

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

FORM 10-K

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from ____ to ____

Commission file number 1-10816

MGIC INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

WISCONSIN

(State or other jurisdiction of incorporation or organization)

39-1486475

(I.R.S. Employer Identification No.)

**MGIC PLAZA, 250 EAST KILBOURN AVENUE,
MILWAUKEE, WISCONSIN**

(Address of principal executive offices)

53202

(Zip Code)

(414) 347-6480

(Registrant's telephone number, including area code)

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

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

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

Title of Class:	None
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting common stock held by non-affiliates of the Registrant as of June 30, 2012: Approximately \$574 million*

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of February 15, 2013: 202,304,245

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

<u>Document</u>	<u>Part and Item Number of Form 10-K Into Which Incorporated*</u>
Proxy Statement for the 2013 Annual Meeting of Shareholders	Items 10 through 14 of Part III

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

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PART I

Item 1. Business.

A. General

We are a holding company and through wholly-owned subsidiaries we are the largest private mortgage insurer in the United States, as measured by \$162.1 billion of domestic primary insurance in force at December 31, 2012. In 2012, our net premiums written were \$1.0 billion and our primary new insurance written was \$24.1 billion. As of December 31, 2012, our direct primary risk in force was \$41.7 billion. For further information about our results of operations, see our consolidated financial statements in Item 8. As of December 31, 2012, our principal mortgage insurance subsidiaries, Mortgage Guaranty Insurance Corporation (“MGIC”) and MGIC Indemnity Corporation (“MIC”), were each licensed in all 50 states of the United States, the District of Columbia and Puerto Rico. During 2012, we wrote new insurance in each of those jurisdictions in MGIC and/or MIC. We capitalized MIC to write new insurance in certain jurisdictions where MGIC no longer meets, and is unable to obtain a waiver of, those jurisdictions’ minimum capital requirements. For more information about the formation of MIC and our plans to utilize it to continue writing new insurance, see the risk factor titled “Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” in Item 1A. In addition to mortgage insurance on first mortgage loans, we, through subsidiaries other than MGIC and MIC, provide lenders with various underwriting and other services and products related to home mortgage lending.

Overview of the Private Mortgage Insurance Industry

We established the private mortgage insurance industry in 1957 to provide a private market alternative to federal government insurance programs. Private mortgage insurance covers losses from homeowner defaults on residential mortgage loans, reducing and, in some instances, eliminating the loss to the insured institution if the homeowner defaults. Private mortgage insurance plays an important role in the housing finance system by assisting consumers, especially first-time homebuyers, to affordably finance homes with less than a 20% down payment, thereby expanding homeownership opportunities. In this annual report, we refer to loans with less than 20% down payments as “low down payment” mortgages or loans. During 2011 and 2012, approximately \$85 billion and \$175 billion, respectively, of mortgages were insured by private mortgage insurance companies. These levels are significantly below the levels of the mid-2000s. In 2007, for example, approximately \$357 billion of mortgages were insured by private mortgage insurance companies.

The Federal National Mortgage Association, commonly known as Fannie Mae, and the Federal Home Loan Mortgage Corporation, commonly known as Freddie Mac, purchase residential mortgages as part of their governmental mandate to provide liquidity in the secondary mortgage market. In this annual report, we refer to Fannie Mae and Freddie Mac collectively as the “GSEs.” The GSEs cannot buy low down payment loans without certain forms of credit enhancement, one of which is private mortgage insurance. Therefore, private mortgage insurance facilitates the sale of low down payment mortgages in the secondary mortgage market to the GSEs. Private mortgage insurance also reduces the regulatory capital that depository institutions are required to hold against low down payment mortgages that they hold as assets. However, see the risk factor titled “The implementation of the Basel III capital accord, or other changes to our customers’ capital requirements, may discourage the use of mortgage insurance” in Item 1A for proposed rules that may affect the regulatory capital treatment of mortgage insurance.

The GSEs have been the major purchaser of the mortgages underlying flow new insurance written by mortgage insurers. As a result, the private mortgage insurance industry in the U.S. is defined in large part by the requirements and practices of the GSEs. These requirements and practices, as well as those of the federal regulators that oversee the GSEs and lenders, impact the operating results and financial performance of companies in the mortgage insurance industry. The Federal Housing Finance Agency (“FHFA”) is the conservator of the GSEs. As their conservator, FHFA has the authority to control and direct the operations of the GSEs. The U.S. Department of the Treasury reported its recommendations regarding options for ending the conservatorship of the GSEs in February 2011, and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government’s footprint in housing finance, and help bring private capital back to the mortgage market. Members of Congress have since introduced several bills intended to scale back the GSEs. As a result of the matters referred to above, it is uncertain what role the GSEs, Federal Housing Administration (“FHA”) and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last. See the risk factor titled “Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses” in Item 1A.

The rate of growth in U.S. residential mortgage debt was particularly strong from 2001 through 2006. In 2007, this growth rate began slowing and, since 2007, U.S. residential mortgage debt has decreased. During the last several years of the period of growth and continuing through 2007, the mortgage lending industry increasingly made home loans at higher loan-to-value (“LTV”) ratios, to individuals with higher risk credit profiles and based on less documentation and verification of information regarding the borrower. Beginning in 2007, job creation slowed and the housing markets began slowing in certain areas, with declines in certain other areas. In 2008 and 2009, payroll employment in the U.S. decreased substantially and nearly all geographic areas in the U.S. experienced home price declines. Together, these conditions resulted in significant adverse developments for us and our industry. After earning an average of approximately \$580 million annually from 2004 through 2006 and \$169 million in the first half of 2007, we had aggregate net losses of \$5.3 billion for the years 2007-2012, including \$927 million for 2012. The insurer financial strength rating of MGIC was downgraded a number of times by the rating agencies from 2008 through 2012. See the risk factor titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements” in Item 1A.

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the “Capital Requirements.” At December 31, 2012, MGIC did not meet those Capital Requirements. The Office of the Commissioner of Insurance of the State of Wisconsin (the “OCI”) waived its Capital Requirements for MGIC until December 31, 2013. For information concerning the conditions and limitations to the OCI’s waiver of Capital Requirements, see our risk factor titled “Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” in Item 1A. MGIC applied for waivers in the other jurisdictions with Capital Requirements and, at this time, has active waivers from seven of them.

We funded MIC, a direct subsidiary of MGIC, to write new business in jurisdictions where MGIC no longer meets, and is not able to obtain a waiver of, the Capital Requirements. In the third quarter of 2012, we began writing new mortgage insurance in MIC in those jurisdictions. MIC is licensed to write business in all jurisdictions and has received the necessary approvals from the GSEs and the OCI to write business through December 31, 2013 in all of the jurisdictions that have not waived their Capital Requirements for MGIC. For information concerning the conditions and limitations of those approvals, see our risk factor titled “Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” in Item 1A. It is possible that regulatory action by a jurisdiction without specific Capital Requirements may prevent MGIC from continuing to write new insurance in that jurisdiction due to MGIC’s financial condition. Freddie Mac has approved MIC to write business through December 31, 2013 in those jurisdictions. Fannie Mae has approved MIC to write business in those jurisdictions for 60 days after MGIC receives notice that it may no longer write business. Under an agreement with Fannie Mae, Fannie Mae may in its discretion extend such approval to no later than December 31, 2013.

The OCI, in its sole discretion, may modify, terminate or extend its waiver of Capital Requirements. If the OCI modifies or terminates its waiver, MGIC could be prevented from writing new business in all jurisdictions. In such a case, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the Capital Requirements or obtained a necessary waiver to allow it to once again write new business. Furthermore, if the OCI revokes or fails to renew MGIC’s waiver, MIC’s ability to write new business would be severely limited because the GSEs’ approval of MIC is conditioned upon the continued effectiveness of the OCI’s waiver of Capital Requirements for MGIC.

Please review our risk factors in Item 1A for more information about factors that could negatively impact MGIC’s compliance with Capital Requirements, which depending on the severity of adverse outcomes could exacerbate materially the current non-compliance with Capital Requirements.

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

From time to time, in response to market conditions, we change the types of loans that we insure and the guidelines under which we insure them. In addition, we make exceptions to our underwriting guidelines on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 5% of the loans we insured in 2011 and fewer than 2% of the loans we insured in 2012. A large percentage of the exceptions were made for loans with debt-to-income ratios slightly above our guideline or final reserves slightly below our guideline. Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future. In 2012 and 2013, we made further changes to streamline our underwriting guidelines and in 2012, we lowered our premium rates on loans with credit scores of 760 or higher. Our underwriting guidelines are available on our website at <http://www.mgic.com/underwriting/index.html>.

In 2012, the factors that influence our incurred losses were mixed. We believe that modestly increasing payroll employment and a modestly decreasing unemployment rate, combined with a reduced number of loans in force, resulted in approximately 21% fewer new delinquent notices being reported to us in 2012 compared to 2011. However, the total level of unemployment remained materially higher than the levels of 2007 and home prices in most regions continued to be significantly below their 2007 levels. These conditions contributed to the level of loans that cured their delinquency status not improving as much as we expected at the beginning of the year. For more information, see the risk factor titled “Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves” in Item 1A.

Although loan modification programs continued to mitigate our losses in 2012, the number of completed loan modifications in 2012 was significantly less than in 2011 and 2010. We currently expect new loan modifications will continue to only modestly mitigate our losses in 2013. For more information, see the risk factor titled “Loan modifications and other similar programs may not continue to provide material benefits to us and our losses on loans that re-default can be higher than what we would have paid had the loan not been modified” in Item 1A. Finally, although our loss reserves as of December 31, 2012 continued to be impacted by expected rescission activity, the impact was less than as of December 31, 2011, in part due to the effects of potential rescission settlement agreements we view as probable to occur. We expect that the reduction of our loss reserves due to rescissions will continue to decline.

The mortgage insurance industry competes with governmental agencies and products designed to eliminate the need to purchase private mortgage insurance. For flow business, we and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies that sponsor government-backed mortgage insurance programs, principally the FHA and, to a lesser degree, the Veterans Administration (the “VA”). During 2010, 2011 and 2012, the FHA and VA accounted for approximately 83.9%, 77.3% and 68.0%, respectively, of the total low down payment residential mortgages that were subject to FHA, VA or private mortgage insurance, a substantial increase from an approximately 22.7% market share in 2007, according to statistics reported by *Inside Mortgage Finance*.

As noted above, the combined market share of the FHA and VA decreased in 2012 compared to 2011 and 2010, a trend that has been positive for the mortgage insurance industry. This decrease may have been influenced by the different rate structures and changes to underwriting criteria implemented by several mortgage insurers, including MGIC, from 2010 through 2012, as well as changes to FHA’s pricing that became effective in the same time period. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Consolidated Operations – New Insurance Written,” in Item 7. The increase in market share of the FHA and VA, coupled with the decrease in the level of mortgage loan originations overall through 2011, led to a decrease in our new insurance written from \$76.8 billion in 2007 to \$14.2 billion in 2011. The level of mortgage loan originations increased in 2012, compared to 2011, and our new insurance written increased to \$24.1 billion in 2012.

Proposed rules under Dodd-Frank and the Basel III capital accord could reduce the demand for private mortgage insurance. Dodd-Frank requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. This risk retention requirement does not apply to mortgage loans that are “Qualified Residential Mortgages” (“QRMs”) or that are insured by the FHA or another federal agency. In March 2011, federal regulators issued the proposed risk retention rule that includes a definition of QRM. The proposed definition of QRM contains many underwriting requirements, including a maximum loan-to-value ratio (“LTV”) of 80% on a home purchase transaction, a prohibition on seller contributions toward a borrower’s down payment or closing costs, and certain limits on a borrower’s debt-to-income ratio. The LTV is to be calculated without including mortgage insurance. None of our new risk written in 2012 was on loans that would qualify as QRMs under the March 2011 proposed rules.

The regulators requested public comments regarding an alternative QRM definition, the underwriting requirements of which would allow loans with a maximum LTV of 90%, higher debt-to-income ratios than allowed under the proposed QRM definition, and that may consider mortgage insurance in determining whether the LTV requirement is met. We estimate that approximately 22% of our new risk written in 2012 was on loans that would have met the alternative QRM definition. The regulators also requested that the public comments include information that may be used to assess whether mortgage insurance reduces the risk of default. We submitted a comment letter, including studies to the effect that mortgage insurance reduces the risk of default. Under the proposed rule, because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, lenders that originate loans that are sold to the GSEs while they are in conservatorship will not be required to retain risk associated with those loans. The public comment period for the proposed rule expired on August 1, 2011. At this time we do not know when a final rule will be issued.

In June 2012, federal regulators requested public comments on proposed rules to implement Basel III. The proposed rules would increase the capital requirements of many banking organizations. They contain a range of risk weightings for residential mortgages held for investment by certain banking organizations, with the specific weighting dependent upon, among other things, a loan's LTV. Unlike previous Basel rules, the proposed Basel III rules do not consider mortgage insurance when calculating a loan's risk weighting. The rules, if implemented as proposed, may reduce the incentive of banking organizations to purchase mortgage insurance for loans held for investment. The proposed Basel III rules continue to afford FHA-insured loans and Ginnie Mae mortgage-backed securities ("MBS") a lower risk weighting than Fannie Mae and Freddie Mac MBS. Therefore, with respect to capital requirements, FHA-insured loans will continue to have a competitive advantage over loans insured by private mortgage insurance and then sold to and securitized by the GSEs. The public comment period for the proposed rules expired October 22, 2012. It is uncertain what form the final rules will take.

