

The tax expense (benefit) related to the changes in net unrealized (depreciation) appreciation was $1.0 million (adjusted for the valuation allowance, see Note 14 – "Income taxes"), $82.8 million and ($63.7) million for 2010, 2009 and 2008, respectively.

The gross realized gains, gross realized losses and impairment losses are as follows:

	2010	2009	2008
		(In thousands)	
Gross realized gains	$ 119,325	$ 112,148	$ 22,537
Gross realized losses	(16,278)	(19,274)	(31,525)
Impairment losses	(9,644)	(40,940)	(65,375)
Net realized gains (losses) on securities	$ 93,403	$ 51,934	$ (74,363)
(Loss) gain from joint ventures	(466)	-	61,877
Total net realized gains (losses)	$ 92,937	$ 51,934	$ (12,486)

We had $21.8 million of investments on deposit with various states at December 31, 2010 and 2009 due to regulatory requirements of those state insurance departments.

7. Fair value measurements

Fair value measurements for items measured at fair value included the following as of December 31, 2010 and 2009:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
December 31, 2010				
Assets				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 1,102,786	$ 1,102,786	$ -	$ -
Obligations of U.S. states and political subdivisions	3,580,066	-	3,284,376	295,690
Corporate debt securities	2,564,959	2,563	2,492,343	70,053
Residential mortgage-backed securities	57,100	-	57,100	-
Debt securities issued by foreign sovereign governments	150,327	135,457	14,870	-
Total debt securities	7,455,238	1,240,806	5,848,689	365,743
Equity securities	3,044	2,723	-	321
Total investments	$ 7,458,282	$ 1,243,529	$ 5,848,689	$ 366,064
Real estate acquired (1)	$ 6,220	$ -	$ -	$ 6,220
December 31, 2009				
Assets				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 735,188	$ 735,188	$ -	$ -
Obligations of U.S. states and political subdivisions	4,735,601	-	4,365,260	370,341
Corporate debt securities	1,563,741	2,559	1,431,844	129,338
Residential mortgage-backed securities	104,052	23,613	80,439	-
Debt securities issued by foreign sovereign governments	112,992	101,983	11,009	-
Total debt securities	7,251,574	863,343	5,888,552	499,679
Equity securities	2,891	2,570	-	321
Total investments	$ 7,254,465	$ 865,913	$ 5,888,552	$ 500,000
Real estate acquired (1)	$ 3,830	$ -	$ -	$ 3,830

(1) Real estate acquired through claim settlement, which is held for sale, is reported in Other Assets on the consolidated balance sheet.

There were no transfers of securities between Level 1 and Level 2 during 2010.

For assets and liabilities measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the years ended December 31, 2010 and 2009 is as follows:

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at December 31, 2009	$ 370,341	$ 129,338	$ 321	$ 500,000	$ 3,830
Total realized/unrealized losses:					
Included in earnings and reported as realized investment losses, net	-	(2,880)	-	(2,880)	-
Included in earnings and reported as net impairment losses recognized in earnings	-	(2,677)	-	(2,677)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(1,926)
Included in other comprehensive income	4,913	5,342	-	10,255	-
Purchases, issuances, sales and settlements	(79,564)	(59,070)	-	(138,634)	4,316
Transfers in and/or out of Level 3	-	-	-	-	-
Balance at December 31, 2010	$ 295,690	$ 70,053	$ 321	$ 366,064	$ 6,220
Amount of total losses included in earnings for the year ended December 31, 2010 attributable to the change in unrealized losses on assets still held at December 31, 2010	$ -	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at December 31, 2008	$ 395,388	$ 150,241	$ 321	$ 545,950	$ 32,858
Total realized/unrealized losses:					
Included in earnings and reported as realized investment losses, net	-	(10,107)	-	(10,107)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(2,534)
Included in other comprehensive income	(17,439)	(5,961)	-	(23,400)	-
Purchases, issuances, sales and settlements	(7,608)	(4,835)	-	(12,443)	(26,494)
Transfers in and/or out of Level 3	-	-	-	-	-
Balance at December 31, 2009	$ 370,341	$ 129,338	$ 321	$ 500,000	$ 3,830
Amount of total losses included in earnings for the year ended December 31, 2009 attributable to the change in unrealized losses on assets still held at December 31, 2009	$ -	$ -	$ -	$ -	$ -

Additional fair value disclosures related to our investment portfolio are included in Note 6 – "Investments". Fair value disclosures related to our debt are included in Note 8 – "Debt".

8. Debt

Senior Notes

At December 31, 2010 we had outstanding $77.4 million, 5.625% Senior Notes due in September 2011 and $300 million, 5.375% Senior Notes due in November 2015. At December 31, 2009 we had outstanding $78.4 million, 5.625% Senior Notes due in September 2011 and $300 million, 5.375% Senior Notes due in November 2015. Covenants in the Senior Notes include the requirement that there be no liens on the stock of the designated subsidiaries unless the Senior Notes are equally and ratably secured; that there be no disposition of the stock of designated subsidiaries unless all of the stock is disposed of for consideration equal to the fair market value of the stock; and that we and the designated subsidiaries preserve our corporate existence, rights and franchises unless we or such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Senior Notes. A designated subsidiary is any of our consolidated subsidiaries which has shareholders' equity of at least 15% of our consolidated shareholders' equity. We were in compliance with all covenants at December 31, 2010.

If we fail to meet any of the covenants of the Senior Notes discussed above; there is a failure to pay when due at maturity, or a default results in the acceleration of maturity of, any of our other debt in an aggregate amount of $40 million or more; or we fail to make a payment of principal of the Senior Notes when due or a payment of interest on the Senior Notes within thirty days after due and we are not successful in obtaining an agreement from holders of a majority of the applicable series of Senior Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of either series of our Senior Notes each would have the right to accelerate the maturity of that series. In addition, the trustee, U.S. Bank National Association, of these two issues of Senior Notes could, independent of any action by holders of Senior Notes, accelerate the maturity of the Senior Notes.

At December 31, 2010 and 2009, the fair value of the amount outstanding under our Senior Notes was $355.6 million and $293.2 million, respectively. The fair value was determined using publicly available trade information.

Interest payments on the Senior Notes were $20.5 million, $24.4 million and $27.4 million for the years ended December 31, 2010, 2009, and 2008, respectively.

Convertible Senior Notes

In April 2010 we completed the sale of $345 million principal amount of 5% Convertible Senior Notes due in 2017. We received net proceeds of approximately $334.4 million after deducting underwriting discount and offering expenses. Interest on the Convertible Senior Notes is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2010. We do not have the right to defer interest payments on the Convertible Senior Notes. The Convertible Senior Notes will mature on May 1, 2017, unless earlier converted by the holders or repurchased by us. Covenants in the Convertible Senior Notes include a requirement to notify holders in advance of certain events and that we and the designated subsidiaries (defined above) preserve our corporate existence, rights and franchises unless we or such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Convertible Senior Notes.

If we fail to meet any of the covenants of the Convertible Senior Notes; there is a failure to pay when due at maturity, or a default results in the acceleration of maturity of, any of our other debt in an aggregate amount of $40 million or more; a final judgment for the payment of $40 million or more (excluding any amounts covered by insurance) is rendered against us or any of our subsidiaries which judgment is not discharged or stayed within certain time limits; or we fail to make a payment of principal of the Convertible Senior Notes when due or a payment of interest on the Convertible Senior Notes within thirty days after due and we are not successful in obtaining an agreement from holders of a majority of the Convertible Senior Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of the Convertible Senior Notes would have the right to accelerate the maturity of those notes. In addition, the trustee of the Convertible Senior Notes could, independent of any action by holders, accelerate the maturity of the Convertible Senior Notes.

The Convertible Senior Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per $1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately $13.44 per share. The initial conversion price represents a 25% conversion premium based on the $10.75 per share price to the public in our concurrent common stock offering as discussed in Note 15 – "Shareholders' equity." These Convertible Senior Notes will be equal in right of payment to our existing Senior Notes, discussed above, and will be senior in right of payment to our existing Convertible Junior Debentures, discussed below. Debt issuance costs will be amortized to interest expense over the contractual life of the Convertible Senior Notes. The provisions of the Convertible Senior Notes are complex. The description above is not intended to be complete in all respects. Moreover, that description is qualified in its entirety by the terms of the notes, which are contained in the Supplemental Indenture, dated as of April 26, 2010, between us and U.S. Bank National Association, as trustee, and the Indenture dated as of October 15, 2000, between us and the trustee.

At December 31, 2010, the fair value of the amount outstanding under our Convertible Senior Notes was $400.5 million. The fair value was determined using publicly available trade information.

Interest payments on the Convertible Senior Notes were $8.9 million for the year ended December 31, 2010.

Convertible Junior Subordinated Debentures

At December 31, 2010 and 2009 we had outstanding $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 (the "debentures"). The debentures have an effective interest rate of 19% that reflects our non-convertible debt borrowing rate at the time of issuance. At December 31, 2010 and 2009 the amortized value of the principal amount of the debentures is reflected as a liability on our consolidated balance sheet of $315.6 million and $291.8 million, respectively, with the unamortized discount reflected in equity. At December 31, 2009 we also had $35.8 million of deferred interest outstanding on the debentures which is included in other liabilities on the consolidated balance sheet. The debentures rank junior to all of our existing and future senior indebtedness.

Interest on the debentures is payable semi-annually in arrears on April 1 and October 1 of each year. As long as no event of default with respect to the debentures has occurred and is continuing, we may defer interest, under an optional deferral provision, for one or more consecutive interest periods up to ten years without giving rise to an event of default. Deferred interest will accrue additional interest at the rate then applicable to the debentures. During an optional deferral period we may not pay or declare dividends on our common stock. Violations of the covenants under the Indenture governing the debentures, including covenants to provide certain documents to the trustee, are not events of default under the Indenture and would not allow the acceleration of amounts that we owe under the debentures. Similarly, events of default under, or acceleration of, any of our other obligations, including those described above, would not allow the acceleration of amounts that we owe under the debentures. However, violations of the events of default under the Indenture, including a failure to pay principal when due under the debentures and certain events of bankruptcy, insolvency or receivership involving our holding company would allow acceleration of amounts that we owe under the debentures.

Interest on the debentures that would have been payable on the scheduled interest payment dates of April 1, 2009, October 1, 2009 and April 1, 2010 had been deferred for up to 10 years past the scheduled payment date. During this deferral period the deferred interest continued to accrue and compound semi-annually at an annual rate of 9%.

On October 1, 2010 we paid each of those deferred interest payments, including the compound interest on each. The interest payments, totaling approximately $57.5 million, were made from the net proceeds of our April 2010 common stock offering. We also paid the regular October 1, 2010 interest payment due on the debentures of approximately $17.5 million. We continue to have the right to defer interest that is payable on subsequent scheduled interest payment dates if we give the required 15 day notice. Any deferral of such interest would be on terms equivalent to those described above.

When interest on the debentures is deferred, we are required, not later than a specified time, to use reasonable commercial efforts to begin selling qualifying securities to persons who are not our affiliates. The specified time is one business day after we pay interest on the debentures that was not deferred, or if earlier, the fifth anniversary of the scheduled interest payment date on which the deferral started. Qualifying securities are common stock, certain warrants and certain non-cumulative perpetual preferred stock. The requirement to use such efforts to sell such securities is called the Alternative Payment Mechanism. Although there was no requirement to begin the Alternative Payment Mechanism, with respect to the deferral of interest described above, the common shares issued in April 2010, discussed in Note 15 – "Shareholders' equity", were qualifying securities. We had 180 days from the date of issuance of those shares to elect to use the proceeds to pay deferred interest and we elected to do so as described above.