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

- Whether we may continue to write insurance on new residential mortgage loans due to actions our regulators or the GSEs could take based upon our capital position or based upon their projections of future deterioration in our capital position. For additional information about this challenge, see Note 1 – "Nature of Business – Capital" to our consolidated financial statements in Item 8 and our risk factors titled "Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis," "We may not continue to meet the GSEs' mortgage insurer eligibility requirements" and "We have reported losses for the last six years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability" in Item 1A.
- Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. A definition of QRM that significantly impacts the volume of low down payment mortgages available to be insured, or a possible restructuring or change in the charters of the GSEs, could significantly affect our business. If final rules implementing Basel III do not consider mortgage insurance when calculating a loan's risk weighting, the incentive for banking organizations to purchase mortgage insurance for loans held for investment may be reduced. For additional information about this challenge, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Qualified Residential Mortgages" and "— GSE Reform" in Item 7 and the risk factors titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses," "The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage results in a reduction of the number of low down payment loans available to be insured or if lenders and investors select alternatives to private mortgage insurance," and "The implementation of the Basel III capital accord, or other changes to our customers' capital requirements, may discourage the use of mortgage insurance" in Item 1A.

General Information About Our Company

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

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

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

B. Our Products and Services

Mortgage Insurance

In general, there are two principal types of private mortgage insurance: “primary” and “pool.” We are currently not issuing new commitments for pool insurance and expect that the volume of any future pool business will be insignificant to us. In our industry, a “book” is a group of loans that a mortgage insurer insures in a particular period, normally a calendar year. We refer to the insurance that has been written by MGIC or MIC (since it started writing business in August 2012) as the “MGIC Book.”

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

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

Primary insurance may be written on a flow basis, in which loans are insured in individual, loan-by-loan transactions, or may be written on a bulk basis, in which each loan in a portfolio of loans is individually insured in a single, bulk transaction. New insurance written on a flow basis was \$24.1 billion in 2012, compared to \$14.2 billion in 2011 and \$12.3 billion in 2010. No new insurance for bulk transactions was written in 2012, 2011 or 2010. We expect the volume of any future business written through the bulk channel will be insignificant to us. As noted in “- Bulk Transactions” below, in the fourth quarter of 2007, we stopped writing bulk insurance for mortgage loans included in home equity (or “private label”) securitizations, which are the terms the market uses to refer to securitizations sponsored by firms other than the GSEs or Ginnie Mae, such as Wall Street investment banks. We refer to portfolios of loans we insured through the bulk channel that we knew would serve as collateral in a home equity securitization as “Wall Street bulk transactions.”

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

Primary Insurance and Risk In Force

	December 31,				
	2012	2011	2010	2009	2008
	(In billions)				
Direct Primary Insurance In Force	\$ 162.1	\$ 172.9	\$ 191.3	\$ 212.2	\$ 227.0
Direct Primary Risk In Force	\$ 41.7	\$ 44.5	\$ 49.0	\$ 54.3	\$ 59.0

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

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

The GSEs have different loan purchase programs that allow different levels of mortgage insurance coverage. Under the “charter coverage” program, on certain loans lenders may choose a mortgage insurance coverage percentage that is less than the GSEs’ “standard coverage” and only the minimum required by the GSEs’ charters, with the GSEs paying a lower price for such loans. In 2012, nearly all of our volume was on loans with GSE standard coverage.

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

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

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

Coverage tends to continue for borrowers experiencing economic difficulties and living in areas experiencing housing price depreciation. The persistency of coverage for those borrowers coupled with cancellation of coverage for other borrowers can increase the percentage of an insurer's portfolio comprised of loans with more credit risk. This development can also occur during periods of heavy mortgage refinancing because borrowers experiencing property value appreciation are less likely to require mortgage insurance at the time of refinancing, while borrowers not experiencing property value appreciation are more likely to still require mortgage insurance at the time of refinancing or not qualify for refinancing at all (including if they have experienced economic difficulties) and thus remain subject to the mortgage insurance coverage.

The percentage of primary new insurance written with respect to loans representing refinances was 36% in 2012, compared to 29% in 2011 and 32% in 2010. When a borrower refinances a mortgage loan insured by us by paying it off in full with the proceeds of a new mortgage that is also insured by us, the insurance on that existing mortgage is cancelled, and insurance on the new mortgage is considered to be new primary insurance written. Therefore, continuation of our coverage from a refinanced loan to a new loan results in both a cancellation of insurance and new insurance written. When a lender and borrower modify a loan rather than replace it with a new one, or enter into a new loan pursuant to a loan modification program, our insurance continues without being cancelled, assuming that we consent to the modification or new loan. As a result, such modifications or new loans, including those modified under the Home Affordable Refinance Program, are not included in our new insurance written.

In addition to varying with the coverage percentage, our premium rates for insurance vary depending upon the perceived risk of a claim on the insured loan and thus take into account, among other things, the loan-to-value ratio, the borrower's credit score, whether the loan is a fixed payment loan or a non-fixed payment loan (a non-fixed payment loan is referred to in the home mortgage lending industry as an adjustable rate mortgage), the mortgage term and whether the property is the borrower's primary residence. Historically, only our premium rates for A-, subprime loans and certain other loans varied based on the borrower's credit score. See footnote 3 to the table titled "Default Statistics for the MGIC Book" in " — Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation — Defaults" below for the definitions of A-, subprime and reduced documentation loans, as such terms are used in this annual report.

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

The borrower's mortgage loan instrument may require the borrower to pay the mortgage insurance premium. Our industry refers to loans having this requirement as "borrower paid." If the borrower is not required to pay the premium, then the premium is paid by the lender, who may recover the premium through an increase in the note rate on the mortgage or higher origination fees. Our industry refers to loans in which the premium is paid by the lender as "lender paid." Most of our primary insurance in force and new insurance written, other than through bulk transactions, is borrower paid mortgage insurance.

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

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

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

We have written no new pool risk since 2009 and expect that the volume of any future pool business will be insignificant to us. Our direct pool risk in force was \$1.3 billion (\$0.4 billion on pool policies with aggregate loss limits and \$0.9 billion on pool policies without aggregate loss limits) at December 31, 2012, compared to \$1.9 billion (\$0.7 billion on pool policies with aggregate loss limits and \$1.2 billion on pool policies without aggregate loss limits) at December 31, 2011 and \$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.

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

In the fourth quarter of 2007, we stopped writing bulk insurance for loans included in Wall Street bulk transactions. These securitizations represented approximately 8% of our risk in force and 72% of our bulk risk in force at December 31, 2012. We wrote no new business through the bulk channel after the second quarter of 2008 and we expect the volume of any future business written through the bulk channel will be insignificant to us. In general, the loans insured by us in Wall Street bulk transactions consisted of loans with reduced underwriting documentation; cash out refinances that exceed the standard underwriting requirements of the GSEs; A- loans; subprime loans; and jumbo loans. A jumbo loan has an unpaid principal balance that exceeds the conforming loan limit. The conforming loan limit is the maximum unpaid principal amount of a mortgage loan that can be purchased by the GSEs. For more information about conforming loan limits, see footnote 5 to the table titled "Characteristics of Primary Risk in Force" in "— Risk in Force and Product Characteristics of Risk in Force" below. For more information about insurance written through the bulk channel, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Consolidated Operations — Bulk Transactions" in Item 7.

Geographic Dispersion

The following tables reflect the percentage of primary risk in force in the top 10 states and top 10 core-based statistical areas for the MGIC Book at December 31, 2012:

Dispersion of Primary Risk in Force

Top 10 States

1.	California	7.4%
2.	Texas	6.9
3.	Florida	6.7
4.	Pennsylvania	5.0
5.	Ohio	4.6
6.	Illinois	4.4
7.	New York	3.8
8.	Michigan	3.7
9.	Georgia	3.3
10.	Washington	3.1
Total		48.9%

Top 10 Core-Based Statistical Areas

1.	Chicago-Naperville-Joliet	3.0%
2.	Atlanta-Sandy Springs-Marietta	2.2
3.	Houston-Baytown-Sugarland	2.2
4.	Washington-Arlington-Alexandria	1.9
5.	Philadelphia	1.8
6.	Los Angeles-Long Beach-Glendale	1.8
7.	New York-White Plains-Wayne	1.6
8.	Minneapolis-St. Paul-Bloomington	1.5
9.	San Juan-Caguas-Guaynabo	1.5
10.	Seattle-Bellevue-Everett	1.5
Total		19.0%

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

Insurance In Force by Policy Year

The following table sets forth for the MGIC Book the dispersion of our primary insurance in force as of December 31, 2012, by year(s) of policy origination since we began operations in 1985:

Primary Insurance In Force by Policy Year

<u>Policy Year</u>	<u>Flow</u>	<u>Bulk</u>	<u>Total</u>	<u>Percent of Total</u>
		(In millions)		
1985-2003	\$ 8,340	\$ 2,728	\$ 11,068	6.8%
2004	5,963	1,447	7,410	4.6
2005	10,224	2,560	12,784	7.9
2006	14,298	4,956	19,254	11.9
2007	33,662	4,012	37,674	23.2
2008	22,135	205	22,340	13.8
2009	9,804	-	9,804	6.0
2010	8,101	-	8,101	5.0
2011	11,030	-	11,030	6.8
2012	22,617	-	22,617	14.0
Total	\$ 146,174	\$ 15,908	\$ 162,082	100.0%

Risk In Force and Product Characteristics of Risk in Force

At December 31, 2012 and 2011, 97% and 96%, respectively, of our risk in force was primary insurance and the remaining risk in force was pool insurance. The following table sets forth for the MGIC Book the dispersion of our primary risk in force as of December 31, 2012, by year(s) of policy origination since we began operations in 1985:

Primary Risk In Force by Policy Year

<u>Policy Year</u>	<u>Flow</u>	<u>Bulk</u>	<u>Total</u>	<u>Percent of Total</u>
		(In millions)		
1985-2003	\$ 2,314	\$ 796	\$ 3,110	7.5%
2004	1,689	412	2,101	5.0
2005	2,810	765	3,575	8.6
2006	3,741	1,510	5,251	12.6
2007	8,674	984	9,658	23.1
2008	5,501	51	5,552	13.3
2009	2,123	-	2,123	5.1
2010	2,011	-	2,011	4.8
2011	2,765	-	2,765	6.6
2012	5,589	-	5,589	13.4
Total	\$ 37,217	\$ 4,518	\$ 41,735	100.0%

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

Characteristics of Primary Risk in Force

	December 31, 2012	December 31, 2011
Primary Risk in Force (In Millions):	\$ 41,735	\$ 44,462
Loan-to-value ratios: ⁽¹⁾		
100s	24.2%	26.0%
95s	35.8	32.6
90s ⁽²⁾	37.0	37.4
80s	3.0	4.0
Total	100.0%	100.0%
Loan Type:		
Fixed ⁽³⁾	93.5%	92.2%
Adjustable rate mortgages (“ARMs”) ⁽⁴⁾	6.5	7.8
Total	100.0%	100.0%
Original Insured Loan Amount: ⁽⁵⁾		
Conforming loan limit and below	95.1%	95.0%
Non-conforming	4.9	5.0
Total	100.0%	100.0%
Mortgage Term:		
15-years and under	2.4%	1.5%
Over 15 years	97.6	98.5
Total	100.0%	100.0%
Property Type:		
Single-family ⁽⁶⁾	90.2%	89.5%
Condominium	9.0	9.5
Other ⁽⁷⁾	0.8	1.0
Total	100.0%	100.0%
Occupancy Status:		
Primary residence	95.2%	94.5%
Second home	2.7	3.0
Non-owner occupied	2.1	2.5
Total	100.0%	100.0%
Documentation:		
Reduced documentation ⁽⁸⁾	7.3%	8.7%
Full documentation	92.7	91.3
Total	100.0%	100.0%
FICO Score: ⁽⁹⁾		
Prime (FICO 620 and above)	92.2%	91.5%
A Minus (FICO 575 – 619)	6.0	6.6
Subprime (FICO below 575)	1.8	1.9
Total	100.0%	100.0%

(1) Loan-to-value ratio represents the ratio (expressed as a percentage) of the dollar amount of the first mortgage loan to the value of the property at the time the loan became insured and does not reflect subsequent housing price appreciation or depreciation. Subordinate mortgages may also be present. For purposes of the table, loan-to-value ratios are classified as in excess of 95% (“100s”, a classification that includes 97% to 103% loan-to-value ratio loans); in excess of 90% loan-to-value ratio and up to 95% loan-to-value ratio (“95s”); in excess of 80% loan-to-value ratio and up to 90% loan-to-value ratio (“90s”); and equal to or less than 80% loan-to-value ratio (“80s”).