The net proceeds of Alternative Payment Mechanism sales are to be applied to the payment of deferred interest, including the compound portion. We cannot pay deferred interest other than from the net proceeds of Alternative Payment Mechanism sales, except at the final maturity of the debentures or at the tenth anniversary of the start of the interest deferral. The Alternative Payment Mechanism does not require us to sell common stock or warrants before the fifth anniversary of the interest payment date on which that deferral started if the net proceeds (counting any net proceeds of those securities previously sold under the Alternative Payment Mechanism) would exceed the 2% cap. The 2% cap is 2% of the average closing price of our common stock times the number of our outstanding shares of common stock. The average price is determined over a specified period ending before the issuance of the common stock or warrants being sold, and the number of outstanding shares is determined as of the date of our most recent publicly released financial statements.

We are not required to issue under the Alternative Payment Mechanism a total of more than 10 million shares of common stock, including shares underlying qualifying warrants. In addition, we may not issue under the Alternative Payment Mechanism qualifying preferred stock if the total net proceeds of all issuances would exceed 25% of the aggregate principal amount of the debentures.

The Alternative Payment Mechanism does not apply during any period between scheduled interest payment dates if there is a "market disruption event" that occurs over a specified portion of such period. Market disruption events include any material adverse change in domestic or international economic or financial conditions.

The provisions of the Alternative Payment Mechanism are complex. The description above is not intended to be complete in all respects. Moreover, that description is qualified in its entirety by the terms of the debentures, which are contained in the Indenture, dated as of March 28, 2008, between us and U.S. Bank National Association, as trustee.

We may redeem the debentures prior to April 6, 2013, in whole but not in part, only in the event of a specified tax or rating agency event, as defined in the Indenture. In any such event, the redemption price will be equal to the greater of (1) 100% of the principal amount of the debentures being redeemed and (2) the applicable make-whole amount, as defined in the Indenture, in each case plus any accrued but unpaid interest. On or after April 6, 2013, we may redeem the debentures in whole or in part from time to time, at our option, at a redemption price equal to 100% of the principal amount of the debentures being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds 130% of the then prevailing conversion price of the debentures for at least 20 of the 30 trading days preceding notice of the redemption. We will not be able to redeem the debentures, other than in the event of a specified tax event or rating agency event, during an optional deferral period.

The debentures are currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per $1,000 principal amount of debentures at any time prior to the maturity date. This represents an initial conversion price of approximately $13.50 per share. If a holder elects to convert their debentures, deferred interest owed on the debentures being converted is also converted into shares of our common stock. The conversion rate for any deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert. In 2009, we issued 44,316 shares of our common stock on conversion of $478,000 principal amount of our convertible debentures and related deferred interest. In lieu of issuing shares of common stock upon conversion of the debentures occurring after April 6, 2013, we may, at our option, make a cash payment to converting holders equal to the value of all or some of the shares of our common stock otherwise issuable upon conversion.

The fair value of the debentures was approximately $432.4 million and $254.3 million, respectively, at December 31, 2010 and 2009, as determined using available pricing for these debentures or similar instruments.

Interest payments on the debentures were $75.0 million and $17.8 million for the years ended December 31, 2010 and 2008 respectively. There were no interest payments made on the debentures in 2009.

Other debt

In June 2009, we repaid the $200 million that was then outstanding under our bank revolving credit facility and terminated the facility. Interest payments related to that facility were $6.4 million and $13.1 million for the years ended December 31, 2009 and 2008, respectively.

9. Loss reserves

As described in Note 3 – "Summary of significant accounting policies", we establish reserves to recognize the estimated liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. Loss reserves are established by estimating the number of loans in our inventory of delinquent loans 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.

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

The following table provides a reconciliation of beginning and ending loss reserves for each of the past three years:

	2010	2009	2008
		(In thousands)	
Reserve at beginning of year	$ 6,704,990	$ 4,775,552	$ 2,642,479
Less reinsurance recoverable	332,227	232,988	35,244
Net reserve at beginning of year (1)	6,372,763	4,542,564	2,607,235
Adjustment to reserves (2)	(92,000)	-	-
Adjusted beginning reserves	6,280,763	4,542,564	2,607,235
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	1,874,449	2,912,679	2,684,397
Prior years (3)	(266,908)	466,765	387,104
Subtotal (4)	1,607,541	3,379,444	3,071,501
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	60,897	62,491	68,397
Prior years	2,256,206	1,605,668	1,332,579
Reinsurance terminations (5)	(37,680)	(118,914)	(264,804)
Subtotal (6)	2,279,423	1,549,245	1,136,172
Net reserve at end of year (7)	5,608,881	6,372,763	4,542,564
Plus reinsurance recoverables	275,290	332,227	232,988
Reserve at end of year	$ 5,884,171	$ 6,704,990	$ 4,775,552

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(1) At December 31, 2009, 2008 and 2007 the estimated reduction in loss reserves related to rescissions approximated $2.1 billion, $0.5 billion and $0.2 billion, respectively.

(2) In periods prior to 2010 an estimate of premium to be refunded in conjunction with claim payments was included in Loss Reserves. In 2010, we separately stated portions of this liability in Other liabilities and Premium deficiency reserve on the consolidated balance sheet.

(3) A negative number for prior year losses incurred indicates a redundancy of prior year loss reserves, and a positive number for prior year losses incurred indicates a deficiency of prior year loss reserves.

(4) Rescissions mitigated our incurred losses by an estimated $0.2 billion, $2.5 billion and $0.4 billion in 2010, 2009 and 2008, respectively.

(5) In a termination, the reinsurance agreement is cancelled, with no future premium ceded and funds for any incurred but unpaid losses transferred to us. The transferred funds result in an increase in our investment portfolio (including cash and cash equivalents) and a decrease in net losses paid (reduction to losses incurred). In addition, there is an offsetting decrease in the reinsurance recoverable (increase in losses incurred), and thus there is no net impact to losses incurred. (See Note 11 – “Reinsurance”)

(6) Rescission mitigated our paid losses by an estimated $1.0 billion, $0.9 billion and $0.1 billion in 2010, 2009 and 2008, respectively, which excludes amounts that may have been applied to a deductible.

(7) At December 31, 2010, 2009 and 2008 the estimated reduction in loss reserves related to rescissions approximated $1.3 billion, $2.1 billion and $0.5 billion, respectively.

The “Losses incurred” section of the table above shows losses incurred on default notices received in the current year and in prior years, respectively. The amount of losses incurred relating to default notices received in the current year represents the estimated amount to be ultimately paid on such default notices. The amount of losses incurred relating to default notices received in prior years represents the actual claim rate and severity associated with those defaults notices resolved in the current year differing from the estimated liability at the prior year-end, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. This re-estimation of the estimated claim rate and estimated severity is the result of our review of current trends in default inventory, such as percentages of defaults that have resulted in a claim, the amount of the claims, changes in the relative level of defaults by geography and changes in average loan exposure.

Current year losses incurred decreased in 2010 compared to 2009 primarily due to a decrease in the number of new notices received, from 259,876 in 2009 to 205,069 in 2010, as well as an increase in the percentage of new notices that cured from delinquency, which decreases the claim rate on new notices. These factors were somewhat offset by a smaller benefit from captive arrangements. Current year losses incurred increased in 2009 compared to 2008 primarily due to an increase in claim rates and a smaller benefit from captive arrangements, offset by a decrease in severity. The increase in claim rates experienced during 2009 was likely due to general economic conditions, including the unemployment rate, as well as further decreases in home values which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. The increase in 2009 claim rates was significantly mitigated by an increase in expected rescission levels. The smaller benefit from captive arrangements is due to captive terminations in late 2008 and 2009. The decrease in severity, compared to an increase in 2008, was primarily due to an increase in expected rescission levels. The average exposure on policies rescinded in 2009 was higher than the average exposure on claims paid.

The development of the reserves in 2010, 2009 and 2008 is reflected in the “Prior years” line in the table above. The $266.9 million decrease in losses incurred in 2010 related to prior years was primarily related to a decrease in the expected claim rate on the defaults that occurred in prior periods which accounted for a decrease of approximately $432 million. The decrease in the claim rate is based on the resolution of approximately 55% of the prior year default inventory, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. The decrease in the claim rate was due to greater cures experienced during 2010, a portion of which resulted from loan modifications. The decrease in the expected claim rate on prior defaults was partially offset by an increase in severity on pool defaults that occurred in prior periods which approximated $185 million. The increase in pool severity was based on the resolution of defaults that occurred in prior periods with higher claim amounts, which in part, were applied to remaining deductibles on certain pool policies. The remaining decrease in losses incurred related to prior years of approximately $20 million related to LAE reserves and reinsurance. Of the 250,440 primary defaults in our December 31, 2009 inventory, 109,920 primary defaults, approximately 44%, remained in our default inventory one year later at December 31, 2010. These defaults have a higher estimated claim rate when compared to a year ago because our experience is that as a default ages it become more likely to result in a claim payment (see further discussion below). Historically, approximately 75% of our default inventory was resolved in one year.

The $466.8 million increase in losses incurred in 2009 related to prior years was primarily related to an increase in the claim rate on defaults that occurred in prior periods which accounted for approximately $337 million of the increase. The increase in the claim rate is based on the resolution of approximately 50% of the prior year default inventory, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. The increase in the claim rate was likely due to general economic conditions, including the unemployment rate, as well as further decreases in home values which may affect borrower willingness to continue to make mortgage payments. The increase in losses incurred in 2009 related to prior years was also due to an increase in severity on defaults that occurred in prior periods which accounted for approximately $137 million of the increase. The increase in severity was related to the weakening of the housing and mortgage markets which resulted in adverse claim sizes. The offsetting decrease in losses incurred related to prior years of approximately $7 million related to LAE reserves and reinsurance. The $387.1 million increase in losses incurred in 2008 related to prior years was primarily related to the significant increase in severity during the year, as compared to our estimates when originally establishing the reserves at December 31, 2007.

The "Losses paid" section of the table above shows the breakdown between claims paid on default notices received in the current year and default notices received in prior years. It has historically taken, on average, approximately twelve months for a default which is not cured to develop into a paid claim, therefore, most losses paid relate to default notices received in prior years. Due to a combination of reasons that have slowed the rate at which claims are received and paid, including foreclosure moratoriums and suspensions, servicing delays, court delays, loan modifications, our fraud investigations and our claim rescissions and denials for misrepresentation, it is difficult to estimate how long it may take for current and future defaults that do not cure to develop into paid claims. The "Losses paid" section of the table also includes a decrease in losses paid related to terminated reinsurance agreements as noted in footnote (2) of the table above.

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at December 31, 2010 and approximated $113 million. Separate components of this liability are included in "Other liabilities" and "Premium deficiency reserve" on our consolidated balance sheet. (See Note 3 – "Summary of significant accounting policies – Revenue recognition")

The decrease in the primary default inventory experienced during 2010 was generally across all markets and all book years. However the number of consecutive months a loan remains in the primary default inventory (the age of the item in default) has continued to increase, as shown in the table below. Historically as a default ages it becomes more likely to result in a claim. The impact of the decrease in the primary default inventory and estimated severity on losses incurred was partially offset by the impact of the increased age of the primary default inventory.