- (2) We include in our classification of 90s, loans where the borrower makes a down payment of 10% and finances the associated mortgage insurance premium payment as part of the mortgage loan. At each of December 31, 2012 and 2011, 0.7% and 0.9%, respectively, of the primary risk in force consisted of these types of loans.
- (3) Includes fixed rate mortgages with temporary buydowns (where in effect the applicable interest rate is typically reduced by one or two percentage points during the first two years of the loan), ARMs in which the initial interest rate is fixed for at least five years and balloon payment mortgages (a loan with a maturity, typically five to seven years, that is shorter than the loan's amortization period).
- (4) Includes ARMs where payments adjust fully with interest rate adjustments. Also includes pay option ARMs and other ARMs with negative amortization features, which collectively at December 31, 2012 and 2011, represented 1.8% and 2.7%, respectively, of primary risk in force. As indicated in note (3), does not include ARMs in which the initial interest rate is fixed for at least five years. As of December 31, 2012 and 2011, ARMs with loan-to-value ratios in excess of 90% represented 1.4% and 1.7%, respectively, of primary risk in force.
- (5) Loans within the conforming loan limit have an original principal balance that does not exceed the maximum original principal balance of loans that the GSEs are eligible to purchase. The conforming loan limit is subject to annual adjustment and was \$417,000 for 2007 and early 2008; this amount was temporarily increased to up to \$729,500 in the most costly communities in early 2008 and remained at such level through September 30, 2011. The limit was decreased to \$625,500 in high cost communities for loans originated after September 30, 2011. Non-conforming loans are loans with an original principal balance above the conforming loan limit.
- (6) Includes townhouse-style attached housing with fee simple ownership.
- (7) Includes cooperatives and manufactured homes deemed to be real estate.
- (8) Reduced documentation loans, many of which are commonly referred to as "Alt-A" loans, are originated under programs in which there is a reduced level of verification or disclosure compared to traditional mortgage loan underwriting, including programs in which the borrower's income and/or assets are disclosed in the loan application but there is no verification of those disclosures and programs in which there is no disclosure of income or assets in the loan application. At December 31, 2012 and 2011, reduced documentation loans represented 4.3% and 5.0%, respectively, of risk in force written through the flow channel and 31.9% and 34.8%, respectively, of risk in force written through the bulk channel. In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." Based in part on information provided by the GSEs, we estimate full documentation loans of this type were approximately 4% of 2007 new insurance written. Information for other periods is not available. We understand these AU systems grant such doc waivers for loans they judge to have higher credit quality. We also understand that the GSEs terminated their "doc waiver" programs in the second half of 2008.
- (9) Represents the FICO score at loan origination. The weighted average FICO score at loan origination for new insurance written in 2012 and 2011 was 759. The FICO credit score for a loan with multiple borrowers is the lowest of the borrowers' "decision FICO scores." A borrower's "decision FICO score" is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used. A FICO credit score is a score based on a borrower's credit history generated by a model developed by Fair Isaac Corporation.

Other Products and Services

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

In response to requests or subpoenas, we provided information regarding captive mortgage reinsurance arrangements to the New York Department of Financial Services, the Minnesota Department of Commerce and the Department of Housing and Urban Development, commonly referred to as HUD. In January 2012, we received correspondence from the Consumer Financial Protection Bureau (“CFPB”) indicating that the CFPB had opened an investigation into captive mortgage reinsurance premium ceding practices by private mortgage insurers. In that correspondence, the CFPB also requested, among other things, certain information regarding captive mortgage reinsurance transactions in which we participated. In June 2012, we received a Civil Investigative Demand (“CID”) from the CFPB requiring additional information and documents regarding captive mortgage insurance. We have met with and expect to continue to meet with the CFPB to discuss the CID and how to resolve its investigation. MGIC has also filed a petition to modify the CID which petition is currently pending. While MGIC believes it would have strong defenses to any claims the CFPB might bring against it as a result of the investigation, it continues to work with the CFPB to try to resolve the investigation and any concerns that the CFPB may have about MGIC’s past and current captive reinsurance practices. If MGIC cannot resolve the concerns of the CFPB, it is possible that the CFPB would assert various RESPA and possibly other claims against it. Seven mortgage insurers, including MGIC, were involved in litigation alleging that “inflated” captive reinsurance premiums were paid in violation of RESPA. MGIC’s settlement of this class action litigation against it became final in October 2003. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. Beginning in December 2011, MGIC, various mortgage lenders and various other mortgage insurers have been named as defendants in twelve lawsuits, alleged to be class actions, filed in various U.S. District Courts. Three of those cases have previously been dismissed. The complaints in all nine of the remaining cases allege various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the defendants violated RESPA by paying excessive premiums to the lenders’ captive reinsurer in relation to the risk assumed by that captive. MGIC denies any wrongdoing and intends to vigorously defend itself against the allegations in the lawsuits. There can be no assurance that we will not be subject to further litigation under RESPA or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us. For more information, see our risk factor titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future” in Item 1A.

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

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

Contract Underwriting and Related Services. A non-insurance subsidiary of ours (funded by contributions from our holding company and, in part, from the operations of the subsidiary) performs contract underwriting services for lenders. In performing those services, we judge whether the data relating to the borrower and the loan contained in the lender's mortgage loan application file comply with the lender's loan underwriting guidelines. We also provide an interface to submit data to the automated underwriting systems of the GSEs, which independently judge the data. These services are provided for loans that require private mortgage insurance as well as for loans that do not require private mortgage insurance. The complaint in the RESPA litigation that we settled in 2003, which litigation is referred to under "Risk Sharing Arrangements" above, alleged, among other things, that the pricing of contract underwriting provided by us violated RESPA.

Under our contract underwriting agreements, we may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. The contract remedy expense of the subsidiary performing the contract underwriting services was approximately \$27 million, \$23 million and \$19 million for the years ended December 31, 2012, 2011 and 2010, respectively. Claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years, including for 2006 and 2007, involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans for which we provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition," in Item 7

Other. We provide various mortgage services for the mortgage finance industry, such as loan origination and portfolio analytics, mortgage lead generation and secondary marketing of mortgages.

Customers

Originators of residential mortgage loans such as savings institutions, commercial banks, mortgage brokers, credit unions, mortgage bankers and other lenders have historically determined the placement of mortgage insurance written on a flow basis and as a result are our customers. To obtain primary insurance from us written on a flow basis, a mortgage lender must first apply for and receive a mortgage guaranty master policy from us. Our top 10 customers, none of whom represented more than 10% of our consolidated revenues, generated 24.8% of our new insurance written on a flow basis in 2012, compared to 26.7% in 2011 and 27.2% in 2010. In the fourth quarter of 2009, Countrywide Home Loans and an affiliate ("Countrywide") commenced litigation against us as a result of its dissatisfaction with our rescission practices shortly after it ceased doing business with us. See the risk factor titled "We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future," in Item 1A as well as Item 3, "Legal Proceedings," for more information about this litigation, the arbitration case we filed against Countrywide regarding rescissions and our probable settlement with Countrywide. Countrywide and its Bank of America affiliates accounted for approximately 8% of our new insurance written in the first three quarters of 2009. Another customer with whom we still do business accounted for approximately 10% of our flow new insurance written in 2012 compared to approximately 9% in 2011.

Sales and Marketing and Competition

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

Competition. Our competition includes other mortgage insurers, governmental agencies and products designed to eliminate the need to purchase private mortgage insurance. As noted above in “Overview of the Private Mortgage Insurance Industry,” for flow business, we and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies, principally the FHA and, to a lesser degree, the VA. These agencies sponsor government-backed mortgage insurance programs, which during 2012, 2011 and 2010 accounted for approximately 68.0%, 77.3% and 83.9%, respectively, of the total low down payment residential mortgages which were subject to governmental or private mortgage insurance. While declining from a high of 84.6% in 2009, it remains substantially above approximately 22.7% in 2007, according to statistics reported by *Inside Mortgage Finance*. We believe that the FHA’s market share increased, in part, because mortgage insurers have tightened their underwriting guidelines (which has led to increased utilization of the FHA’s programs) and because of increases in the amount of loan level delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). Furthermore, the FHA’s loan limits were raised to be more on par with those of the GSEs in high cost markets.

As noted above, the combined market share of the FHA and VA decreased in 2012 compared to 2011 and 2010, a trend that has been positive for the mortgage insurance industry. This decrease may have been influenced by the different rate structures implemented by several mortgage insurers, including MGIC, from 2010 through 2012, as well as recent changes to FHA’s pricing. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Consolidated Operations – New Insurance Written,” in Item 7.

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

The private mortgage insurance industry is highly competitive. We believe that we currently compete with other private mortgage insurers based on underwriting guidelines, pricing, issuer financial strength ratings, customer relationships, name recognition, reputation, the ancillary products and services provided to lenders (including contract underwriting services), the strength of management teams and field organizations, the depths of databases covering insured loans and the effective use of technology and innovation in the delivery and servicing of insurance products. Our relationships with our customers could be adversely affected by a variety of factors, including tightening of and adherence to our underwriting guidelines, which have resulted in our declining to insure some of the loans originated by our customers and rescission of coverage on loans that affects the customer. We believe many customers assess a mortgage insurer's financial strength rating and risk-to-capital ratio as important elements of the process through which they select mortgage insurers. As a result of MGIC's and MIC's less than investment grade financial strength ratings and MGIC's risk-to-capital ratio level being above the maximum allowed by some jurisdictions, MGIC and MIC may be competitively disadvantaged with these customers. In the fourth quarter of 2009, Countrywide commenced litigation against us as a result of its dissatisfaction with our rescission practices shortly after it ceased doing business with us. See the risk factor titled "We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future" in Item 1A as well as Item 3, "Legal Proceedings," for more information about this litigation, the arbitration case we filed against Countrywide regarding rescissions and our probable settlement with Countrywide. Information about some of the other factors that can affect a mortgage insurer's relationship with its customers can be found in our risk factor titled "Competition or changes in our relationships with our customers could reduce our revenues or increase our losses" in Item 1A.

The U.S. private mortgage insurance industry currently consists of six active mortgage insurers and their affiliates. The newest mortgage insurer began to write new business in 2010 and has reported that one of our customers, JPMorgan Chase, is one of its investors. The names of these mortgage insurers can be found in "Competition or changes in our relationships with our customers could reduce our revenues or increase our losses" in Item 1A. During 2012, a new company, NMI Holdings Inc., raised \$550 million to enter the mortgage insurance business. NMI Holdings has been approved as an eligible mortgage insurer by the GSEs and we believe that it expects to launch its business in the second quarter of 2013. In addition, in February 2013, a worldwide insurer and reinsurer with mortgage insurance operations in Europe announced that it was purchasing a competitor, CMG Mortgage Insurance Company. The perceived increase in credit quality of loans that are being insured today, the deterioration of the financial strength ratings of the existing mortgage insurance companies and the possibility of a decrease in the FHA's share of the mortgage insurance market may encourage additional new entrants. At December 31, 2012, we had the largest book of direct primary insurance in force. According to *Inside Mortgage Finance*, through 2010, we had been the largest private mortgage insurer (as measured by new insurance written) for more than ten years. In 2012, we had the third largest market share (as measured by new insurance written), with our market share decreasing to an estimated 18.4% from 20.4% in 2011 and 22.1% in 2010, in each case excluding HARP refinances. During 2011, two of our competitors stopped writing new business and, based on public disclosures, these competitors approximated slightly more than 20% of the private mortgage insurance industry volume in the first half of 2011. Most of the market share of these two former competitors has gone to other mortgage insurers and not to us because, among other reasons, some competitors have materially lower premiums than we do on single premium policies, one of these competitors also uses a risk weighted pricing model that typically results in lower premiums than we charge on certain loans and several of these competitors have streamlined their underwriting to be closely aligned with that of the GSEs. We continuously monitor the competitive landscape and make adjustments to our pricing and underwriting guidelines as warranted. In the first quarter of each of 2012 and 2013, we made changes to streamline our underwriting guidelines and in the first quarter of 2012, we lowered our premium rates on loans with credit scores of 760 or higher.

The mortgage insurance industry historically viewed a financial strength rating of Aa3/AA- as critical to writing new business. At the time that this annual report was finalized, the financial strength of MGIC was rated B2 (with a negative outlook) by Moody's Investors Service and B- (with a negative outlook) by Standard & Poor's Rating Services. MGIC could be further downgraded by either or both of these rating agencies. The financial strength of MIC was rated Ba3 (with a negative outlook by Moody's) and B- (with a negative outlook) by Standard & Poor's. As a result of MGIC's financial strength rating being below Aa3/AA-, it is operating with each GSE as an eligible insurer under a remediation plan. MIC is currently operating with each GSE as an eligible insurer under the approvals discussed above. For further information about the importance of MGIC's ratings, see our risk factor titled "We may not continue to meet the GSEs' mortgage insurer eligibility requirements" in Item 1A. In assigning financial strength ratings, in addition to considering the adequacy of the mortgage insurer's capital to withstand very high claim scenarios under assumptions determined by the rating agency, we believe rating agencies review a mortgage insurer's historical and projected operating performance, franchise risk, business outlook, competitive position, management, corporate strategy, and other factors. The rating agency issuing the financial strength rating can withdraw or change its rating at any time.

Risk Management

We believe that mortgage credit risk is materially affected by:

- the borrower's credit strength, including the borrower's credit history, debt-to-income ratios and cash reserves, and the willingness of a borrower with sufficient resources to make mortgage payments when the mortgage balance exceeds the value of the home;
- the loan product, which encompasses the loan-to-value ratio, the type of loan instrument, including whether the instrument provides for fixed or variable payments and the amortization schedule, the type of property and the purpose of the loan;
- origination practices of lenders and the percentage of coverage on insured loans;
- the size of loans insured; and
- the condition of the economy, including housing values and employment, in the area in which the property is located.

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

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

- for loans with less than full underwriting documentation compared to loans with full underwriting documentation;
- during periods of economic contraction and housing price depreciation, including when these conditions may not be nationwide, compared to periods of economic expansion and housing price appreciation;
- for loans with higher loan-to-value ratios compared to loans with lower loan-to-value ratios;
- for ARMs when the reset interest rate significantly exceeds the interest rate of loan origination;
- for loans that permit the deferral of principal amortization compared to loans that require principal amortization with each monthly payment;
- for loans in which the original loan amount exceeds the conforming loan limit compared to loans below that limit; and
- for cash out refinance loans compared to rate and term refinance loans.