Aging of the Primary Default Inventory

	December 31, 2010		December 31, 2009		December 31, 2008	
Consecutive months in the default inventory						
3 months or less	37,640	18%	48,252	19%	60,113	33%
4 - 11 months	58,701	27%	98,210	39%	75,476	41%
12 months or more	118,383	55%	103,978	42%	46,599	26%
Total primary default inventory	214,724	100%	250,440	100%	182,188	100%
Loans in default in our claims received inventory	20,898	10%	16,389	7%	13,275	7%

The length of time a loan is in the default inventory 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. The number of payments that a borrower is delinquent is shown in the table below.

Number of Payments Delinquent

	December 31, 2010		December 31, 2009		December 31, 2008	
3 months or less	51,003	24%	60,970	24%	68,010	37%
4 - 11 months	65,797	31%	105,208	42%	76,194	42%
12 months or more	97,924	45%	84,262	34%	37,984	21%
Total primary default inventory	214,724	100%	250,440	100%	182,188	100%

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

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Because we can review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, claim rescissions and denials, which we collectively refer to as rescissions, were not a material portion of our claims resolved during a year. However, beginning in 2008 our rescissions of policies have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue to mitigate paid and incurred losses at the same level we have recently experienced. In addition, if an insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately $1.2

billion. These figures include amounts that would have resulted in either a claim payment or been charged to a deductible or aggregate loss limit under a bulk or pool policy, and may have been charged to a captive reinsurer, as shown in the table below. The amounts that would have been applied to a deductible do not take into account previous rescissions that may have been applied to a deductible.

Our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. We do not utilize an explicit rescission rate in our reserving methodology, but rather our reserving methodology incorporates the effects rescission activity has had on our historical claim rate and claim severities. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. Our estimation process does not include a direct correlation between claim rates and severities to projected rescission activity or other economic conditions such as changes in unemployment rates, interest rates or housing values. Our experience is that analysis of that nature would not produce reliable results, as the change in one condition cannot be isolated to determine its sole effect on our ultimate paid losses as our ultimate paid losses are also influenced at the same time by other economic conditions. The estimation of the impact of rescissions on incurred losses, as shown in the table below, must be considered together with the various other factors impacting incurred losses and not in isolation.

The table below represents our estimate of the impact rescissions have had on reducing our loss reserves, paid losses and losses incurred.

	2010	2009	2008
		(In billions)	
Estimated rescission reduction - beginning reserve	$ 2.1	$ 0.5	$ 0.2
Estimated rescission reduction - losses incurred	0.2	2.5	0.4
Rescission reduction - paid claims	1.2	1.2	0.2
Amounts that may have been applied to a deductible	(0.2)	(0.3)	(0.1)
Net rescission reduction - paid claims	1.0	0.9	0.1
Estimated rescission reduction - ending reserve	$ 1.3	$ 2.1	$ 0.5

The $2.5 billion estimated mitigation of incurred losses during 2009 represents both the claims not paid in the period due to rescissions, as well as an increasing default inventory and an increasing expected rescission rate for those loans in default. Even though rescissions mitigated our paid losses by a similar amount in 2010 as compared to 2009, the estimated mitigation of incurred losses declined to $0.2 billion for 2010. This decrease was caused by a decline in our default inventory in 2010, compared to an increase in 2009, as well as a modest decline in the expected rescission rate for loans in our default inventory during 2010, compared to a significantly increasing expected rescission rate during 2009 and a decrease in exposure on expected rescissions.

At December 31, 2010, our loss reserves continued to be significantly impacted by expected rescission activity. We expect that the reduction of our loss reserves due to rescissions will continue to decline because our recent experience indicates new notices in our default inventory have a lower likelihood of being rescinded than those already in the inventory due to their product mix, geographic location and vintage.

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At December 31, 2010 and 2009 the estimate of this liability totaled $101 million and $88 million, respectively. Separate components of this liability are included in "Other liabilities" and "Premium deficiency reserve" on our consolidated balance sheet. Changes in the liability affect premiums written and earned and change in premium deficiency reserve, respectively.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 20 – "Litigation and contingencies."

In the second quarter of 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. Loans covered by this settlement agreement represented fewer than 10% of our policies in force as well as our delinquent inventory. Under this agreement, we waived certain of our rescission rights on loans subject to the agreement and the customer agreed to contribute to the cost of claims that we pay on those loans. The rescission rights we waived are for matters related to loan origination, which historically have been the basis for substantially all of our rescissions. In addition, under the agreement we reversed certain rescissions and the customer waived claims regarding certain other past rescissions. We continue to discuss with other lenders their objections to material rescissions and/or the possibility of entering into a settlement agreement. In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or legal proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability.

A rollforward of our primary default inventory for the years ended December 31, 2010, 2009 and 2008 appears in the table 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 and by transfers of servicing between loan servicers.

	2010	2009	2008
Default inventory at beginning of period	250,440	182,188	107,120
Plus: New Notices	205,069	259,876	263,603
Less: Cures	(183,017)	(149,251)	(161,069)
Less: Paids (including those charged to a deductible or captive)	(43,826)	(29,732)	(25,318)
Less: Rescissions and denials	(13,942)	(12,641)	(2,148)
Default inventory at end of period	214,724	250,440	182,188

Pool insurance notice inventory decreased from 44,231 at December 31, 2009 to 43,329 at December 31, 2010. The pool insurance notice inventory was 33,884 at December 31, 2008.

10. Premium deficiency reserves

Beginning in 2007, when we stopped writing Wall Street bulk business, we began to separately measure the performance of these transactions and established a premium deficiency reserve related to this business. During 2010 the premium deficiency reserve on Wall Street bulk transactions declined by $14 million from $193 million, as of December 31, 2009, to $179 million as of December 31, 2010. The $179 million premium deficiency reserve as of December 31, 2010 reflects the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves. The discount rate used in the calculation of the premium deficiency reserve at December 31, 2010 was 2.5%. During 2009 the premium deficiency reserve on Wall Street bulk transactions declined by $261 million from $454 million, as of December 31, 2008, to $193 million as of December 31, 2009. The discount rate used in the calculation of the premium deficiency reserve at December 31, 2009 was 3.6%.

The components of the premium deficiency reserve at December 31, 2010, 2009 and 2008 appear in the table below.

	December 31, 2010	December 31, 2009	December 31, 2008
		(In millions)	
Present value of expected future premium	$ 506	$ 427	$ 712
Present value of expected future paid losses and expenses	(1,760)	(2,157)	(3,063)
Net present value of future cash flows	(1,254)	(1,730)	(2,351)
Established loss reserves	1,075	1,537	1,897
Net deficiency	$ (179)	$ (193)	$ (454)

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

The decrease in the premium deficiency reserve for the years ended December 31, 2010 and 2009 was $14 million and $261 million, respectively, as shown in the charts below, which represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The change in assumptions for 2010 is primarily related to higher estimated ultimate premiums, which is principally related to an increase in the projected persistency rate. The change in assumptions for 2009 primarily related to lower estimated ultimate losses, offset by lower estimated ultimate premiums. The lower estimated ultimate losses and lower estimated ultimate premiums were primarily due to higher expected rates of rescissions.

	Year ended December 31,			
	2010		2009	
	(In millions)			
Premium Deficiency Reserve at beginning of period.		$ (193)		$ (454)
Adjustment to premium deficiency reserve (1)		(37)		-
Adjusted premium deficiency reserve at beginning of period		(230)		(454)
Paid claims and loss adjustment expenses	$ 426		$ 584	
Decrease in loss reserves	(425)		(360)	
Premium earned.	(128)		(156)	
Effects of present valuing on future premiums, losses and expenses	(25)		21	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		(152)		89
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses expenses and discount rate (2)		203		172
Premium Deficiency Reserve at end of period		$ (179)		$ (193)

(1) In periods prior to 2010 an estimate of premium to be refunded in conjunction with claim payments was included in Loss Reserves. In 2010, we separately stated this liability in Premium deficiency reserve on the consolidated balance sheet. (See Note 3 - "Summary of significant accounting policies - Revenue recognition")

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

Each quarter we perform a premium deficiency analysis on the portion of our book of business not covered by the premium deficiency described above. As of December 31, 2010, the analysis concluded that there was no premium deficiency on such portion of our book of business. For the reasons discussed below, our analysis of any potential deficiency reserve is subject to inherent uncertainty and requires significant judgment by management. To the extent, in a future period, expected losses are higher or expected premiums are lower than the assumptions we used in our analysis, we could be required to record a premium deficiency reserve on this portion of our book of business in such period.

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

11. Reinsurance

We cede a portion of our business to reinsurers and record assets for reinsurance recoverable on loss reserves and prepaid reinsurance premiums. We cede primary business to reinsurance subsidiaries of certain mortgage lenders ("captives"). The majority of ceded premiums relates to these agreements. Historically, most of these reinsurance arrangements are aggregate excess of loss reinsurance agreements, and the remainder have been quota share agreements. Under the aggregate excess of loss agreements, we are responsible for the first aggregate layer of loss (typically 4% or 5%), the captives are responsible for the second aggregate layer of loss (typically 5% or 10%) and we are responsible for any remaining loss. The layers are typically expressed as a percentage of the original risk on an annual book of business reinsured by the captive. The premium cessions on these agreements typically range from 25% to 40% of the direct premium. Under a quota share arrangement premiums and losses are shared on a pro-rata basis between us and the captives, with the captive's portion of both premiums and losses typically ranging from 25% to 50%. Effective January 1, 2009, we are no longer ceding new business under excess of loss reinsurance treaties with lender captive reinsurers. Loans reinsured on an excess of loss basis through December 31, 2008 will run off pursuant to the terms of the particular captive arrangement. New business remains eligible to be ceded under quota share reinsurance arrangements, limited to a 25% cede rate. During 2009 and 2010, many of our captive arrangements have either been terminated or placed into run-off.

Under these agreements the captives are required to maintain a separate trust account, of which we are the sole beneficiary. Premiums ceded to a captive are deposited into the applicable trust account to support the captive's layer of insured risk. These amounts are held in the trust account and are available to pay reinsured losses. The trust assets are primarily invested in money market funds and government issued securities. The captive's ultimate liability is limited to the assets in the trust account. When specific time periods are met and the individual trust account balance has reached a required level, then the individual captive may make authorized withdrawals from its applicable trust account. In most cases, the captives are also allowed to withdraw funds from the trust account to pay verifiable federal income taxes and operational expenses. Conversely, if the account balance falls below certain thresholds, the individual captive may be required to contribute funds to the trust account. However, in most cases, our sole remedy if a captive does not contribute such funds is to put the captive into run-off (in a run-off, no new loans are reinsured by the captive but loans previously reinsured continue to be covered, with premium and losses continuing to be ceded on those loans). In the event that the captive's incurred but unpaid losses exceed the funds in the trust account, and the captive does not deposit adequate funds, we may also be allowed to terminate the captive agreement, assume the captive's obligations, transfer the assets in the trust accounts to us, and retain all future premium payments.

The reinsurance recoverable on loss reserves related to captive agreements was approximately $248 million and $297 million at December 31, 2010 and 2009, respectively. The total fair value of the trust fund assets under our captive agreements at December 31, 2010 and 2009 was approximately $510 million and $547 million, respectively. During 2010 and 2009, $38 million and $119 million, respectively, of trust fund assets were transferred to us as a result of captive terminations. The transferred funds resulted in an increase in our investment portfolio (including cash and cash equivalents) and a decrease in our net losses paid (reduction in losses incurred). In addition, there is an offsetting decrease in the reinsurance recoverable (increase in losses incurred), and thus there is no net impact to losses incurred.

Since 2005, we have entered into three separate aggregate excess of loss reinsurance agreements under which we ceded approximately $130 million of risk in force in the aggregate to three special purpose reinsurance companies. In 2008, we terminated one of these excess of loss reinsurance agreements. The remaining amount of ceded risk in force at December 31, 2010 was approximately $45.9 million. Additionally, certain pool polices written by us have been reinsured with one domestic reinsurer. We receive a ceding commission under certain reinsurance agreements.

Generally, reinsurance recoverables on primary loss reserves, paid losses and prepaid reinsurance premiums are supported by trust funds or letters of credit. As such, we have not established an allowance against these recoverables.

The effect of these agreements on premiums earned and losses incurred is as follows:

	2010	2009	2008
		(In thousands)	
Premiums earned:			
Direct	$ 1,236,949	$ 1,406,977	$ 1,601,610
Assumed	3,091	3,339	3,588
Ceded	(71,293)	(107,975)	(212,018)
Net premiums earned	$ 1,168,747	$ 1,302,341	$ 1,393,180
Losses incurred:			
Direct	$ 1,716,538	$ 3,637,706	$ 3,553,029
Assumed	4,128	4,290	1,456
Ceded	(113,125)	(262,552)	(482,984)
Net losses incurred	$ 1,607,541	$ 3,379,444	$ 3,071,501

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

12. Investments in joint ventures

C-BASS

C-BASS, a limited liability company, is an unconsolidated, less than 50%-owned investment of ours that is not controlled by us. Historically, C-BASS was principally engaged in the business of investing in the credit risk of subprime single-family residential mortgages. In 2007, C-BASS ceased its operations and was managing its portfolio pursuant to a consensual, non-bankruptcy restructuring, under which its assets are to be paid out over time to its secured and unsecured creditors. In November 2010, C-BASS filed for

Chapter 11 bankruptcy protection. In the third quarter of 2007, we concluded that our total equity interest in C-BASS was impaired. In addition, during the fourth quarter of 2007 due to additional losses incurred by C-BASS, we reduced the carrying value of our $50 million note from C-BASS to zero. At December 31, 2010 and 2009 our current book value of C-BASS, including our note receivable from C-BASS, remains at zero.

Sherman

During the period in which we held an equity interest in Sherman, Sherman was principally engaged in the business of purchasing and collecting for its own account delinquent consumer assets which were primarily unsecured, and in originating and servicing subprime credit card receivables. The borrowings used to finance these activities were included in Sherman's balance sheet. A substantial portion of Sherman's consolidated assets were investments in consumer receivable portfolios that do not have readily ascertainable market values. Sherman's results of operations were sensitive to estimates by Sherman's management of ultimate collections on these portfolios.

In August 2008 we sold our entire interest in Sherman to Sherman. Our interest sold represented approximately 24.25% of Sherman's equity. The sale price paid was $124.5 million in cash and by delivery of Sherman's unsecured promissory note in the principal amount of $85 million (the "Note"). The scheduled maturity of the Note was February 13, 2011 and it paid interest, monthly, at the annual rate equal to three-month LIBOR plus 500 basis points. The Note was issued under a Credit Agreement, dated August 13, 2008, between Sherman and MGIC. Sherman repaid the Note in December 2010 for approximately $83.5 million. The carrying value of the Note at the time of repayment was approximately $84.0 million. The loss recognized on the repayment of $0.5 million is included in net realized investment gains on the statement of operations for the year ended December 31, 2010.

At the time of sale the Note had a fair value of $69.5 million (18.25% discount to par). The fair value was determined by comparing the terms of the Note to the discounts and yields on comparable bonds. The fair value was also discounted for illiquidity and lack of ratings. The discount was amortized to interest income over the life of the Note. The gain recognized on the sale was $62.8 million, and is included in realized investment gains (losses) on the statement of operations for the year ended December 31, 2008. The value of the Sherman Note and related interest receivable at December 31, 2009 was $78.1 million and was included in Other assets on our consolidated balance sheet.

In connection with the sale of our interest in Sherman, we waived, effective at the time at which the Note was paid in full, our right to any contingent consideration for the sale of the interests in Sherman that we sold in September 2008 to an entity owned by the management of Sherman. Upon such a sale, we would have been entitled to an additional cash payment if the purchaser's after-tax rate of return on the interests purchased exceeded a threshold that equated to an annual return of 16%.

A Sherman summary income statement for the seven months ended July 31, 2008 appears below. Prior to the sale of our interest, we did not consolidate Sherman with us for financial reporting purposes, and we did not control Sherman. Sherman's internal controls over its financial reporting were not part of our internal controls over our financial reporting. However, our internal controls over our financial reporting included processes to assess the effectiveness of our financial reporting as it pertained to Sherman. We believe those processes were effective in the context of our overall internal controls.

Sherman Summary Income Statement:

	Seven Months Ended July 31, 2008* (unaudited) (In millions)
Revenues from receivable portfolios	$ 660.3
Portfolio amortization	264.8
Revenues, net of amortization	395.5
Credit card interest income and fees	475.6
Other revenue	35.3
Total revenues	906.4
Total expenses	740.1
Income before tax	$ 166.3
Company's income from Sherman	$ 35.6

* The income statement only reflects Sherman's results and our income from Sherman through July 31, 2008 as a result of the sale of our remaining interest in August 2008.

The "Company's income from Sherman" line item in the table above includes $3.6 million of additional amortization expense in 2009 above Sherman's actual amortization expense, related to additional interests in Sherman that we purchased during the third quarter of 2006 at a price in excess of book value.

13. Benefit plans

We have a non-contributory defined benefit pension plan covering substantially all domestic employees, as well as a supplemental executive retirement plan. We also offer both medical and dental benefits for retired domestic employees and their spouses under a postretirement benefit plan. In October 2008 we amended our postretirement benefit plan. The amendment, which was effective January 1, 2009, terminated the benefits provided to retirees once they reach the age of 65. This amendment reduced our accumulated postretirement benefit obligation as of December 31, 2008. The benefit from this amendment was amortized to net periodic benefit cost in 2009 and future periods. The following tables provide the components of aggregate annual net periodic benefit cost, the amounts recognized in the consolidated balance sheet, changes in the benefit obligation and the funded status of the pension, supplemental executive retirement and other postretirement benefit plans:

	Pension and Supplemental Executive Retirement Plans			Other Postretirement Benefits		
	12/31/2010	12/31/2009	12/31/2008	12/31/2010	12/31/2009	12/31/2008
	(In thousands)					
Components of Net Periodic Benefit Cost for fiscal year ending						
1. Company Service Cost	$ 8,531	$ 8,154	$ 8,677	$ 1,126	$ 1,280	$ 3,886
2. Interest Cost	15,535	14,300	13,950	1,183	1,463	4,966
3. Expected Return on Assets	(14,502)	(15,340)	(19,348)	(2,891)	(2,229)	(3,766)
4. Other Adjustments	-	-	-	-	-	-
Subtotal	9,564	7,114	3,279	(582)	514	5,086
5. Amortization of:						
a. Net Transition Obligation/(Asset)	-	-	-	-	-	283
b. Net Prior Service Cost/(Credit)	650	716	684	(6,138)	(6,059)	-
c. Net Losses/(Gains)	5,924	6,330	510	764	1,704	-
Total Amortization	6,574	7,046	1,194	(5,374)	(4,355)	283
6. Net Periodic Benefit Cost	16,138	14,160	4,473	(5,956)	(3,841)	5,369
7. Cost of settlements or curtailments	-	-	-	-	-	-
8. Total Expense for Year	$ 16,138	$ 14,160	$ 4,473	$ (5,956)	$ (3,841)	$ 5,369

Development of Funded Status

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
	(In thousands)			
Actuarial Value of Benefit Obligations				
1. Measurement Date	12/31/2010	12/31/2009	12/31/2010	12/31/2009
2. Accumulated Benefit Obligation	$ 270,684	$ 237,257	$ 26,200	$ 24,144
Funded Status				
1. Projected Accumulated Benefit Obligation	$ (291,456)	$ (258,592)	$ (26,200)	$ (24,144)
2. Plan Assets at Fair Value	284,080	243,369	44,362	38,920
3. Funded Status - Overfunded	N/A	N/A	$ 18,162	$ 14,776
4. Funded Status - Underfunded	$ (7,376)	$ (15,223)	N/A	N/A

Accumulated Other Comprehensive Income

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
	(In thousands)			
1. Net Actuarial (Gain)/Loss	$ 81,802	$ 90,655	$ 13,463	$ 16,517
2. Net Prior Service Cost/(Credit)	2,847	2,748	(47,290)	(52,707)
3. Net Transition Obligation/(Asset)	-	-	-	-
4. Total at Year End	$ 84,649	$ 93,403	$ (33,827)	$ (36,190)

The changes in the projected benefit obligation are as follows:

Change in Projected Benefit Obligation

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
	(In thousands)			
1.Benefit Obligation at Beginning of Year	$ 258,592	$ 229,039	$ 24,144	$ 25,282
2.Company Service Cost	8,531	8,154	1,126	1,280
3.Interest Cost	15,535	14,300	1,183	1,463
4.Plan Participants' Contributions	-	-	327	281
5.Net Actuarial (Gain)/Loss due to Assumption Changes	10,425	17,428	(2,925)	359
6.Net Actuarial (Gain)/Loss due to Plan Experience	3,624	(5,800)	3,695	(2,490)
7.Benefit Payments from Fund	(5,769)	(4,988)	(510)	(467)
8.Benefit Payments Directly by Company	(231)	(231)	(120)	(738)
9.Plan Amendments	749	690	(720)	(721)
10.Other Adjustment	-	-	-	(105)
11.Benefit Obligation at End of Year	$ 291,456	$ 258,592	$ 26,200	$ 24,144

The changes in the fair value of the net assets available for plan benefits are as follows:

Change in Plan Assets

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
	(In thousands)			
1.Fair Value of Plan Assets at Beginning of Year	$ 243,369	$ 206,729	$ 38,920	$ 30,190
2.Company Contributions	15,231	10,231	-	-
3.Plan Participants' Contributions	-	-	327	281
4.Benefit Payments from Fund	(5,769)	(4,988)	(510)	(467)
5.Benefit Payments paid directly by Company	(231)	(231)	(120)	(738)
6.Actual Return on Assets	31,480	31,628	5,951	9,197
7.Other Adjustment	-	-	(207)	457
8.Fair Value of Plan Assets at End of Year	$ 284,080	$ 243,369	$ 44,361	$ 38,920

Change in Accumulated Other Comprehensive Income (AOCI)

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
	(In thousands)			
1.AOCI in Prior Year	$ 93,403	$ 104,420	$ (36,190)	$ (30,726)
2.Increase/(Decrease) in AOCI				
a. Recognized during year - Prior Service (Cost)/Credit	(650)	(716)	6,138	6,059
b. Recognized during year - Net Actuarial (Losses)/Gains	(5,924)	(6,330)	(764)	(1,704)
c. Occurring during year - Prior Service Cost	749	690	(720)	(721)
d. Occurring during year - Net Actuarial Losses/(Gains)	(2,929)	(4,661)	(2,291)	(9,098)
3.AOCI in Current Year	$ 84,649	$ 93,403	$ (33,827)	$ (36,190)

Amortizations Expected to be Recognized During Next Fiscal Year

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
	(In thousands)			
1. Amortization of Net Transition Obligation/(Asset)	$ -	$ -	$ -	$ -
2. Amortization of Prior Service Cost/(Credit)	650	559	(6,217)	(6,138)
3. Amortization of Net Losses/(Gains)	4,868	5,754	750	1,025

The projected benefit obligations, net periodic benefit costs and accumulated postretirement benefit obligation for the plans were determined using the following weighted average assumptions.