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

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

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

Delegated Underwriting and Automated Underwriting Approvals. In the past, we allowed approved lenders to commit us to insure loans originated through the flow channel using their own underwriting guidelines and evaluation, including their own automated underwriting systems. From 2000 through January 2007, the use of automated underwriting systems by the GSEs and lenders increased materially. During this same period, we allowed loans approved by the automated underwriting systems of the GSEs and approved lenders to be automatically approved for MGIC mortgage insurance. As a result, during this period, a substantial majority of the loans insured by us through the flow channel were approved as a result of loan approvals by automated underwriting systems. Beginning in 2007 and continuing through 2012, loans would not automatically be insured by us even though the loans were approved by the underwriting systems described above.

Most applications for mortgage insurance are submitted to us electronically and we rely upon the lender's representations and warranties that the data submitted is true and correct when making our insurance decision. Substantially all of the remaining applications are accompanied by documents from the lender's origination loan file. In the case of electronic submissions, a lender transmits application data to us through a variety of electronic interfaces. All submitted data is electronically evaluated against our underwriting requirements. If the loan meets the underwriting requirements, a commitment to insure the loan is issued. If the requirements are not met, the loan is reviewed by one of our underwriters. Our underwriters are authorized to approve loans that do not meet all of our underwriting requirements, including after discussing the loan with the lender. Together, the number of loans for which exceptions were made accounted for fewer than 5% of the loans we insured in 2011 and fewer than 2% of the loans we insured in 2012.

Beginning in the first quarter of 2013, loans that receive a certain approval result by the GSEs' automated underwriting systems will be eligible for insurance, if such loans meet certain criteria that we establish related to, for example, credit score, debt-to-income ratio and loan-to-value ratio.

Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation

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

Defaults. The claim cycle on private mortgage insurance generally begins with the insurer's receipt of notification of a default on an insured loan from the lender. We define a default as an insured loan with a mortgage payment that is 45 days or more past due. Lenders are required to notify us of defaults within 130 days after the initial default, although most lenders do so earlier. The incidence of default is affected by a variety of factors, including the level of borrower income growth, unemployment, divorce and illness, the level of interest rates, rates of housing price appreciation or depreciation and general borrower creditworthiness. Defaults that are not cured result in a claim to us. See "- Claims." Defaults may be cured by the borrower bringing current the delinquent loan payments or by a sale of the property and the satisfaction of all amounts due under the mortgage. In addition, when a policy is rescinded or a claim is denied we remove the default from our default inventory. Beginning in August 2012, a borrower who is current or less than 31 days delinquent but with specific hardship criteria (including among other things the death, permanent illness or disability of a borrower or co-borrower, divorce or a distant employment transfer/relocation) and a debt-to-income ratio of 55% or higher, may be considered an imminent default and therefore eligible for a short sale. This may result in an acceleration of the claim cycle because a claim may be submitted without a prior default notification. Through the end of 2012 there has been no material increase in the level of short sales as a result of this change.

The following table shows the number of primary and pool loans insured in the MGIC Book, including loans insured in bulk transactions and A- and subprime loans, the related number of loans in default and the percentage of loans in default, or default rate, as of December 31, 2008-2012:

Default Statistics for the MGIC Book

	December 31,				
	2012	2011	2010	2009	2008
PRIMARY INSURANCE					
Insured loans in force	1,006,346	1,090,086	1,228,315	1,360,456	1,472,757
Loans in default ⁽¹⁾	139,845	175,639	214,724	250,440	182,188
Default rate – all loans	13.90%	16.11%	17.48%	18.41%	12.37%
Flow loans in default	107,497	134,101	162,621	185,828	122,693
Default rate – flow loans	11.87%	13.79%	14.94%	15.46%	9.51%
Bulk loans in force	100,782	117,573	139,446	158,089	182,268
Bulk loans in default ⁽²⁾	32,348	41,538	52,103	64,612	59,495
Default rate – bulk loans	32.10%	35.33%	37.36%	40.87%	32.64%
Prime loans in default ⁽³⁾	90,270	112,403	134,787	150,642	95,672
Default rate – prime loans	10.44%	12.20%	13.11%	13.29%	7.90%
A-minus loans in default ⁽³⁾	20,884	25,989	31,566	37,711	31,907
Default rate – A-minus loans	32.92%	35.10%	36.69%	40.66%	30.19%
Subprime loans in default ⁽³⁾	7,668	9,326	11,132	13,687	13,300
Default rate – subprime loans	40.78%	43.60%	45.66%	50.72%	43.30%
Reduced documentation loans delinquent ⁽⁴⁾	21,023	27,921	37,239	48,400	41,309
Default rate – reduced doc loans	35.23%	37.96%	41.66%	45.26%	32.88%
POOL INSURANCE					
Insured loans in force ⁽⁵⁾	119,061	374,228	468,361	526,559	603,332
Loans in default	8,594	32,971	43,329	44,231	33,884
Percentage of loans in default (default rate)	7.22%	8.81%	9.25%	8.40%	5.62%

General Notes: (a) For the information presented for 2010-2012, the FICO credit score for a loan with multiple borrowers is the lowest of the borrowers’ “decision FICO scores.” For the information presented prior to 2010, the FICO score for a loan with multiple borrowers was the income weighted average of the “decision FICO scores” for each borrower. A borrower’s “decision FICO score” is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used. This change made our reporting consistent with the FICO credit scores that we use for underwriting purposes. (b) Servicers continue to pay our premiums for nearly all of the loans in our default inventory, but in some cases, servicers stop paying our premiums. In those cases, even though the loans continue to be included in our default inventory, the applicable loans are removed from our insured loans in force. Loans where servicers have stopped paying premiums include 9,054 defaults with a risk of \$456 million as of December 31, 2012. (c) During the 4th quarter of 2011 we conducted a review of our single life of loan policies and concluded that approximately 21,000 of these policies were no longer in force, and as a result we canceled these policies with insurance in force of approximately \$2.3 billion and risk in force of approximately \$0.5 billion.

(1) At December 31, 2012, 2011, 2010, 2009 and 2008, 25,282, 30,250, 36,066, 45,907 and 45,482 loans in default, respectively, related to Wall Street bulk transactions and at December 31, 2012, 2011, 2010, 2009 and 2008, 11,731, 12,610, 20,898, 16,389 and 13,275 loans in default, respectively, were in our claims received inventory.

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

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

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

(5) The number of loans insured under pool policies declined significantly from 2011 to 2012, partly due to the cancellation of certain pool policies due to the exhaustion of their aggregate loss limits.

Different areas of the United States may experience different default rates due to varying localized economic conditions from year to year. The following table shows the percentage of primary loans we insured that were in default as of December 31, 2012, 2011 and 2010 for the 15 states for which we paid the most losses during 2012:

State Default Rates

	December 31,		
	2012	2011	2010
Florida	36.49%	39.51%	41.00%
California	13.79	20.71	27.30
Illinois	20.12	22.37	21.96
Arizona	14.63	21.91	30.81
Michigan	10.35	14.43	17.48
Georgia	14.68	17.72	20.85
Nevada	30.32	35.08	41.07
Ohio	10.76	12.91	13.67
Texas	8.50	10.00	11.31
Washington	13.25	15.08	15.73
Minnesota	9.00	13.01	15.38
Wisconsin	8.65	10.47	11.17
North Carolina	12.91	14.95	15.42
Virginia	10.42	12.36	15.07
Maryland	20.59	21.63	22.15
All other states	12.37	13.47	13.81

The primary default inventory in those same states as of December 31, 2012, 2011 and 2010 appears in a table found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Consolidated Operations – Losses – Losses Incurred,” in Item 7.

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

Under the terms of our master policy, the lender is required to file a claim for primary insurance with us within 60 days after it has acquired title to the underlying property (typically through foreclosure). It has historically taken on average approximately twelve months for a default that is not cured to develop into a paid claim. The rate at which claims are received and paid had slowed in recent years due to various state and lender foreclosure moratoriums and suspensions, servicing delays including as a result of attempts to modify loans, fraud investigations by us, our pursuit of mitigation opportunities and a lack of capacity in the court systems. Beginning in 2011, however, we experienced an increase in claims paid on default notices related to the current year, due to fewer claim investigations and an increase in short sales.

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

Claim activity is not evenly spread throughout the coverage period of a book of primary business. For prime loans, relatively few claims are typically received during the first two years following issuance of coverage on a loan. This is typically followed by a period of rising claims which, based on industry experience, has historically reached its highest level in the third and fourth years after the year of loan origination. Thereafter, the number of claims typically received has historically declined at a gradual rate, although the rate of decline can be affected by conditions in the economy, including slowing home price appreciation or housing price depreciation. Due in part to the subprime component of loans insured in Wall Street bulk transactions, the peak claim period for bulk loans has generally occurred earlier than for flow loans. Moreover, when a loan is refinanced, because the new loan replaces, and is a continuation of, an earlier loan, the pattern of claims frequency for that new loan may be different from the historical pattern of other loans. Persistency, the condition of the economy, including unemployment, and other factors can affect the pattern of claim activity. For example, a weak economy can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. We are currently seeing such performance as it relates to delinquencies from our older books and all of our books are being affected by the condition of the economy and housing price depreciation. As of December 31, 2012, 26% of our primary insurance in force was written subsequent to December 31, 2009, 32% was written subsequent to December 31, 2008, and 46% was written subsequent to December 31, 2007. See "Our Products and Services - Mortgage Insurance - Insurance In Force by Policy Year" above.

Another important factor affecting MGIC Book losses is the amount of the average claim paid, which is generally referred to as claim severity. The main determinants of claim severity are the amount of the mortgage loan, the coverage percentage on the loan and local market conditions. The primary average claim paid on the MGIC Book was \$48,722 in 2012, compared to \$49,887 for 2011 and \$50,173 for 2010, \$52,627 for 2009 and \$52,239 for 2008. The decrease in average claim paid in 2010 through 2012 compared to 2008 and 2009 was primarily a result of flow claims being a higher percentage of claims paid in 2010 through 2012 compared to 2008 and 2009; flow claims have lower average loan amounts and coverage percentages than bulk loans.

Information about net claims we paid during 2012, 2011 and 2010 appears in the table below.

Net paid claims (In millions)

	2012	2011	2010
Prime (FICO 620 & >)	\$ 1,558	\$ 1,772	\$ 1,400
A-Minus (FICO 575-619)	235	283	265
Subprime (FICO < 575)	65	70	77
Reduced doc (All FICOs) ⁽¹⁾	372	429	451
Pool ⁽²⁾	334	480	177
Other	5	6	3
Direct losses paid	\$ 2,569	\$ 3,040	\$ 2,373
Reinsurance	(90)	(140)	(126)
Net losses paid	\$ 2,479	\$ 2,900	\$ 2,247
LAE	45	60	71
Net losses and LAE before terminations	\$ 2,524	\$ 2,960	\$ 2,318
Reinsurance terminations	(6)	(39)	(38)
Net losses and LAE paid	\$ 2,518	\$ 2,921	\$ 2,280

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

(2) 2012 includes \$100 million paid under the terms of the settlement with Freddie Mac as discussed under Note 20 – “Litigation and Contingencies” to our consolidated financial statements in Item 8.

Primary claims paid for the top 15 states (based on 2012 paid claims) and all other states for the years ended December 31, 2012, 2011 and 2010 appear in a table found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Consolidated Operations – Losses – Losses Incurred,” in Item 7.

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

Loss Mitigation. Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us “curtailments.” In 2012, curtailments reduced our average claim paid by approximately 4%. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as mortgage insurance premiums, hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments.

After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. For more information about such objections, including by Countrywide, see our risk factor titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future” in Item 1A.

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. Prior to 2008, rescissions of coverage on loans and claim denials, which we collectively refer to as “rescissions” and variations of this term, were not a material portion of our claims resolved during a year. Beginning in 2008, our rescissions of policies have materially mitigated our paid losses, however, the percentage of claims that have been resolved through rescission has been declining. For further information about our recent rescission rates, See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Consolidated Operations — Losses – Losses Incurred” in Item 7. We continue to expect that the percentage of claims that will be resolved through rescissions will continue to decline. For further information, see our risk factor titled “Our losses could increase if we do not prevail in proceedings challenging whether our rescissions were proper, we enter into material resolution arrangements or rescission rates decrease faster than we are projecting” in Item 1A.

When we rescind coverage, we return all premiums previously paid to us under the policy and are relieved of our obligation to pay a claim under the policy, although if the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. For the majority of our rescissions since the beginning of 2009 that are not subject to a settlement agreement, the period in which a dispute may be brought has not ended. Until a liability associated with a settlement agreement or litigation becomes probable and can be reasonably estimated, we consider a rescission resolved for financial reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are sometimes 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 generally include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings. For more information about these legal proceedings, see the risk factor titled, “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future” in Item 1A as well as Item 3, “Legal Proceedings.”

In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. Since those announcements, the GSEs have approved our settlement agreement with one customer and have rejected settlement agreements that were structured differently. We have reached and implemented settlement agreements that do not require GSE approval, but they have not been material in the aggregate.

As noted in the risk factor titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future” in Item 1A, we have been involved in legal proceedings with Countrywide and have made substantial progress in reaching an agreement to settle it. While there can be no assurance that we will actually enter into a settlement agreement with Countrywide, we have determined that a settlement with Countrywide is probable. We are also discussing a settlement with another customer. We have also determined that it is probable we will reach a settlement of our dispute with this customer.

We are now able to reasonably estimate the probable loss associated with each settlement and, as required by ASC 450-20, we have recorded the estimated impact of the two settlements referred to above in our financial statements for the quarter ending December 31, 2012. The aggregate impact to loss reserves for the probable settlement agreements was an increase of approximately \$100 million and was reflected in the fourth quarter 2012 financial results. If we are not able to reach settlement with Countrywide, we intend to defend MGIC against any related legal proceedings, vigorously.