Actuarial Assumptions

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Weighted-Average Assumptions Used to Determine Benefit Obligations at year end				
1. Discount Rate	5.75%	6.00%	5.50%	5.75%
2. Rate of Compensation Increase	3.00%	3.00%	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for Year				
1. Discount Rate	6.00%	6.50%	5.75%	6.50%
2. Expected Long-term Return on Plan Assets	6.00%	7.50%	7.50%	7.50%
3. Rate of Compensation Increase	3.00%	3.00%	N/A	N/A
Assumed Health Care Cost Trend Rates at year end				
1. Health Care Cost Trend Rate Assumed for Next Year	N/A	N/A	8.50%	8.50%
2. Rate to Which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate)	N/A	N/A	5.00%	5.00%
3. Year That the Rate Reaches the Ultimate Trend Rate	N/A	N/A	2018	2017

In selecting a discount rate, we performed a hypothetical cash flow bond matching exercise, matching our expected pension plan and postretirement medical plan cash flows, respectively, against a selected portfolio of high quality corporate bonds. The modeling was performed using a bond portfolio of noncallable bonds with at least $25 million outstanding. The average yield of these hypothetical bond portfolios was used as the benchmark for determining the discount rate. In selecting the expected long-term rate of return on assets, we considered the average rate of earnings expected on the classes of funds invested or to be invested to provide for the benefits of these plans. This included considering the trusts' targeted asset allocation for the year and the expected returns likely to be earned over the next 20 years.

The weighted-average asset allocations of the plans are as follows:

Plan Assets

	Pension Plan		Other Postretirement Benefits	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Allocation of Assets at year end				
1. Equity Securities	38%	30%	100%	100%
2. Debt Securities	62%	70%	0%	0%
3. Other	0%	0%	0%	0%
4. Total	100%	100%	100%	100%
Target Allocation of Assets				
1. Equity Securities	30%	30%	100%	100%
2. Debt Securities	70%	70%	0%	0%
3. Other	0%	0%	0%	0%
4. Total	100%	100%	100%	100%

In accordance with fair value guidance, we applied the following fair value hierarchy in order to measure fair value of our benefit plan assets:

Level 1 – Quoted prices for identical instruments in active markets that we have the ability to access. Financial assets utilizing Level 1 inputs include equity securities, mutual funds, money market funds and certain U.S. Treasury securities and obligations of the U.S. government.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and inputs, other than quoted prices, that are observable in the marketplace for the financial instrument. The observable inputs are used in valuation models to calculate the fair value of the financial instruments. Financial assets utilizing Level 2 inputs include certain municipal, corporate and foreign bonds.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. Level 3 inputs reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. There are no securities that utilize Level 3 inputs.

To determine the fair value of securities in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model.

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31 2010.

Assets at Fair Value as of December 31, 2010

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Pension Plan				
Mutual Funds	$ 80,556	$ -	$ -	$ 80,556
Common Stocks	45,774	-	-	45,774
Corporate Bonds	-	127,116	-	127,116
U.S. Government Securities	5,318	-	-	5,318
Municipals	-	9,105	-	9,105
Foreign Bonds	-	13,525	-	13,525
Foreign Stocks	2,686	-	-	2,686
Total Assets at fair value	$ 134,334	$ 149,746	$ -	$ 284,080

Our pension plan portfolio returns are expected to achieve the following objectives over each market cycle and for at least 5 years:

Fixed income allocation

- Protect actuarial benefit payment stream through asset liability matching
- Reduce volatility of investment returns compared to actuarial benefit liability

Equity allocation

- Protect long tailed liabilities through the use of equity portfolio
- Achieve competitive investment results

The primary focus in developing asset allocation ranges for the portfolio is the assessment of the portfolio's investment objectives and the level of risk that is acceptable to obtain those objectives. To achieve these goals the minimum and maximum allocation ranges for fixed income securities and equity securities are:

	Minimum	Maximum
Fixed income	40%	100%
Equity	0%	60%
Cash equivalents	0%	10%

Investment in international oriented funds is limited to a maximum of 25% of the equity range.

The following table sets forth by level, within the fair value hierarchy, the postretirement plan assets at fair value as of December 31 2010.

Assets at Fair Value as of December 31, 2010

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Postretirement Plan				
Mutual Funds	$ 44,362	$ -	$ -	$ 44,362
Total Assets at fair value	$ 44,362	$ -	$ -	$ 44,362

Our postretirement plan portfolio returns are expected to achieve the following objectives over each market cycle and for at least 5 years:

- Total return should exceed growth in the Consumer Price Index
- Achieve competitive investment results

The primary focus in developing asset allocation ranges for the portfolio is the assessment of the portfolio's investment objectives and the level of risk that is acceptable to obtain those objectives. To achieve these goals the minimum and maximum allocation ranges for fixed income securities and equity securities are:

	Minimum	Maximum
Fixed income	0%	10%
Equity	90%	100%

Given the long term nature of this portfolio and the lack of any immediate need for significant cash flow, it is anticipated that the equity investments will consist of growth stocks and will typically be at the higher end of the allocation ranges above. Investment in international oriented funds is limited to a maximum of 25% of the portfolio.

The following tables show the actual and estimated future contributions and actual and estimated future benefit payments.

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
		(In thousands)		
Company Contributions				
Company Contributions for the Year Ending:				
1.Current	$ 15,231	$ 10,231	$ -	$ -
2.Current + 1	10,530	10,575	-	-

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
	(In thousands)			
Benefit Payments (Total)				
Actual Benefit Payments for the Year Ending:				
1.Current	$ 6,000	$ 5,218	$ 303	$ 923
Expected Benefit Payments for the Year Ending:				
2.Current + 1	$ 9,457	$ 7,734	$ 924	$ 1,018
3.Current + 2	10,846	8,827	1,160	1,238
4.Current + 3	11,942	10,287	1,268	1,454
5.Current + 4	14,204	11,500	1,464	1,567
6.Current + 5	14,710	13,892	1,548	1,824
7.Current + 6 - 10	91,135	83,034	10,496	11,926

Health care sensitivities

For measurement purposes, an 8.5% health care trend rate was used for pre-65 benefits for 2010. In 2011, the rate is assumed to be 8.5%, decreasing to 5.0% by 2018 and remaining at this level beyond.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1% change in the health care trend rate assumption would have the following effects on other postretirement benefits:

	1-Percentage Point Increase	1-Percentage Point Decrease
	(In thousands)	
Effect on total service and interest cost components	$ 289	$ (250)
Effect on postretirement benefit obligation	2,411	(2,115)

We have a profit sharing and 401(k) savings plan for employees. At the discretion of the Board of Directors, we may make a profit sharing contribution of up to 5% of each participant's eligible compensation. We provide a matching 401(k) savings contribution on employees' before-tax contributions at a rate of 80% of the first $1,000 contributed and 40% of the next $2,000 contributed. We recognized profit sharing expense and 401(k) savings plan expense of $3.7 million, $3.1 million and $4.5 million in 2010, 2009 and 2008, respectively.

14. Income taxes

Net deferred tax assets and liabilities as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In thousands)	
Total deferred tax assets	$ 651,568	$ 558,445
Total deferred tax liabilities	(249,989)	(323,126)
Net deferred tax asset before valuation allowance	401,579	235,319
Valuation allowance	(410,333)	(238,490)
Net deferred tax liability	$ (8,754)	$ (3,171)

The components of the net deferred tax liability as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In thousands)	
Unearned premium reserves	$ 14,313	$ 18,668
Convertible debentures	(25,864)	(34,208)
Net operating loss	432,827	299,582
Loss reserves	85,425	101,550
Unrealized (appreciation) depreciation in investments	(31,379)	(55,840)
Mortgage investments	17,934	19,073
Deferred compensation	19,080	19,621
Investments in joint ventures	(165,598)	(208,787)
Premium deficiency reserves	49,644	67,615
Loss due to “other than temporary” impairments	14,160	16,858
Other, net	(8,963)	(8,813)
Net deferred tax asset before valuation allowance	401,579	235,319
Valuation allowance	(410,333)	(238,490)
Net deferred tax liability	$ (8,754)	$ (3,171)

We review the need to establish a deferred tax asset valuation allowance on a quarterly basis. We analyze several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the expected occurrence of future income or loss and available tax planning alternatives. As discussed below, we have reduced our benefit from income tax by establishing a valuation allowance during 2010.

In periods prior to 2008, we deducted significant amounts of statutory contingency reserves on our federal income tax returns. The reserves were deducted to the extent we purchased tax and loss bonds in an amount equal to the tax benefit of the deduction. The reserves are included in taxable income in future years when they are released for statutory accounting purposes or when the taxpayer elects to redeem the tax and loss bonds that were purchased in connection with the deduction for the reserves. Since the tax effect on these reserves exceeded the gross deferred tax assets less deferred tax liabilities, we believe that all gross deferred tax assets recorded in periods prior to the quarter ended March 31, 2009 were fully realizable. Therefore, we established no valuation reserve.

In the first quarter of 2009, we redeemed the remaining balance of our tax and loss bonds of $431.5 million. Therefore, the remaining contingency reserves were released and are no longer available to support any net deferred tax assets. Beginning with the first quarter of 2009, any benefit from income taxes, relating to operating losses, has been reduced or eliminated by the establishment of a valuation allowance. During 2009, our deferred tax asset valuation allowance was reduced by the deferred tax liability related to $159.5 million of unrealized gains on investments that were recorded to equity. During 2010, our deferred tax valuation allowance was increased by the change in the deferred tax liability related to $69.9 million of unrealized losses on investments that were recorded to equity. In the event of future operating losses, it is likely that the valuation allowance will be adjusted by any taxes recorded to equity for changes in unrealized gains or losses or other items in other comprehensive income.

	2010	2009
	(In millions)	
Benefit from income taxes	$ (145.3)	$ (681.3)
Change in valuation allowance	149.6	238.5
Tax provision (benefit)	$ 4.3	$ (442.8)

The increase in the valuation allowance that was included in other comprehensive income was $22.2 million and zero for the years ended December 31, 2010 and 2009, respectively. The total valuation allowance as of December 31, 2010 and December 31, 2009 was $410.3 million and $238.5 million, respectively.

Legislation enacted in 2009 expanded the carryback period for certain net operating losses from 2 years to 5 years. A total benefit for income taxes of $282.0 million was recorded during 2009 in the Consolidated Statement of Operations for the carryback of 2009 losses. The refund related to these benefits was received in the second quarter of 2010.

Giving full effect to the carryback of net operating losses for federal income tax purposes, we have approximately $1,237 million of net operating loss carryforwards on a regular tax basis and $428 million of net operating loss carryforwards for computing the alternative minimum tax as of December 31, 2010. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 and 2030.

The following summarizes the components of the provision for (benefit from) income taxes:

	2010	2009	2008
		(In thousands)	
Current	$ 1,618	$ (621,170)	$ (654,245)
Deferred	(19)	175,194	250,940
Other	2,736	3,200	5,507
Provision for (benefit from) income taxes	$ 4,335	$ (442,776)	$ (397,798)

We received $289.1 million, $437.5 million and $938.1 million in federal income tax in 2010, 2009 and 2008, respectively. Proceeds received in 2010 were primarily from the carryback of 2009 losses. Proceeds received in 2009 and 2008 were primarily from the redemption of tax and loss bonds. At December 31, 2008, we owned $431.5 million of tax and loss bonds. We did not own any tax and loss bonds at December 31, 2010 or 2009.