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. We continue to discuss with other lender-customers their objections to material rescissions and have reached settlement terms with several of our significant lender-customers. Although it is reasonably possible that, when the discussions or legal proceedings with customers regarding rescissions are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

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

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

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

During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our master policy (the "Gold Cert Endorsement"). If a borrower makes payments for three years, our Gold Cert Endorsement limits our ability to rescind coverage except under certain circumstances, including where we prove the lender had knowledge of inaccurate information in the loan file. In addition, our Gold Cert Endorsement limits our ability to rescind coverage on loans for which the borrower makes payments on time for one year with his own funds, if we are provided with certain documents shortly after we insure the loan and we fail to discover that the loan was ineligible for our insurance. We believe the limitations on our rights to rescind coverage under the Gold Cert Endorsement will materially reduce rescissions on such loans. Currently, less than 3% of our insurance in force was written under our Gold Cert Endorsement. However, we estimate that approximately 33% of our new insurance written in the fourth quarter of 2012, and 41% of our new insurance written in December 2012, was written under this endorsement.

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

Loss Reserves and Premium Deficiency Reserve

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

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

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

After our reserves are initially established, we perform premium deficiency tests using best estimate assumptions as of the testing date. We establish a premium deficiency reserve, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premiums and already established reserves. In the fourth quarter of 2007, we recorded a premium deficiency reserve of \$1.2 billion relating to Wall Street bulk transactions remaining in our insurance in force. As of December 31, 2012, this premium deficiency reserve was \$74 million.

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

C. Investment Portfolio

Policy and Strategy

At December 31, 2012, the fair value of our investment portfolio was approximately \$4.2 billion. In addition, at December 31, 2012, our total assets included approximately \$1.0 million of cash and cash equivalents. As of December 31, 2012, approximately \$315 million of our portfolio was held at the parent company level and the remainder of our portfolio was held by our subsidiaries, primarily MGIC.

As of January 2, 2013, approximately 74% of our investment portfolio (excluding cash and cash equivalents) is managed by Wellington Management Company, LLP, although we maintain overall control of investment policy and strategy. We maintain direct management of the remainder of our investment portfolio. Unless otherwise indicated, the remainder of the discussion of our investment portfolio refers to our investment portfolio only and not to cash and cash equivalents.

Our current policies emphasize preservation of capital, as well as total return. Therefore, our investment portfolio consists almost entirely of high-quality, investment grade, fixed-income securities. During 2012 we elected to realize \$198 million in net realized gains given the favorable market conditions. We then reinvested the funds taking into account our anticipated future claim payment obligations. We also continue to reduce the proportion of our investment portfolio in tax exempt municipal securities while increasing the proportion of taxable securities. For statutory purposes, investments are generally held at amortized cost, therefore the realized gains increased our statutory policyholder's position or statutory capital. Our investment policies in effect at December 31, 2012 limit investments in the securities of a single issuer, other than the U.S. government, and generally limit the purchase of fixed income securities to those that are rated investment grade by at least one rating agency. At that date, the maximum aggregate book value of the holdings of a single obligor was:

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

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

At December 31, 2012, approximately 89% of our total fixed income investment portfolio was invested in securities rated "A" or better, with 52% rated "AAA" and 15% rated "AA," in each case by at least one nationally recognized securities rating organization. For information related to the portion of our investment portfolio that is insured by financial guarantors, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition" in Item 7.

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

Investment Operations

At December 31, 2012, tax exempt municipal securities represented 5%, and taxable municipal securities represented 13%, of the fair value of our total investment portfolio. We had no derivative financial instruments in our investment portfolio. During 2012 we continued to shift our portfolio to a higher concentration of taxable securities, as reflected in the table below. As December 31, 2012, corporate securities represented 34% of the fair value of our investment portfolio. Securities due within one year, within one to five years, within five to ten years, and after ten years, represented 26%, 40%, 12% and 8%, respectively, of the total fair value of our investment in debt securities. Mortgage-backed securities represented the remaining 14% of the total fair value of our investment in debt securities. Our pre-tax yield for 2012 was 1.7%, compared to a pre-tax yield of 2.8% in 2011 and 3.1% in 2010.

Our ten largest holdings at December 31, 2012 appear in the table below:

	Fair Value (In thousands)
1. Hewlett-Packard Co.	\$ 43,339
2. US Bancorp	41,650
3. Pepsico Inc.	34,862
4. Credit Suisse Group New York	32,527
5. American Honda Finance	32,417
6. Bank One Issuance Trust	31,047
7. Ally Master Owner Trust	30,116
8. General Electric Capital Corp	28,247
9. JP Morgan Chase & Co.	27,941
10. American Express Credit Co.	27,941
	<u>\$ 330,087</u>

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

The sectors of our investment portfolio at December 31, 2012 appear in the table below:

	Percentage of Portfolio's Fair Value
1. Corporate	34%
2. Asset Backed (see note below)	22
3. U.S. Treasuries (incl FDIC-guaranteed)	20
4. Taxable Municipals	13
5. Tax-Exempt Municipals	5
6. Foreign	4
7. Escrowed / Prerefunded Municipals	1
8. Other	1
	<u>100%</u>

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

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

D. Regulation

Direct Regulation

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. In January 2013, the CFPB, established by the Dodd-Frank Act to regulate the offering and provision of consumer financial products or services under federal law, issued rules to implement laws requiring mortgage lenders to make ability-to-pay determinations prior to extending credit. We are uncertain whether the CFPB will issue any other rules or regulations that affect our business apart from any action it may take as a result of its investigation of captive mortgage reinsurance. Such rules and regulations could have a material adverse effect on us.

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

- licenses to transact business;
- policy forms;
- premium rates;
- insurable loans;

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

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

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

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

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

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

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

The FHFA is the conservator of the GSEs. As their conservator, FHFA has the authority to control and direct 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 may increase the likelihood that the business practices of the GSEs change in ways that 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 in February 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. Members of Congress have since introduced several bills intended to scale back the GSEs. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last. For additional information about the potential impact that any such changes in the GSE's roles may have on us, see the risk factor titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses" in Item 1A.

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

Indirect Regulation

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

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

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

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

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

E. Employees

At December 31, 2012, we had approximately 877 full- and part-time employees, of whom approximately 26% were assigned to our field offices. The number of employees given above does not include “on-call” employees. The number of “on-call” employees can vary substantially, primarily as a result of changes in demand for contract underwriting services. In recent years, the number of “on-call” employees has ranged from fewer than 70 to more than 220.

F. Website Access

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

Item 1A. Risk Factors.

Forward Looking Statements and Risk Factors

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

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

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

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the “Capital Requirements.” New insurance written in the jurisdictions that have Capital Requirements represented approximately 50% of new insurance written in 2011 and 2012. While formulations of minimum capital vary among jurisdictions, the most common formulation allows for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position (“MPP”). The “policyholder position” of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums.

At December 31, 2012, MGIC’s risk-to-capital ratio was 44.7 to 1, exceeding the maximum allowed by many jurisdictions, and its policyholder position was \$640 million below the required MPP of \$1.2 billion. We expect MGIC’s risk-to-capital ratio to increase above its December 31, 2012 level. At December 31, 2012, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 47.8 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC or MIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC and MIC to write insurance with a higher coverage percentage than they could on their own under certain state-specific requirements.

Statement of Statutory Accounting Principles No. 101 (“SSAP No. 101”) became effective January 1, 2012 and prescribed new standards for determining the amount of deferred tax assets that can be recognized as admitted assets for determining statutory capital. Under a permitted practice effective September 30, 2012 and until further notice, the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”) has approved MGIC to report its net deferred tax asset as an admitted asset in an amount not to exceed 10% of surplus as regards policyholders, notwithstanding contrary provisions of SSAP No. 101. At December 31, 2012, had MGIC calculated its net deferred tax assets based on the provisions of SSAP No. 101, no deferred tax assets would have been admitted. Pursuant to the permitted practice, deferred tax assets of \$63 million were included in statutory capital.

Although MGIC does not meet the Capital Requirements of Wisconsin, the OCI has waived them until December 31, 2013. In place of the Capital Requirements, the OCI Order containing the waiver of Capital Requirements (the “OCI Order”) provides that MGIC can write new business as long as it maintains regulatory capital that the OCI determines is reasonably in excess of a level that would constitute a financially hazardous condition. The OCI Order requires MGIC Investment Corporation, through the earlier of December 31, 2013 and the termination of the OCI Order (the “Covered Period”), to make cash equity contributions to MGIC as may be necessary so that its “Liquid Assets” are at least \$1 billion (this portion of the OCI Order is referred to as the “Keepwell Provision”). “Liquid Assets,” which include those of MGIC as well as those held in certain of our subsidiaries, including our Australian subsidiaries, but excluding MIC and its reinsurance affiliates, are the sum of (i) the aggregate cash and cash equivalents, (ii) fair market value of investments and (iii) assets held in trusts supporting the obligations of captive mortgage reinsurers to MGIC. As of December 31, 2012, “Liquid Assets” were approximately \$4.8 billion. Although we do not expect that MGIC’s Liquid Assets will fall below \$1 billion during the Covered Period, we do expect the amount of Liquid Assets to continue to decline materially after December 31, 2012 and through the end of the Covered Period as MGIC’s claim payments and other uses of cash continue to exceed cash generated from operations. You should read the rest of these risk factors for additional information about factors that could negatively affect MGIC’s Liquid Assets.

The OCI, in its sole discretion, may modify, terminate or extend its waiver of Capital Requirements, although any modification or extension of the Keepwell Provision requires our written consent. If the OCI modifies or terminates its waiver, or if it fails to renew its waiver upon expiration, depending on the circumstances, MGIC could be prevented from writing new business in all jurisdictions if MGIC does not comply with the Capital Requirements. We cannot assure you that MGIC could obtain the additional capital necessary to comply with the Capital Requirements. At present, the amount of additional capital we would need to comply with the Capital Requirements would 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.” If MGIC were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the Capital Requirements or obtained a necessary waiver to allow it to once again write new business. Furthermore, if the OCI revokes or fails to renew MGIC’s waiver, MIC’s ability to write new business would be severely limited because approval by Fannie Mae and Freddie Mac (the “GSEs”) of MIC (discussed below) is conditioned upon the continued effectiveness of the OCI Order.

MGIC applied for waivers in the other jurisdictions with Capital Requirements and, at this time, has active waivers from seven of them. MIC is writing new business in the jurisdictions where MGIC does not have active waivers. As a result, MGIC and MIC are collectively writing business on a nationwide basis.

Insurance departments, in their sole discretion, may modify, terminate or extend their waivers of Capital Requirements. If an insurance department other than the OCI modifies or terminates its waiver, or if it fails to grant a waiver or renew its waiver after expiration, depending on the circumstances, MGIC could be prevented from writing new business in that particular jurisdiction. Also, depending on the level of losses that MGIC experiences in the future, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific Capital Requirements, may prevent MGIC from continuing to write new insurance in that jurisdiction. As discussed below, under certain conditions, this business would be written in MIC. You should read the rest of these risk factors for additional information about factors that could negatively affect MGIC's statutory capital and compliance with Capital Requirements.

MGIC's failure to meet the Capital Requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force on a timely basis, we cannot assure you that the events that led to MGIC failing to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received, our anticipated rescission activity, premiums, housing values and unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about when anticipated claims will be received, housing values, and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims that will be rescinded and the outcome of any legal proceedings or settlement discussions related to rescissions. You should read the rest of these risk factors for additional information about factors that could negatively affect MGIC's claims paying resources.

As part of our longstanding plan to write new business in MIC, a direct subsidiary of MGIC, MGIC has made capital contributions to MIC. As of December 31, 2012, MIC had statutory capital of \$448 million. In the third quarter of 2012, we began writing new mortgage insurance in MIC on the same policy terms as MGIC, in those jurisdictions where we did not have active waivers of Capital Requirements for MGIC. In the second half of 2012, MIC's new insurance written was \$2.4 billion, which includes business from certain jurisdictions for which new insurance is again being written in MGIC after it received the necessary waivers. We are currently writing new mortgage insurance in MIC in Florida, Idaho, Missouri, New Jersey, New York, North Carolina, Ohio and Puerto Rico. Approximately 19% of new insurance written in 2011 and 2012 was from jurisdictions in which MIC is currently writing business. We project MIC can write 100% of our new insurance for at least five years if MGIC is unable to write new business. This projection is based on the 18:1 risk-to-capital limitation prescribed by Freddie Mac's approval of MIC (discussed below) and assumes the mix and level of new insurance written in the future would be the same as we wrote in 2012. It also assumes MIC's GSE eligibility would extend throughout this period. If we had to write substantially more of our business in MIC and our levels of new insurance written were to increase materially, MIC may require additional capital to stay below Freddie Mac's prescribed risk-to-capital limitation or a waiver of that limitation may be required. MIC is licensed to write business in all jurisdictions and, subject to the conditions and restrictions discussed below, has received the necessary approvals from GSEs and the OCI to write business in all of the jurisdictions that have not waived their Capital Requirements for MGIC.

Under an agreement in place with Fannie Mae, as amended November 30, 2012, MIC will be eligible to write mortgage insurance through December 31, 2013, in those jurisdictions (other than Wisconsin) in which MGIC cannot write new insurance due to MGIC's failure to meet Capital Requirements and to obtain a waiver of them. MIC is also approved to write mortgage insurance for 60 days in jurisdictions that do not have Capital Requirements if a jurisdiction notifies MGIC that, due to its financial condition, it may no longer write new business. The agreement provides that Fannie Mae may, in its discretion, extend such approval to no later than December 31, 2013. The agreement with Fannie Mae, including certain conditions and restrictions to its continued effectiveness, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission (the "SEC") on November 30, 2012. Such conditions include the continued effectiveness of the OCI Order and the continued applicability of the Keepwell Provision of the OCI Order.

Under a letter from Freddie Mac that was amended and restated as of November 30, 2012, Freddie Mac approved MIC to write business only in those jurisdictions (other than Wisconsin) where either (a) MGIC is unable to write business because it does not meet the Capital Requirements and does not obtain waivers of them, or (b) MGIC received notice that it may not write business because of that jurisdiction's view of MGIC's financial condition. This approval of MIC, which may be withdrawn at any time, expires December 31, 2013, or earlier if a financial examination by the OCI determines that there is a reasonable probability that MGIC will be unable to honor claim obligations at any time in the five years after the examination, or if MGIC fails to honor claim payments. The approval from Freddie Mac, including certain conditions and restrictions to its continued effectiveness, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the SEC on November 30, 2012. Such conditions include requirements that MIC not exceed a risk-to-capital ratio of 18:1 (at December 31, 2012, MIC's risk-to-capital ratio was 1.2 to 1); MGIC and MIC comply with all terms and conditions of the OCI Order; the OCI Order remain effective; we contribute \$100 million to MGIC on or before December 3, 2012 (which we did); MGIC enter into and comply with the payment terms of the settlement agreement with Freddie Mac and the FHFA dated December 1, 2012 (for more information about the settlement agreement, see "— We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future"); the OCI issue the order described in the next paragraph (which it did); and MIC provide MGIC access to the capital of MIC in an amount necessary for MGIC to maintain sufficient liquidity to satisfy its obligations under insurance policies issued by MGIC.

On November 29, 2012, the OCI issued an order, effective until December 31, 2013, establishing a procedure for MIC to pay a dividend to MGIC if either of the following two events occurs: (1) an OCI examination determines that there is a reasonable probability that MGIC will be unable to honor its policy obligations at any time during the five years after the examination, or (2) MGIC fails to honor its policy obligations that it in good faith believes are valid. If one of these events occurs, the OCI is to conduct a review (to be completed within 60 days after the triggering event) to determine the maximum single dividend MIC could prudently pay to MGIC for the benefit of MGIC's policyholders, taking account of the interests of MIC's policyholders and the general public and certain standards for dividends imposed by Wisconsin law. Upon the completion of the review, the OCI will authorize, and MIC will pay, such a dividend within 30 days.

We cannot assure you that the GSEs will approve or continue to approve MIC to write new business in all jurisdictions in which MGIC is unable to do so. If one GSE does not approve MIC in all jurisdictions in which MGIC is unable to write new business, MIC may be able to write insurance on loans that will be sold to the other GSE or retained by private investors. However, because lenders may not know which GSE will purchase their loans until mortgage insurance has been procured, lenders may be unwilling to procure mortgage insurance from MIC. Furthermore, if we are unable to write business on a nationwide basis utilizing a combination of MGIC and MIC, lenders may be unwilling to procure insurance from us anywhere. In addition, new insurance written can be influenced by a lender's assessment of the financial strength of our insurance operations. In this regard, see "— Competition or changes in our relationships with our customers could reduce our revenues or increase our losses."

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

The financial reform legislation that was passed in July 2010 (the "Dodd-Frank Act" or "Dodd-Frank") requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. This risk retention requirement does not apply to mortgage loans that are Qualified Residential Mortgages ("QRMs") or that are insured by the FHA or another federal agency. In March 2011, federal regulators requested public comments on a proposed risk retention rule that includes a definition of QRM. The proposed definition of QRM contains many underwriting requirements, including a maximum loan-to-value ratio ("LTV") of 80% on a home purchase transaction, a prohibition on seller contributions toward a borrower's down payment or closing costs, and certain limits on a borrower's debt-to-income ratio. The LTV is to be calculated without including mortgage insurance. None of our new risk written in 2012 was on loans that would qualify as QRMs under the March 2011 proposed rules.

The regulators also requested public comments regarding an alternative QRM definition, the underwriting requirements of which would allow loans with a maximum LTV of 90% and higher debt-to-income ratios than allowed under the proposed QRM definition, and that may consider mortgage insurance in determining whether the LTV requirement is met. We estimate that approximately 22% of our new risk written in 2012 was on loans that would have met the alternative QRM definition. The regulators also requested that the public comments include information that may be used to assess whether mortgage insurance reduces the risk of default. We submitted a comment letter, including studies to the effect that mortgage insurance reduces the risk of default.

Under the proposed rule, because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, under the proposed rule, lenders that originate loans that are sold to the GSEs while they are in conservatorship would not be required to retain risk associated with those loans. The public comment period for the proposed rule expired in August 2011. At this time we do not know when a final rule will be issued, although it was not expected that the final QRM rule would be issued until the final rule defining Qualified Mortgages (“QMs”) (discussed below) was issued. The Consumer Financial Protection Bureau (the “CFPB”) issued the final QM rule on January 10, 2013.

Depending on, among other things, (a) the final definition of QRM and its requirements for LTV, seller contributions and debt-to-income ratio, (b) to what extent, if any, the presence of mortgage insurance would allow for a higher LTV in the definition of QRM, and (c) whether lenders choose mortgage insurance for non-QRM loans, the amount of new insurance that we write may be materially adversely affected. For other factors that could decrease the demand for mortgage insurance, see “— 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” and “— The implementation of the Basel III capital accord, or other changes to our customers’ capital requirements, may discourage the use of mortgage insurance.”

As noted above, on January 10, 2013, the CFPB issued the final rule defining QM, in order to implement laws requiring lenders to consider a borrower's ability to repay a home loan before extending credit. The QM rule prohibits loans with certain features, such as negative amortization, points and fees in excess of 3% of the loan amount, and terms exceeding 30 years, from being considered QMs. The rule also establishes general underwriting criteria for QMs including that a borrower have a total debt-to-income ratio of less than or equal to 43%. The rule provides a temporary category of QMs that have more flexible underwriting requirements so long as they satisfy the general product feature requirements of QMs and so long as they meet the underwriting requirements of the GSEs or those of the U.S. Department of Housing and Urban Development, Department of Veterans Affairs or Rural Housing Service (collectively, "Other Federal Agencies"). The temporary category of QMs that meet the underwriting requirements of the GSEs or the Other Federal Agencies will phase out when the GSEs or the Other Federal Agencies issue their own qualified mortgage rules, if the GSEs' conservatorship ends, and in any case after seven years. We expect that most lenders will be reluctant to make loans that do not qualify as QMs because they will not be entitled to the presumptions about compliance with the ability-to-pay requirements. Given the credit characteristics presented to us, we estimate that 99% of our new risk written in 2012 was for mortgages that would have met the QM definition and 91% of our new risk written in 2012 was for mortgages that would have met the QM definition even without the temporary category allowed for mortgages that meet the GSEs' underwriting requirements. In making these estimates, we have not considered the limitation on points and fees because the information is not available to us. We do not believe such limitation would materially affect the percentage of our new risk written meeting the QM definition. The QM rule is scheduled to become effective in January 2014.

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 risk mitigation techniques other than private mortgage insurance, using other risk mitigation techniques 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, and beginning in 2011, that market share began to gradually decline. We believe that the FHA's market share increased, in part, because private mortgage insurers tightened their underwriting guidelines (which led to increased utilization of the FHA's programs) and because of increases in the amount of loan level delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). In addition, federal legislation and programs provided the FHA with greater flexibility in establishing new products and increased the FHA's competitive position against private mortgage insurers. We believe that the FHA's current premium pricing, when compared to our current credit-tiered premium pricing (and considering the effects of GSE pricing changes), has allowed us to be more competitive with the FHA than in the recent past for loans with high FICO credit scores. We cannot predict, however, the FHA's share of new insurance written in the future due to, among other factors, different loan eligibility terms between the FHA and the GSEs; future increases in guarantee fees charged by the GSEs; changes to the FHA's annual premiums; and the total profitability that may be realized by mortgage lenders from securitizing loans through Ginnie Mae when compared to securitizing loans through Fannie Mae or Freddie Mac.

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

Substantially all 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,
- the terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase, and
- the extent to which the GSEs intervene in mortgage insurers' rescission practices or rescission settlement practices with lenders. For additional information, see "— Our losses could increase if we do not prevail in proceedings challenging whether our rescissions were proper, we enter into material resolution arrangements or rescission rates decrease faster than we are projecting."

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released in February 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. In 2012, Members of Congress introduced several bills intended to scale back the GSEs, however, no legislation was enacted. 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. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

The GSEs have different loan purchase programs that allow different levels of mortgage insurance coverage. Under the "charter coverage" program, on certain loans lenders may choose a mortgage insurance coverage percentage that is less than the GSEs' "standard coverage" and only the minimum required by the GSEs' charters, with the GSEs paying a lower price for such loans. In 2011 and 2012, nearly all of our volume was on loans with GSE standard coverage. We charge higher premium rates for higher coverage percentages. To the extent lenders selling loans to the GSEs in the future choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

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

Substantially all of our insurance written is for loans sold to Fannie Mae and Freddie Mac, each of which has mortgage insurer eligibility requirements to maintain the highest level of eligibility, including a financial strength rating of Aa3/AA-. Because MGIC does not meet such financial strength rating requirements of Fannie Mae and Freddie Mac (its financial strength rating from Moody's is B2 with a negative outlook and from Standard & Poor's is B- with a negative outlook), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan. We believe that the GSEs view remediation plans as a continuing process of interaction with a mortgage insurer and MGIC will continue to operate under a remediation plan for the foreseeable future. There can be no assurance that MGIC will be able to continue to operate as an eligible mortgage insurer under a remediation plan. In particular, the GSEs are currently in discussions with mortgage insurers regarding their standard mortgage insurer eligibility requirements. We also understand the FHFA and the GSEs are separately developing mortgage insurer capital standards that would replace the use of external credit ratings. The GSEs may include any new eligibility requirements as part of our current remediation plan. MIC's financial strength rating from Moody's is Ba3 with a negative outlook and from Standard & Poor's is B- with a negative outlook. Therefore, MIC also does not meet the financial strength rating requirements of the GSEs and is currently operating with each GSE as an eligible insurer under the approvals discussed above. See "— Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis." If MGIC or MIC cease 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 six 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, 2012, 2011, 2010, 2009, 2008 and 2007, we had a net loss of \$0.9 billion, \$0.5 billion, \$0.4 billion, \$1.3 billion, \$0.5 billion and \$1.7 billion, respectively. We currently expect to continue to report annual net losses, the size of which will depend primarily on the amount of our incurred and paid losses from our business written prior to 2009. Our incurred and paid losses are dependent on factors that make prediction of their amounts difficult and any forecasts are subject to significant volatility. Although we currently expect to return to profitability on an annual basis, we cannot assure you when, or if, this will occur. Conditions that could delay our return to profitability include high unemployment rates, low cure rates, low housing values, changes to our current rescission practices and unfavorable resolution of ongoing legal proceedings. You should read the rest of these risk factors for additional information about factors that could increase our net losses in the future. The net losses we have experienced have eroded, and any future net losses will erode, our shareholders' equity and could result in equity being negative.

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

Prior to 2008, rescissions of coverage on loans were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of coverage on loans have materially mitigated our paid losses. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately \$1.2 billion; in 2011, rescissions mitigated our paid losses by approximately \$0.6 billion; and in 2012, rescissions mitigated our paid losses by approximately \$0.3 billion (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, less than 10% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, the number of rescissions that we have reversed has been immaterial. A variance between ultimate actual rescission and reversal rates and our estimates, as a result of the outcome of claims investigations, litigation, settlements or other factors, could materially affect our losses. See “— Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves.” We estimate rescissions mitigated our incurred losses by approximately \$2.5 billion in 2009 and \$0.2 billion in 2010. In 2011, we estimate that rescissions had no significant impact on our losses incurred. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In the fourth quarter of 2012, we estimate that our rescission benefit in loss reserves was reduced due to probable rescission settlement agreements and that other rescissions had no significant impact on our losses incurred in 2012. For more information about the rescission benefit in loss reserves, see Note 9 – “Loss Reserves” to our consolidated financial statements in Item 8. For information about two settlements that we believe are probable, as defined in ASC 450-20, see “— We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future.” The completion of those settlements, assuming they occur, may encourage other customers to seek remedies against us.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Under our policies, legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. For the majority of our rescissions since the beginning of 2009 that are not subject to a settlement agreement, this period in which a dispute may be brought has not ended. Until a liability associated with a settlement agreement or litigation becomes probable and can be reasonably estimated, we consider a rescission resolved for financial reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are sometimes 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 generally include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings.

In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. Since those announcements, the GSEs have approved our settlement agreement with one customer and have rejected settlement agreements that were structured differently. We have reached and implemented settlement agreements that do not require GSE approval, but they have not been material in the aggregate.

As noted in “— We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future,” we have been in mediation with Countrywide Home Loans (“Countrywide”) concerning our dispute regarding rescissions and have made substantial progress in reaching an agreement to settle it. 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. We continue to discuss with other customers their objections to material rescissions and have reached settlement terms with several of our significant customers. In connection with some of these settlement discussions, we have suspended rescissions related to loans that we believe could be included in potential settlements. As of December 31, 2012, approximately 240 rescissions, representing total potential claim payments of approximately \$16 million, were affected by our decision to suspend rescissions for customers other than the two customers for which we consider a settlement agreement probable, as defined in ASC 450-20. Although it is reasonably possible that, when the discussions or legal proceedings with customers regarding rescissions are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future.