The reconciliation of the federal statutory income tax benefit rate to the effective income tax (benefit) rate is as follows:

	2010	2009	2008
Federal statutory income tax benefit rate	(35.0) %	(35.0) %	(35.0) %
Valuation allowance	41.6	13.5	-
Tax exempt municipal bond interest	(10.5)	(3.6)	(7.5)
Other, net	5.1	-	0.5
Effective income tax (benefit) rate	1.2 %	(25.1) %	(42.0) %

The Internal Revenue Service ("IRS") completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and issued assessments for unpaid taxes, interest and penalties. The primary adjustment in both examinations related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICS"). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We appealed those adjustments and, in August 2010, we reached a tentative settlement agreement with the IRS. The settlement agreement is subject to review by the Joint Committee on Taxation of Congress because net operating losses incurred in 2009 were carried back to taxable years that were included in the agreement. A final agreement is expected to be entered into when the review is complete, although we do not expect there will be any substantive change in the terms of a final agreement from those in the tentative agreement. We adjusted our tax provision and liabilities for the effects of this agreement in the third quarter of 2010 and believe that they accurately reflect our exposure in regard to this issue.

Under current guidance, when evaluating a tax position for recognition and measurement, an entity shall presume that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. The interpretation adopts a benefit recognition model with a two-step approach, a more-likely-than-not threshold for recognition and derecognition, and a measurement attribute that is the greatest amount of benefit that is cumulatively greater than 50% likely of being realized. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Unrecognized tax benefits		
	2010	2009	2008
		(In millions)	
Balance at beginning of year	$ 91.1	$ 87.9	$ 86.1
Additions based on tax positions related to the current year	-	0.3	0.7
Additions for tax positions of prior years	18.2	2.9	1.1
Reductions for tax positions of prior years	-	-	-
Settlements	-	-	-
Balance at end of year	$ 109.3	$ 91.1	$ 87.9

The total amount of the unrecognized tax benefits that would affect our effective tax rate is $96.7 million. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. During 2010, we recognized $3.3 million in interest. As of December 31, 2010 and 2009, we had $25.9 million and $22.6 million of accrued interest related to uncertain tax positions, respectively. The statute of limitations related to the consolidated federal income tax return is closed for all years prior to 2000. Based on our tentative agreement with the IRS, we expect our total amount of unrecognized tax benefits to be reduced by $103.5 million during 2011, while after taking into account prior payments and the effect of available NOL carrybacks, we expect net cash outflows to equal approximately $22 million.

15. Shareholders' equity

In April 2010 we completed the public offering and sale of 74,883,720 shares of our common stock at a price of $10.75 per share. We received net proceeds of approximately $772.4 million, after deducting underwriting discount and offering expenses. The shares of common stock sold were newly issued shares.

We have 28.9 million authorized shares reserved for conversion under our convertible debentures and 25.7 million authorized shares reserved for conversion under our convertible senior notes. (See Note 8 – "Debt")

16. Dividend restrictions

Our insurance subsidiaries are subject to statutory regulations as to maintenance of policyholders' surplus and payment of dividends. The maximum amount of dividends that the insurance subsidiaries may pay in any twelve-month period without regulatory approval by the Office of the Commissioner of Insurance of the State of Wisconsin 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 senior notes, convertible senior notes and convertible debentures, discussed in Note 8 – "Debt", are obligations of MGIC Investment Corporation, our holding company, and not of its subsidiaries. We are a holding company and the payment of dividends from our insurance subsidiaries, which prior to raising capital in the public markets in 2008 and 2010 had been the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. In 2009 and

2010, MGIC has not paid any dividends to our holding company. Through 2011, MGIC and our other insurance subsidiaries cannot pay any dividends to our holding company without approval from the OCI.

In 2008, we paid dividends of $8.2 million or $0.075 per share. In the fourth quarter of 2008, we suspended the payment of dividends.

17. Statutory capital

Accounting Principles

The accounting principles used in determining statutory financial amounts differ from GAAP, primarily for the following reasons:

Under statutory accounting practices, mortgage guaranty insurance companies are required to maintain contingency loss reserves equal to 50% of premiums earned. Such amounts cannot be withdrawn for a period of ten years except as permitted by insurance regulations. With regulatory approval a mortgage guaranty insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net premiums earned in a calendar year. Changes in contingency loss reserves impact the statutory statement of operations. Contingency loss reserves are not reflected as liabilities under GAAP and changes in contingency loss reserves do not impact GAAP operations. A premium deficiency reserve that may be recorded on a GAAP basis when present value of expected future losses and expenses exceeds the present value of expected future premiums and already established loss reserves, may not be recorded on a statutory basis if the present value of expected future premiums and already established loss reserves and statutory contingency reserves, exceeds the present value of expected future losses and expenses.

Under statutory accounting practices, insurance policy acquisition costs are charged against operations in the year incurred. Under GAAP, these costs are deferred and amortized as the related premiums are earned commensurate with the expiration of risk.

Under statutory accounting practices, purchases of tax and loss bonds are accounted for as investments. Under GAAP, purchases of tax and loss bonds are recorded as payments of current income taxes.

Under statutory accounting practices, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in statutory surplus. Under GAAP, changes in deferred tax assets and liabilities are recorded on the statement of operations as a component of the (benefit) provision for income tax.

Under statutory accounting practices, fixed maturity investments are generally valued at amortized cost. Under GAAP, those investments which we do not have the ability and intent to hold to maturity are considered to be available-for-sale and are recorded at fair value, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to shareholders' equity.

Under statutory accounting practices, certain assets, designated as non-admitted assets, are charged directly against statutory surplus. Such assets are reflected on the GAAP financial statements.

Under statutory accounting practices, our share of the net income or loss of our investments in joint ventures is credited directly to statutory surplus. Under GAAP, income from joint ventures is shown separately, net of tax, on the statement of operations.

The statutory net income, surplus and the contingency reserve liability of the insurance subsidiaries (excluding the non-insurance companies), as well as the surplus contributions made to MGIC and other insurance subsidiaries and dividends paid by MGIC to us, are as follows:

Year Ended December 31,	Net (Loss) Income	Surplus	Contingency Reserve
		(In thousands)	
2010	$ 113,651	$ 1,692,392	$ 5,480
2009	(44,669)	1,442,407	417,587
2008	(172,196)	1,612,953	2,087,265

Year Ended December 31,	Surplus contributions made to MGIC by the parent company	Surplus contributions made to other insurance subsidiaries by the parent company	Dividends paid by MGIC to the parent company
		(In thousands)	
2010	$ 200,000	$ -	$ -
2009	-	-	-
2008	550,000	175,000	170,000

Statutory capital

The Office of the Commissioner of Insurance of Wisconsin is MGIC's principal insurance regulator. To assess a mortgage guaranty insurer's capital adequacy, Wisconsin's insurance regulations require that a mortgage guaranty insurance company maintain "policyholders position" of not less than a minimum computed under a formula. Policyholders position is the insurer's net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums, with credit given for authorized reinsurance. The minimum required by the formula ("MPP") depends on the insurance in force and whether the loans insured are primary insurance or pool insurance and further depends on the LTV ratio of the individual loans and their coverage percentage (and in the case of pool insurance, the amount of any deductible). If a mortgage guaranty insurer does not meet MPP it may be prohibited from writing new business until its policyholders position meets the minimum.

Some states that regulate us have provisions that limit the risk-to-capital ratio of a mortgage guaranty insurance company to 25 to 1. This ratio is computed on a statutory basis for our insurance entities and is our net risk in force divided by our policyholders' position. Policyholders' position consists primarily of statutory policyholders' surplus, 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 contributions to the contingency reserve of approximately 50% of net 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 net earned premium in a calendar year. If an insurance company's risk-to-capital ratio exceeds the limit applicable in a state, it may be prohibited from writing new business in that state until its risk-to-capital ratio falls below the limit.

At December 31, 2010, MGIC exceeded MPP by approximately $225 million, and we exceeded MPP by approximately $290 million on a combined basis. At December 31, 2010 MGIC's risk-to-capital was 19.8 to 1 and was 23.2 to 1 on a combined basis. See Note 1 – "Nature of business – Capital" for a discussion of our capital plans.

18. Share-based compensation plans

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 five years.

The compensation cost that has been charged against income for the share-based plans was $13.7 million, $15.2 million and $17.4 million for the years ended December 31, 2010, 2009 and 2008, respectively. The related income tax benefit, before valuation allowance, recognized for the share-based compensation plans was $1.5 million, $5.3 million and $6.1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

We have stock incentive plans that were adopted in 1991 and 2002. When the 2002 plan was adopted, no further awards could be made under the 1991 plan. The maximum number of shares covered by awards under the 2002 plan is the total of 7.1 million shares plus the number of shares that must be purchased at a purchase price of not less than the fair market value of the shares as a condition to the award of restricted stock under the 2002 plan. The maximum number of shares of restricted stock that can be awarded under the 2002 plan is 5.9 million shares. Both plans provide for the award of stock options with maximum terms of 10 years and for the grant of restricted stock or restricted stock units. The 2002 plan also provides for the grant of stock appreciation rights. The exercise price of options is the closing price of the common stock on the New York Stock Exchange on the date of grant. The vesting provisions of options, restricted stock and restricted stock units are determined at the time of grant. Newly issued shares are used for exercises under the 1991 plan and treasury shares are used for exercises under the 2002 plan. Directors may receive awards under the 2002 plan and were eligible for awards of restricted stock under the 1991 plan.

A summary of option activity in the stock incentive plans during 2010 is as follows:

	Weighted Average Exercise Price	Shares Subject to Option
Outstanding, December 31, 2009	$ 56.78	2,298,400
Granted	-	-
Exercised	-	-
Forfeited or expired	46.26	(548,700)
Outstanding, December 31, 2010	$ 60.08	1,749,700

There were no options granted or exercised in 2010, 2009 or 2008.

The following is a summary of stock options outstanding, all of which are exercisable, at December 31, 2010:

	Options Outstanding and Exercisable		
Exercise Price Range	Shares	Remaining Average Life (years)	Weighted Average Exercise Price
$43.70 - 43.70	350,500	2.1	$ 43.70
$53.70 - 68.20	1,399,200	1.6	$ 64.19
Total	1,749,700	1.7	$ 60.08

The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2010 was zero. The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price of $10.19 as of December 31, 2010 which would have been received by the option holders had all option holders exercised their options on that date. Because our closing stock price at December 31, 2010 was below all exercise prices, none of the outstanding options had any intrinsic value.

A summary of restricted stock or restricted stock unit activity during 2010 is as follows:

	Weighted Average Grant Date Fair Market Value	Shares
Restricted stock outstanding at December 31, 2009............................	$ 21.27	3,315,310
Granted	6.82	1,649,350
Vested	14.75	(1,376,923)
Forfeited	63.63	(130,471)
Restricted stock outstanding at December 31, 2010............................	$ 14.69	3,457,266

At December 31, 2010, the 3.5 million shares of restricted stock outstanding consisted of 2.3 million shares that are subject to performance conditions (“performance shares”) and 1.2 million shares that are subject only to service conditions (“time vested shares”). The weighted-average grant date fair value of restricted stock granted during 2009 and 2008 was $3.11 and $15.38, respectively. The fair value of restricted stock granted is the closing price of the common stock on the New York Stock Exchange on the date of grant. At December 31, 2010, 649,463 shares were available for future grant under the 2002 stock incentive plan. Of the shares available for future grant, 504,593 are available for restricted stock awards. The total fair value of restricted stock vested during 2010, 2009 and 2008 was $8.5 million, $1.3 million and $3.3 million, respectively.