Consumers continue to bring lawsuits against home mortgage lenders and settlement service providers. Mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in December 2004, following denial of class certification in June 2004. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. Beginning in December 2011, MGIC, various mortgage lenders and various other mortgage insurers have been named as defendants in twelve lawsuits, alleged to be class actions, filed in various U.S. District Courts. Three of those cases have previously been dismissed. The complaints in all nine of the remaining cases allege various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the defendants violated RESPA by paying excessive premiums to the lenders' captive reinsurer in relation to the risk assumed by that captive. MGIC denies any wrongdoing and intends to vigorously defend itself against the allegations in the lawsuits. There can be no assurance that we will not be subject to further litigation under RESPA (or FCRA) or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us.

Since June 2005, various state and federal regulators have also conducted investigations or requested information regarding captive mortgage reinsurance arrangements, including (1) a request received by MGIC in June 2005 from the New York Department of Financial Services for information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation; (2) the Minnesota Department of Commerce (the "MN Department"), which regulates insurance, began requesting information in February 2006, regarding captive mortgage reinsurance and certain other matters in response to which MGIC has provided information on several occasions, including as recently as May 2011; (3) various subpoenas received by MGIC beginning in March 2008 from the U.S. Department of Housing and Urban Development ("HUD"), seeking information about captive mortgage reinsurance similar to that requested by the MN Department, but not limited in scope to the state of Minnesota; and (4) correspondence received by MGIC in January 2012 from the CFPB indicating that HUD had transferred authority to the CFPB to investigate captive reinsurance arrangements in the mortgage insurance industry and requesting, among other things, certain information regarding captive mortgage reinsurance transactions in which we participated. In June 2012, we received a Civil Investigative Demand ("CID") from the CFPB requiring additional information and documentation regarding captive mortgage reinsurance. We have met with, and expect to continue to meet with, the CFPB to discuss the CID and how to resolve its investigation. MGIC has also filed a petition to modify the CID which petition is currently pending. While MGIC believes it would have strong defenses to any claims the CFPB might bring against it as a result of the investigation, it continues to work with the CFPB to try to resolve the investigation and any concerns that the CFPB may have about MGIC's past and current captive reinsurance practices. If MGIC cannot resolve the concerns of the CFPB, it is possible that the CFPB would assert various RESPA and possibly other claims against it. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. As noted above, in January 2013, the CFPB issued rules to implement laws requiring mortgage lenders to make ability-to-pay determinations prior to extending credit. We are uncertain whether the CFPB will issue any other rules or regulations that affect our business apart from any action it may take as a result of its investigation of captive mortgage reinsurance. Such rules and regulations could have a material adverse effect on us.

In October 2010, a purported class action lawsuit was filed against MGIC in the U.S. District Court for the Western District of Pennsylvania by a loan applicant on whose behalf a now-settled action we previously disclosed had been filed by the U.S. Department of Justice. In this lawsuit, the loan applicant alleged that MGIC discriminated against her and certain proposed class members on the basis of sex and familial status when MGIC underwrote their loans for mortgage insurance. In May 2011, the District Court granted MGIC's motion to dismiss with respect to all claims except certain Fair Housing Act claims. On November 29, 2012, the District Court granted final approval for a class action settlement of the lawsuit. The settlement created a settlement class of 265 borrowers. Under the terms of the settlement, MGIC deposited \$500,000 into an escrow account to fund possible payments to affected borrowers. In addition, MGIC paid the named plaintiff an "incentive fee" of \$7,500 and paid class counsels' fees of \$337,500. Any funds remaining in the escrow account after payment of all claims approved under the procedures established by the settlement will be returned to MGIC.

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

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

We have made substantial progress in reaching an agreement with Countrywide to settle the dispute we have regarding rescissions. Since December 2009, we have been involved in legal proceedings with Countrywide in which Countrywide alleged that MGIC denied valid mortgage insurance claims. (In our SEC reports, we refer to rescissions of insurance and denials of claims collectively as "rescissions" and variations of that term.) In addition to the claim amounts it alleged MGIC had improperly denied, Countrywide contended it was entitled to other damages of almost \$700 million as well as exemplary damages. We sought a determination in those proceedings that we were entitled to rescind coverage on the applicable loans. From January 1, 2008 through December 31, 2012, rescissions of coverage on Countrywide-related loans mitigated our paid losses on the order of \$445 million. This amount is the amount we estimate we would have paid had the coverage not been rescinded. In addition, in connection with mediation we were holding with Countrywide, we voluntarily suspended rescissions related to loans that we believed could be covered by a settlement. As of December 31, 2012, coverage on approximately 2,150 loans, representing total potential claim payments of approximately \$160 million, that we had determined was rescindable was affected by our decision to suspend such rescissions. While there can be no assurance that we will actually enter into a settlement agreement with Countrywide, we have determined that a settlement is probable.

We are also discussing a settlement with another customer. We have also determined that it is probable we will reach a settlement of our dispute with this customer. As of December 31, 2012, coverage on approximately 250 loans, representing total potential claim payments of approximately \$17 million, was affected by our decision to suspend rescissions for that customer.

We are now able to reasonably estimate the probable loss associated with each probable settlement and, as required by ASC 450-20, we have recorded the estimated impact of the two probable settlements referred to above in our financial statements for the quarter ending December 31, 2012. The aggregate impact to loss reserves for the probable settlement agreements was an increase of approximately \$100 million. This impact was somewhat offset by impacts to our return premium accrual and premium deficiency reserve. All of these impacts were reflected in the fourth quarter 2012 financial results. If we are not able to reach settlement with Countrywide, we intend to defend MGIC against any related legal proceedings, vigorously.

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. A settlement with Countrywide may encourage other customers to pursue remedies against us. From January 1, 2008 through December 31, 2012, we estimate that total rescissions mitigated our incurred losses by approximately \$2.9 billion, which included approximately \$2.9 billion of mitigation on paid losses, excluding \$0.6 billion that would have been applied to a deductible. At December 31, 2012, we estimate that our total loss reserves were benefited from anticipated rescissions by approximately \$0.2 billion.

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us "curtailments." In 2012, curtailments reduced our average claim paid by approximately 4%. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as mortgage insurance premiums, hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments.

After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid. Historically, we have not had material disputes regarding our curtailments or other adjustments. As part of our settlement discussions, Countrywide informed us that they object to approximately \$40 million of curtailment and other adjustments. In connection with any settlement agreement with Countrywide, we expect we would enter into a separate agreement with them that would provide for a process to resolve this dispute. However, we do not believe a loss is probable regarding this curtailment dispute and have not accrued any reserves that would reflect an adverse outcome to this dispute. We intend to defend vigorously our position regarding the correctness of these curtailments under our insurance policy. Although we have not had other material objections to our curtailment and adjustment practices, there can be no assurances that we will not face additional challenges to such practices.

A non-insurance subsidiary of our holding company is a shareholder of the corporation that operates the Mortgage Electronic Registration System (“MERS”). Our subsidiary, as a shareholder of MERS, has been named as a defendant (along with MERS and its other shareholders) in nine lawsuits asserting various causes of action arising from allegedly improper recording and foreclosure activities by MERS. Three of those lawsuits remain pending and the other six lawsuits have been dismissed without an appeal. The damages sought in the remaining cases are substantial. We deny any wrongdoing and intend to defend ourselves against the allegations in the lawsuits, vigorously.

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.

Resolution of our dispute with the Internal Revenue Service could adversely affect us.

The Internal Revenue Service (“IRS”) completed examinations of our federal income tax returns for the years 2000 through 2007 and issued assessments for unpaid taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits (“REMICs”). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. The IRS assessment related to the REMIC issue is \$190.7 million in taxes and penalties. There would also be applicable interest which, when computed on the amount of the assessment, is substantial. Depending on the outcome of this matter, additional state income taxes along with any applicable interest may become due when a final resolution is reached and could also be substantial.

We appealed these assessments within the IRS and, in 2007, we made a payment of \$65.2 million to the United States Department of the Treasury related to this assessment. In August 2010, we reached a tentative settlement agreement with the IRS which was not finalized. We currently expect to receive a statutory notice of deficiency (commonly referred to as a “90-day letter”) for the disputed amounts after the first quarter of 2013. We would then be required to litigate their validity in order to avoid payment to the IRS of the entire amount assessed. Any such litigation could be lengthy and costly in terms of legal fees and related expenses. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows and statutory capital. In this regard, see “— Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.”

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

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

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

We establish reserves using estimated claim rates and claim amounts in estimating the ultimate loss on delinquent loans. The estimated claim rates and claim amounts represent our best estimates of what we will actually pay on the loans in default as of the reserve date and incorporate anticipated mitigation from rescissions. We rescind coverage on loans and deny claims in cases where we believe our policy allows us to do so. Therefore, when establishing our loss reserves, unless we have determined that a loss is probable and can be reasonably estimated, we do not include additional loss reserves that would reflect an adverse development from ongoing dispute resolution proceedings. For more information regarding our legal proceedings, see “— We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future.”

The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. Current conditions in the housing and mortgage industries make the assumptions that we use to establish loss reserves more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers’ income and thus their ability to make mortgage payments, a drop in housing values that could result in, among other things, greater losses on loans that have pool insurance, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance, 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.

We rely on our management team and our business could be harmed if we are unable to retain qualified personnel.

Our industry is undergoing a fundamental shift following the mortgage crisis: long-standing competitors have gone out of business and two newly capitalized, privately-held start-ups that are not encumbered with a portfolio of pre-crisis mortgages, have been formed. Former executives from other mortgage insurers have joined these two new competitors. In addition, in February 2013, a worldwide insurer and reinsurer with mortgage insurance operations in Europe announced that it was purchasing CMG Mortgage Insurance Company. Our success depends, in part, on the skills, working relationships and continued services of our management team and other key personnel. The departure of key personnel could adversely affect the conduct of our business. In such event, we would be required to obtain other personnel to manage and operate our business, and there can be no assurance that we would be able to employ a suitable replacement for the departing individuals, or that a replacement could be hired on terms that are favorable to us. We currently have not entered into any employment agreements with our officers or key personnel. Volatility or lack of performance in our stock price may affect our ability to retain our key personnel or attract replacements should key personnel depart.

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

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation and the GSEs, and several lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2010, 2011 and 2012, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately \$3.2 billion, \$1.8 billion and \$1.2 billion, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate on these modifications will be. Although the recent re-default rate has been lower, for internal reporting purposes, we assume approximately 50% of these 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 9,300 loans in our primary delinquent inventory at December 31, 2012 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, 2012 approximately 44,400 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In 2011 and 2012, approximately 18% and 17%, respectively, of our primary cures were the result of a modification, with HAMP accounting for approximately 70% of those modifications in each year. By comparison, in 2010, approximately 27% of our primary cures were the result of a modification, with HAMP accounting for approximately 60% of those modifications. We believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly since 2010. Recent announcements by the U.S. Treasury have extended the end date of the HAMP program through 2013, expanded the eligibility criteria of HAMP and increased lenders' incentives to modify loans through principal forgiveness. Approximately 66% of the loans in our primary delinquent inventory are guaranteed by the GSEs. The GSEs have informed us that they already use expanded criteria (beyond the HAMP guidelines) for determining eligibility for loan modification and currently do not offer principal forgiveness. Therefore, we currently expect new loan modifications will continue to only modestly mitigate our losses in 2013.

In 2009, the GSEs began offering the Home Affordable Refinance Program ("HARP"). HARP allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow the HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. To incent lenders to allow more current borrowers to refinance their loans, in October 2011, the GSEs and their regulator, FHFA, announced an expansion of HARP. The expansion includes, among other changes, releasing certain representations in certain circumstances benefitting the GSEs. We have agreed to allow these additional HARP refinances, including releasing the insured in certain circumstances from certain rescission rights we would have under our policy. While an expansion of HARP may result in fewer delinquent loans and claims in the future, our ability to rescind coverage will be limited in certain circumstances. We are unable to predict what net impact these changes may have on our incurred or paid losses. Approximately 11% of our primary insurance in force has benefitted from HARP and is still in force.

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

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

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

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

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

As noted above, in January 2013, the CFPB issued rules to implement laws requiring mortgage lenders to make ability-to-pay determinations prior to extending credit. We are uncertain whether this Bureau will issue any other 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. For other factors that could decrease the demand for mortgage insurance, see “— The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage results in a reduction of the number of low down payment loans available to be insured or if lenders and investors select alternatives to private mortgage insurance” and “— The implementation of the Basel III capital accord, or other changes to our customers’ capital requirements, may discourage the use of mortgage insurance.”

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

As noted above, the FHA substantially increased its market share beginning in 2008 and beginning in 2011, that market share began to gradually decline. It is difficult to predict the FHA's future market share due to, among other factors, different loan eligibility terms between the FHA and the GSEs, future increases in guarantee fees charged by the GSEs, changes to the FHA's annual premiums, and the total profitability that may be realized by mortgage lenders from securitizing loans through Ginnie Mae when compared to securitizing loans through Fannie Mae or Freddie Mac.

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 2011 and 2012, approximately 9% and 10%, respectively, of our new insurance written was for loans for which one lender was the original insured, although revenue from such loans was significantly less than 10% of our revenues during each of those periods. Our private mortgage insurance competitors include:

- Genworth Mortgage Insurance Corporation,
- United Guaranty Residential Insurance Company,
- Radian Guaranty Inc.,
- CMG Mortgage Insurance Company (whose owners have agreed to sell it to a worldwide insurer and reinsurer), and
- Essent Guaranty, Inc.