As of December 31, 2010, there was $30.6 million of total unrecognized compensation cost related to nonvested share-based compensation agreements granted under the 2002 Plan. Of this total, $26.7 million of unrecognized compensation costs relate to performance shares and $3.9 million relates to time vested shares. The unrecognized costs associated with the performance shares may or may not be recognized in future periods, depending upon whether or not the performance conditions are met. The cost associated with the time vested shares is expected to be recognized over a weighted-average period of 0.7 years.

19. Leases

We lease certain office space as well as data processing equipment and autos under operating leases that expire during the next six years. Generally, rental payments are fixed.

Total rental expense under operating leases was \$6.3 million, \$6.8 million and \$8.1 million in 2010, 2009 and 2008, respectively.

At December 31, 2010, minimum future operating lease payments are as follows (in thousands):

2011	\$ 2,991
2012	1,847
2013	718
2014	554
2015 and thereafter	173
Total (1)	\$ 6,283

(1) Minimum payments have not been reduced by minimum sublease rentals of \$555 thousand due in the future under noncancelable subleases.

20. Litigation and contingencies

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. Seven mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC settled class action litigation against it under RESPA in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in December 2004 following denial of class certification in June 2004. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. On November 29, 2010, six mortgage insurers (including MGIC) and a large mortgage lender (which was the plaintiffs' lender) were named as defendants in a complaint, alleged to be a class action, filed in Federal District Court for the District of Columbia. The complaint alleges various causes of action related to the captive mortgage reinsurance arrangements of this mortgage lender, including that the defendants violated RESPA by paying the lender's captive reinsurer excessive premiums in relation to the risk assumed by that captive. The named plaintiffs' loan was not insured by MGIC and it is our understanding that it was not reinsured by this mortgage lender's captive reinsurance affiliates. We intend to defend MGIC against this complaint vigorously but we are unable to predict the outcome of the litigation or its effect on us. While we are only a defendant in this RESPA case, there can be no assurance that we will not be subject to future litigation under RESPA (or FCRA) or that the outcome of any such litigation would not have a material adverse effect on us.

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. In addition, the Dodd-Frank Act, the financial reform legislation that was passed in July 2010, establishes the Bureau of Consumer Financial Protection to regulate the offering and provision of consumer financial products or services under federal law. We are uncertain whether this Bureau will issue any rules or regulations that affect our business. Such rules and regulations could have a material adverse effect on us.

In June 2005, in response to a letter from the New York Insurance Department, we provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the New York Insurance Department requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the New York Insurance Department that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the "MN Department"), which regulates insurance, we provided the MN Department with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the MN Department, and beginning in March 2008 the MN Department has sought additional information as well as answers to questions regarding captive mortgage reinsurance on several occasions. In addition, beginning in June 2008, we have received subpoenas from the Department of Housing and Urban Development, commonly referred to as HUD, seeking information about captive mortgage reinsurance similar to that requested by the MN Department, but not limited in scope to the state of Minnesota. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The anti-referral fee provisions of RESPA provide that HUD as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While we believe our captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

Since October 2007 we had been involved in an investigation conducted by the Division of Enforcement of the SEC. The investigation had focused on disclosure and financial reporting by us and by a co-investor in 2007 regarding our respective investments in our C-BASS joint venture. We have provided documents to the SEC and a number of our executive officers, as well as other employees, have testified. On January 18, 2011, the staff of the Division of Enforcement issued a formal closing letter advising us that the investigation has been terminated against us, our executive officers and other employees, and that it did not intend to recommend any enforcement action by the SEC.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees' Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the "Complaint") on June 22, 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS, including its liquidity. Our motion to dismiss the Complaint was granted on February 18, 2010. On March 18, 2010, plaintiffs filed a motion for leave to file an amended complaint.

Attached to this motion was a proposed Amended Complaint (the "Amended Complaint"). The Amended Complaint alleged that we and two of our officers named in the Amended Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about C-BASS, including its liquidity, and by failing to properly account for our investment in C-BASS. The Amended Complaint also named two officers of C-BASS with respect to the Amended Complaint's allegations regarding C-BASS. The purported class period covered by the Amended Complaint began on February 6, 2007 and ended on August 13, 2007. The Amended Complaint sought damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported violations of federal securities laws. On April 12, 2010, we filed a motion in opposition to the plaintiff's motion for leave to amend its complaint. On December 8, 2010, the plaintiff's motion to file an amended complaint was denied and the Complaint was dismissed with prejudice. On January 6, 2011, the plaintiff appealed the February 18, 2010 and December 8, 2010 decisions to the United States Court of Appeals for the Seventh Circuit. We are unable to predict the outcome of these consolidated cases or estimate our associated expenses or possible losses. Other lawsuits alleging violations of the securities laws could be brought against us.

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

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

On December 17, 2009, Countrywide filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco (the "California State Court") against MGIC. This complaint alleges that MGIC has denied, and continues to deny, valid mortgage insurance claims submitted by Countrywide and says it seeks declaratory relief regarding the proper interpretation of the insurance policies at issue. On January 19, 2010, we removed this case to the United States District Court for the Northern District of California (the "District Court"). On March 30, 2010, the District Court ordered the case remanded to the California State Court. We have appealed this decision to the United States Court of Appeals for the Ninth Circuit (the "Court of Appeals") and asked the Court of Appeals to vacate the remand and stay proceedings in the District Court. On May 17, 2010, the Court of Appeals denied a stay of the District Court's remand order. On May 28, 2010, Countrywide filed an amended complaint substantially similar to the original complaint in the California State Court. On July 2, 2010, we filed a petition in the California State Court to compel arbitration and stay the litigation in that court. On August 26, 2010, Countrywide filed an opposition to our petition. Countrywide's opposition states that there are thousands of loans for which it disputes MGIC's interpretation of the flow insurance policies at issue. On September 16, 2010, we filed a reply to Countrywide's opposition. On October 1, 2010, the California State Court stayed the litigation in that court pending a final ruling on our appeal.

In connection with the Countrywide dispute discussed above, on February 24, 2010, we commenced an arbitration action against Countrywide seeking a determination that MGIC was entitled to deny and/or rescind coverage on the loans involved in the arbitration action, which were insured through the flow channel and numbered more than 1,400 loans as of the filing of the action. On March 16, 2010, Countrywide filed a response to our arbitration action objecting to the arbitrator's jurisdiction in view of the case initiated by Countrywide in the California State Court and asserting various defenses to the relief sought by MGIC in the arbitration. On December 20, 2010, we filed an amended demand in the arbitration proceeding. This amended demand increased the number of loans for which we denied and/or rescinded coverage and which were insured through the flow channel to more than 3,300. We continue to rescind insurance coverage on additional Countrywide loans. On December 20, 2010 Countrywide filed an amended response. In the amended response, Countrywide is seeking relief for rescissions on loans insured by MGIC through the flow channel and more than 30 bulk insurance policies. In correspondence with MGIC, Countrywide has indicated that it believes MGIC has improperly rescinded coverage on approximately 4,700 loans. The amended response also seeks damages as a result of purported breaches of insurance policies issued by MGIC and additional damages, including exemplary damages, on account of MGIC's purported breach of an implied covenant of good faith and fair dealing. The amended response states that Countrywide seeks damages "well-exceeding" $150 million; the original response sought damages of at least $150 million. On January 17, 2011, Countrywide filed an answer to MGIC's amended demand and MGIC filed an answer to Countrywide's amended response. Countrywide and MGIC have each selected 12 loans for which a three-member arbitration panel will determine coverage. While the panel's determination will not be binding on the other loans at issue, the panel will identify the issues for these 24 "bellwether" loans and strive to set forth findings of fact and conclusions of law in such a way as to aid the parties to apply them to the other loans at issue. The hearing before the panel on the bellwether loans is scheduled to begin in October 2011.

During 2008-2010, rescissions of Countrywide-related loans mitigated our paid losses on the order of $315 million. This amount is the amount we estimate we would have paid had the loans not been rescinded. On a per loan basis, the average amount that we would have paid had the loans not been rescinded was approximately $72 thousand. At December 31, 2010, 44,838 loans in our primary delinquency inventory were Countrywide-related loans (approximately 21% of our primary delinquency inventory). Of these 44,838 loans, some will cure their delinquency and the remainder will either become paid claims or will be rescinded. During 2008-2010, of the claims on Countrywide-related loans that were resolved (a claim is resolved when it is paid or rescinded; claims that are submitted but which are under review are not resolved until one of these two outcomes occurs), approximately 72% were paid and the remaining 28% were rescinded.

The flow policies at issue with Countrywide are in the same form as the flow policies that we use with all of our customers, and the bulk policies at issue vary from one another, but are generally similar to those used in the majority of our Wall Street bulk transactions. Because our rescission practices with Countrywide do not differ from our practices with other servicers, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. As discussed in Note 9 – "Loss reserves", during 2008-2010 we estimated that total rescissions mitigated our incurred losses by approximately $3.1 billion, which included approximately $2.0 billion of mitigation on paid losses, excluding amounts that would have been applied to a deductible. At December 31, 2010 we estimate that our total loss reserves were benefited from rescissions by approximately $1.3 billion.

We intend to defend MGIC against Countrywide's complaint and arbitration response, and to pursue MGIC's claims in the arbitration, vigorously. However, we are unable to predict the outcome of these proceedings or their effect on us. Also, although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, we have not accrued any reserves that would reflect an adverse outcome in this proceeding.

In addition to the rescissions at issue with Countrywide, we have a substantial pipeline of claims investigations (including investigations involving loans related to Countrywide) that we expect will eventually result in future rescissions. In the second quarter of 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. We continue to discuss with other lenders their objections to material rescissions. In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Because our rescission practices with Countrywide do not differ from our practices with other servicers, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. For additional information about rescissions as well as this settlement agreement, see Note 9 – "Loss reserves".

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

Our mortgage insurance business utilizes its underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of our contract underwriting activities, we are responsible for the quality of our underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. We may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such obligations. Through December 31, 2010, the cost of remedies provided by us to customers for failing to meet the standards of the contracts has not been material. However, a generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs, and claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years, including for 2006 and 2007, has involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans for which we provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. Beginning in the second half of 2009, we experienced an increase in claims for contract underwriting remedies, which continued into 2010. Hence, there can be no assurance that contract underwriting remedies will not be material in the future.

See Note 14 – "Income taxes" for a description of federal income tax contingencies.

21. Unaudited quarterly financial data

	Quarter				
	First	Second	Third	Fourth (b)	2010 Year
	(In thousands, except share data)				
2010					
Net premiums written	$ 256,058	$ 295,346	$ 278,982	$ 271,409	$ 1,101,795
Net premiums earned	271,952	309,174	296,496	291,125	1,168,747
Investment income, net of expenses	68,859	62,868	58,465	57,061	247,253
Loss incurred, net	454,511	320,077	384,578	448,375	1,607,541
Change in premium deficiency reserves	(13,566)	(10,619)	(8,887)	(18,275)	(51,347)
Underwriting and other operating expenses	59,945	54,050	57,606	53,541	225,142
Interest expense	21,018	25,099	26,702	25,770	98,589
Net income (loss)	(150,091)	24,551	(51,528)	(186,667)	(363,735)
Income (loss) per share (a):					
Basic	(1.20)	0.14	(0.26)	(0.93)	(2.06)
Diluted	(1.20)	0.13	(0.26)	(0.93)	(2.06)

(a) Due to the use of weighted average shares outstanding when calculating earnings per share, the sum of the quarterly per share data may not equal the per share data for the year.

(b) In prior periods, the liability associated with premium to be returned on claim payments is included in loss reserves and changes to this estimate affect losses incurred. See Note 3 – "Summary of significant accounting policies - Revenue recognition."

	Quarter				
	First	Second	Third	Fourth	2009 Year
	(In thousands, except share data)				
2009					
Net premiums written	$ 347,513	$ 330,383	$ 278,254	$ 286,877	$ 1,243,027
Net premiums earned	355,830	347,132	293,515	305,864	1,302,341
Investment income, net of expenses	77,173	78,036	75,528	73,941	304,678
Loss incurred, net	757,893	769,631	971,043	880,877	3,379,444
Change in premium deficiency reserves	(164,801)	(62,386)	(19,346)	(14,617)	(261,150)
Underwriting and other operating expenses	62,549	61,721	59,133	56,209	239,612
Interest expense	23,926	23,930	20,586	20,824	89,266
Net loss	(184,560)	(339,835)	(517,768)	(280,114)	(1,322,277)
Loss per share (a):					
Basic	(1.49)	(2.74)	(4.17)	(2.25)	(10.65)
Diluted	(1.49)	(2.74)	(4.17)	(2.25)	(10.65)

(a) Due to the use of weighted average shares outstanding when calculating earnings per share, the sum of the quarterly per share data may not equal the per share data for the year.

Directors

James A. Abbott
Chairman and Principal
American Security Mortgage Corp.
Charlotte, NC
A mortgage banking company

Curt S. Culver
Chairman and Chief Executive Officer
MGIC Investment Corporation
Milwaukee, WI

David S. Engelman
Private Investor
San Diego, CA

Thomas M. Hagerty
Managing Director
Thomas H. Lee Partner, L.P.
Boston, MA
A private investment firm

Kenneth M. Jastrow, II
Non-Executive Chairman
Forestar Group Inc.
Austin, TX
A company engaged in various real estate and natural resource businesses

Daniel P. Kearney
Business Consultant and Private Investor
Chicago, IL

Bruce L. Koepfgen
Former Executive Committee Member
Allianz Global Investors
New York, NY
A global asset management firm

Michael E. Lehman
Chief Financial Officer
Palo Alto Networks, Inc.
Sunnyvale, CA
A network security firm

William A. McIntosh
Former Executive Committee Member and Managing Director
Salomon Brothers Inc.
New York, NY
An investment banking firm

Leslie M. Muma
Former President and Chief Executive Officer
Fiserv, Inc.
Brookfield, WI
A financial industry automation products and services company

Donald T. Nicolaisen
Former Chief Accountant
United States Securities and Exchange Commission
Washington, DC

Mark M. Zandi
Chief Economist
Moody's Analytics, Inc.
West Chester, PA
A provider of economic research, data and analytical tools

Officers

MGIC Investment Corporation

Chairman and Chief Executive Officer
Curt S. Culver

President and Chief Operating Officer
Patrick Sinks

Executive Vice Presidents
Jeffrey H. Lane
General Counsel and Secretary

J. Michael Lauer
Chief Financial Officer

Senior Vice President
James A. Karpowicz
Chief Investment Officer and Treasurer

Vice President
Timothy J. Mattke
Controller and Chief Accounting Officer

Mortgage Guaranty Insurance Corporation

Chairman and Chief Executive Officer
Curt S. Culver

President and Chief Operating Officer
Patrick Sinks

Executive Vice Presidents
Jeffrey H. Lane
General Counsel and Secretary

J. Michael Lauer
Chief Financial Officer

Lawrence J. Pierzchalski
Risk Management

Senior Vice Presidents
Carla A. Gallas
Claims

James A. Karpowicz
Chief Investment Officer and Treasurer

Michael G. Meade
Information Services and Chief Information Officer

Steven T. Snodgrass
Capital Markets

Cheryl L. Webb
Field Operations

Michael J. Zimmerman
Investor Relations

Vice Presidents
Gary A. Antonovich
Internal Audit

Stephen M. Dempsey
Managing Director

Sandra K. Dunst
Claims Operations

Edward G. Durant
Analytic Services

David A. Greco
Credit Policy

Ralph J. Gundrum
Securities Law Counsel, Assistant General Counsel and Assistant Secretary

Heidi A. Heyrman
Regulatory Relations, Assistant General Counsel and Assistant Secretary

Steven F. Himebauch
National Accounts

James J. Hughes
Managing Director

W. Thomas Hughes
Managing Director

Malcom T. Hurst
Sales

Eric B. Klopfer
Corporate Strategy

Mark J. Krauter
National Accounts

Robin D. Mallory
Managing Director

Mark E. Marple
Mortgage Banking Strategies

Timothy J. Mattke
Controller and Chief Accounting Officer

Salvatore A. Miosi
Marketing

Jerome J. Murphy
Field Operations

Jeffrey N. Nielsen
Financial Planning/Analysis

Lisa M. Pendergast
Assistant Treasurer

Eric L. Rice
Sales

John R. Schroeder
Risk Management

Julie K. Sperber
Assistant Controller

Dan D. Stilwell
Chief Compliance Officer, Assistant General Counsel and Assistant Secretary

James R. Stirling
Information Services and Chief Technology Officer

Kurt J. Thomas
Human Resources

Steven M. Thompson
Risk Management

Martha F. Tsuchihashi
Securities Law Counsel, Assistant General Counsel and Assistant Secretary

Kathleen E. Valenti
Loss Mitigation

Bernhard W. Verhoeven
Risk Management

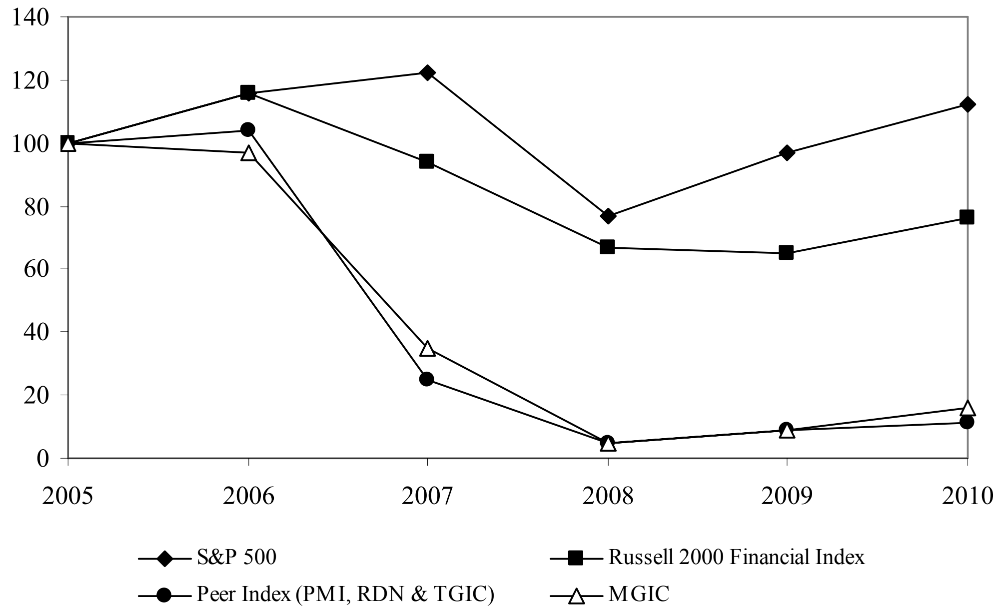
Carie L. Vos
Claims Administration

John S. Wiseman
Managing Director

Jerry L. Wormmeester
National Accounts

Performance Graph

The graph below compares the cumulative total return on (a) our Common Stock, (b) a composite peer group index selected by us, (c) the Russell 2000 Financial Index and (d) the S&P 500. Our peer group index consists of Radian Group, Inc., The PMI Group, Inc. and Triad Guaranty Inc. ("Triad"). We selected this peer group because it includes each of the public companies, other than us, for which private mortgage insurance is the primary business. In 2008, Triad ceased writing new private mortgage insurance. We nevertheless include Triad in our peer group because it was writing business during more than half of the period covered by the graph below and because we prefer that our peer group consist of more than two companies. Due to Triad's small market capitalization since 2008, Triad's returns have had little effect on the weighted average peer group return in 2009 and 2010.



	2005	2006	2007	2008	2009	2010
S&P 500	100	116	122	77	97	112
Russell 2000 Financial Index	100	116	94	67	65	76
Peer Index (PMI, RDN & TGIC)	100	104	25	5	9	11
MGIC	100	97	35	5	9	16

Shareholder Information

The Annual Meeting
The Annual Meeting of Shareholders of MGIC Investment Corporation will convene at 9 a.m. Central Time on May 5, 2011 in the Bradley Pavilion of the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, Wisconsin.

10-K Report
Copies of the Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission, are available without charge to shareholders on request from:

Secretary
MGIC Investment Corporation
P. O. Box 488
Milwaukee, WI 53201

The Annual Report on Form 10-K referred to above includes as exhibits certifications from the Company's Chief Executive Officer and Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act. Following the 2010 Annual Meeting of Shareholders, the Company's Chief Executive Officer submitted a Written Affirmation to the New York Stock Exchange that he was not aware of any violation by the Company of the corporate governance listing standards of Exchange.

Transfer Agent and Registrar
Wells Fargo Bank Minnesota, N.A.
Shareowner Services
P. O. Box 64854
St. Paul, Minnesota 55164
(800) 468-9716

Corporate Headquarters
MGIC Plaza
250 East Kilbourn Avenue
Milwaukee, Wisconsin 53202

Mailing Address
P. O. Box 488
Milwaukee, Wisconsin 53201

Shareholder Services
(414) 347-6596

MGIC Stock
MGIC Investment Corporation Common Stock is listed on the New York Stock Exchange under the symbol MTG. At March 4, 2011, 201,142,536 shares were outstanding. The following table sets forth for 2009 and 2010 by quarter the high and low sales prices of the Common Stock on the New York Stock Exchange.

	2009		2010	
Quarter	**High**	**Low**	**High**	**Low**
1st	$4.45	$0.70	$11.36	$5.78
2nd	5.90	1.32	13.80	6.87
3rd........	9.94	3.27	9.60	6.48
4th........	7.56	3.72	10.90	8.06

In 2008, the Company paid cash dividends of $0.075 per share. In October 2008, the Company's Board suspended payment of our dividend. Accordingly, no cash dividends were paid in 2009 or 2010. The payment of future dividends is subject to the discretion of our Board and will depend on many factors, including our operating results, financial condition and capital position. See Note 8 - "Debt" to our consolidated financial statements for dividend restrictions if we elect to defer interest on our Convertible Junior Debentures.

The Company is a holding company and the payment of dividends from its insurance subsidiaries is restricted by insurance regulation. For a discussion of these restrictions, see "Management's Discussion and Analysis – Liquidity and Capital Resources" and Note 16 – "Dividend restrictions" to our consolidated financial statements.

As of February 15, 2011, the number of shareholders of record was 130. In addition, we estimate that there are approximately 19,000 beneficial owners of shares held by brokers and fiduciaries.

MGIC Investment Corporation
MGIC Plaza, Milwaukee, Wisconsin 53202 • www.mgic.com

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