Until 2010 the mortgage insurance industry had not had new entrants in many years. In 2010, Essent Guaranty, Inc. began writing new mortgage insurance. Essent has publicly reported that one of our customers, JPMorgan Chase, is one of its investors. During 2012, another new company, NMI Holdings Inc., raised \$550 million in order to enter the mortgage insurance business. NMI Holdings has been approved as an eligible mortgage insurer by the GSEs and we believe that NMI Holdings expects to launch its business in the second quarter of 2013. In addition, in February 2013, a worldwide insurer and reinsurer with mortgage insurance operations in Europe announced that it was purchasing CMG Mortgage Insurance Company. The perceived increase in credit quality of loans that are being insured today, the deterioration of the financial strength ratings of the existing mortgage insurance companies and the possibility of a decrease in the FHA's share of the mortgage insurance market may encourage additional new entrants.

PMI Mortgage Insurance Company and Republic Mortgage Insurance Company ceased writing business in 2011. Based on public disclosures, these competitors approximated slightly more than 20% of the private mortgage insurance industry volume in the first half of 2011. Most of the market share of these two former competitors has gone to other mortgage insurers and not to us because, among other reasons, some competitors have materially lower premiums than we do on single premium policies, one of these competitors also uses a risk weighted pricing model that typically results in lower premiums than we charge on certain loans and several of these competitors have streamlined their underwriting to be closely aligned with that of the GSEs. We continuously monitor the competitive landscape and make adjustments to our pricing and underwriting guidelines as warranted.

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

We believe many lenders assess a mortgage insurer’s financial strength rating and risk-to-capital ratio as important elements of the process through which they select mortgage insurers. As a result of MGIC’s and MIC’s less than investment grade financial strength ratings and MGIC’s risk-to-capital ratio level being above the maximum allowed by some jurisdictions, MGIC and MIC may be competitively disadvantaged with these lenders. MGIC’s financial strength rating from Moody’s is B2 with a negative outlook and from Standard & Poor’s is B- with a negative outlook. MIC’s financial strength rating from Moody’s is Ba3 with a negative outlook and from Standard & Poor’s is B- with a negative outlook. It is possible that MGIC’s financial strength ratings could decline from these levels. MGIC’s risk-to-capital ratio exceeds 25:1 and the applicable minimum capital requirement of certain states. We currently expect to continue to report a risk-to-capital ratio in excess of 25:1. Our risk-to-capital ratio will depend primarily on the level of incurred losses, any settlement with the IRS, and the volume of new risk written. Our incurred losses are dependent upon factors that make prediction of their amounts difficult and any forecasts are subject to significant volatility. Although we expect the risk-to-capital ratio to eventually decline, we cannot assure you of when, or if, this will occur. Conditions that could delay the decline in the risk-to-capital ratio include high unemployment rates, low cure rates, low housing values, changes to our current rescission practices, unfavorable resolution of ongoing legal proceedings and the volume of new insurance written in MIC.

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

Losses result from events that reduce a borrower's ability to continue to make mortgage payments, such as unemployment, and whether the home of a borrower who defaults on his mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. In general, favorable economic conditions reduce the likelihood that borrowers will lack sufficient income to pay their mortgages and also favorably affect the value of homes, thereby reducing and in some cases even eliminating a loss from a mortgage default. A deterioration in economic conditions, including an increase in unemployment, generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values, which in turn can influence the willingness of borrowers with sufficient resources to make mortgage payments to do so when the mortgage balance exceeds the value of the home. Housing values may decline even absent a deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers' perceptions of the potential for future appreciation, restrictions on and the cost of mortgage credit due to more stringent underwriting standards, liquidity issues and risk-retention requirements associated with non-QRM loans affecting lenders, higher interest rates generally or changes to the deductibility of mortgage interest for income tax purposes, or other factors. The residential mortgage market in the United States has for some time experienced a variety of poor or worsening economic conditions, including a material nationwide decline in housing values, with declines continuing into early 2012 in a number of geographic areas. Although housing values have recently been increasing in certain markets, they generally remain significantly below their early 2007 levels. Changes in housing values and unemployment levels are inherently difficult to forecast given the uncertainty in the current market environment, including uncertainty about the effect of actions the federal government has taken and may take with respect to tax policies, mortgage finance programs and policies, and housing finance reform.

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

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of December 31, 2012, approximately 24.2% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 7.8% had FICO credit scores below 620, and 8.5% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material portion of these loans were written in 2005 — 2007 or the first quarter of 2008. In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." For additional information about such loans, see footnote 4 to the table titled "Default Statistics for the MGIC Book" in " — Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation — Defaults" Item 1.B. above.

From time to time, in response to market conditions, we change the types of loans that we insure and the guidelines under which we insure them. In addition, we make exceptions to our underwriting guidelines on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 5% of the loans we insured in 2011 and fewer than 2% of the loans we insured in 2012. A large percentage of the exceptions were made for loans with debt-to-income ratios slightly above our guidelines or financial reserves slightly below our guidelines. While the debt-to-income ratio contained in our guidelines exceeds the general requirements of the Qualified Mortgage (“QM”) definition, it is within the underwriting guidelines of the GSEs. The rule containing the QM definition provides a temporary category of QMs that have more flexible underwriting requirements so long as they satisfy the general product feature requirements of QMs and so long as they meet the underwriting requirements of certain agencies, including the GSEs. For more information, see “— The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage results in a reduction of the number of low down payment loans available to be insured or if lenders and investors select alternatives to private mortgage insurance.” Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future. As noted above in “— Competition or changes in our relationships with our customers could reduce our revenues or increase our losses,” in the first quarter of 2012, we made changes to streamline our underwriting guidelines and lowered our premium rates on loans with credit scores of 760 or higher. Our underwriting guidelines are available on our website at <http://www.mgic.com/underwriting/index.html>.

During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our master policy that limits our ability to rescind coverage on loans that meet the conditions in that endorsement, which is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012). Availability of the endorsement is subject to approval in specified jurisdictions. We estimate that approximately 33% of our new insurance written in the fourth quarter of 2012 and 41% of our new insurance written in December 2012, was written under this endorsement. We expect that eventually a significant portion of our new insurance written will have rescission terms equivalent to those in this endorsement.

As of December 31, 2012, approximately 2.2% of our primary risk in force written through the flow channel, and 27.5% 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”). In the current interest rate environment, interest rates resetting in the near future are unlikely to exceed the interest rates at origination. 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. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. In addition, we have insured “interest-only” loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

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

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

In January 2008, we announced that we had decided to stop writing the portion of our bulk business that insures loans included in Wall Street securitizations because the performance of such loans 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, 2012, the premium deficiency reserve was \$74 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.

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

It is uncertain what effect the extended timeframes in the foreclosure process, due to moratoriums, suspensions or issues arising from the investigation of servicers' foreclosure procedures, will have on us.

In response to the significant increase in the number of foreclosures that began in 2009, 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). In October 2010, a number of mortgage servicers temporarily halted some or all of the foreclosures they were processing after discovering deficiencies in their foreclosure processes and those of their service providers. In response to the deficiencies, some states changed their foreclosure laws to require additional review and verification of the accuracy of foreclosure filings. Some states also added requirements to the foreclosure process, including mediation processes and requirements to file new affidavits. Certain state courts have issued rulings calling into question the validity of some existing foreclosure practices. These actions halted or significantly delayed foreclosures. Furthermore five of the nation's largest mortgage servicers agreed to implement new servicing and foreclosure practices as part of a settlement announced in February 2012, with the federal government and the attorneys general of 49 states.

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

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. Beginning in 2011 and from time to time, various courts have ruled that servicers did not provide sufficient evidence that they were the holders of the mortgages and therefore they lacked authority to foreclose. Some courts in other jurisdictions have considered similar issues and reached similar conclusions, but other courts have reached different conclusions. These decisions have not had a direct impact on our claims processes or rescissions.

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

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

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

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

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

Our persistency rate was 79.8% at December 31, 2012, compared to 82.9% at December 31, 2011 and 84.4% at December 31, 2010. During the 1990s, our year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

Current mortgage interest rates are at or near historic lows. The high-quality mortgages insured by us in recent years that have not experienced significant declines in underlying home prices, are especially vulnerable to refinancing. Future premiums on our insurance in force represent a material portion of our claims paying resources. We are unsure what the impact on our revenues will be as mortgages are refinanced, because the number of policies we write for replacement mortgages may be more or less than the terminated policies associated with the refinanced mortgages.

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

We have \$389.5 million principal amount of 9% Convertible Junior Subordinated Debentures outstanding. The principal amount of the debentures is currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per \$1,000 principal amount of debentures. This represents an initial conversion price of approximately \$13.50 per share. We have elected to defer the payment of approximately \$17.5 million of interest on these debentures that was scheduled to be paid on October 1, 2012. We expect to defer additional interest in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also converted into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We also have \$345 million principal amount of 5% Convertible Senior Notes outstanding. 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. We do not have the right to defer interest on these Convertible Senior Notes.

Our common stock could be delisted from the NYSE

The listing of our common stock on the New York Stock Exchange, or NYSE, is subject to compliance with NYSE's continued listing standards. Among other things, those standards require that the average closing price of our common stock during any consecutive 30-day trading period not fall below \$1.00. Although we have not failed this standard, on three trading days in August 2012, the closing price of our stock fell below \$1.00. If we are notified by the NYSE that we have not satisfied this stock price standard, then we would have a period of time in which to cure the deficiency, such as by effecting a reverse stock split. The NYSE can also, in its discretion, discontinue listing our common stock under certain circumstances. For example, if we cease writing new insurance, our common stock could be delisted from the NYSE unless we cure the deficiency during the time provided by the NYSE. If the NYSE were to delist our common stock, it likely would result in a significant decline in the trading price, trading volume and liquidity of our common stock. We also expect that the suspension and delisting of our common stock would lead to decreases in analyst coverage and market-making activity relating to our common stock, as well as reduced information about trading prices and volume. As a result, it could become significantly more difficult for our shareholders to sell their shares of our common stock at prices comparable to those in effect prior to delisting or at all.

Our debt obligations materially exceed our holding company cash and investments

At December 31, 2012, we had approximately \$315 million in cash and investments at our holding company and our holding company's debt obligations were \$835 million in par value, consisting of \$100 million of Senior Notes due in November 2015, \$345 million of Convertible Senior Notes due in 2017, and \$390 million of Convertible Junior Debentures due in 2063. Annual debt service on the debt outstanding as of December 31, 2012, is \$58 million, including approximately \$35 million on the Convertible Junior Debentures for which we have deferred the interest that was scheduled to be paid on October 1, 2012. Any deferred interest compounds at the stated rate of 9%.

The Senior Notes, Convertible Senior Notes and Convertible Junior Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. Our holding company has no material sources of cash inflows other than investment income. 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. Since 2008, MGIC has not paid any dividends to our holding company. Through 2013, MGIC cannot pay any dividends to our holding company without approval from the OCI. In connection with the approval of MIC as an eligible mortgage insurer, Freddie Mac and Fannie Mae have imposed dividend restrictions on MGIC and MIC through December 31, 2013. Any additional capital contributions to our subsidiaries would further decrease our holding company cash and investments. See “Management’s Discussion and Analysis—Financial Condition” in Item 7 for information about capital that may be required by our non-insurance subsidiaries. See Note 8 – “Debt” to our consolidated financial statements for additional information about the holding company’s debt obligations, including restrictive covenants in our Senior Notes and our right to defer interest on our Convertible Junior Debentures.

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

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

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

In 1988, the Basel Committee on Banking Supervision (the “Basel Committee”) developed the Basel Capital Accord (Basel I), which set out international benchmarks for assessing banks’ capital adequacy requirements. In June 2005, the Basel Committee issued an update to Basel I (as revised in November 2005, Basel II). Basel II was implemented by many banks in the United States and many other countries in 2009 and 2010.

In December 2010, the Basel Committee released the nearly final version of Basel III. In June 2012, federal regulators requested public comments on proposed rules to implement Basel III. The proposed Basel III rules would increase the capital requirements of many banking organizations. Among other provisions, the proposed rules contain a range of risk weightings for residential mortgages held for investment by certain banking organizations, with the specific weighting dependent upon, among other things, a loan's LTV. Unlike previous Basel rules, the proposed Basel III rules do not consider mortgage insurance when calculating a loan's risk weighting. The rules, if implemented as proposed, may reduce the incentive of banking organizations to purchase mortgage insurance for loans held for investment. The proposed Basel III rules continue to afford FHA-insured loans and Ginnie Mae mortgage-backed securities ("MBS") a lower risk weighting than Fannie Mae and Freddie Mac MBS. Therefore, with respect to capital requirements, FHA-insured loans will continue to have a competitive advantage over loans insured by private mortgage insurance and then sold to and securitized by the GSEs. Public comments to the proposed rules were due by October 22, 2012. It is uncertain what form the final rules will take. We are continuing to evaluate the potential effects of the proposed Basel III rules on our business.

Our Australian operations may suffer significant losses.

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At December 31, 2012, we leased office space in various cities throughout the United States under leases expiring between 2013 and 2017 and which required annual rental payments that in the aggregate are immaterial.

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

Item 3. Legal Proceedings.

Beginning in December 2011, MGIC, various mortgage lenders and various other mortgage insurers have been named as defendants in twelve lawsuits, alleged to be class actions, filed in various U.S. District Courts. Three of those cases have previously been dismissed; the last dismissal occurred on November 13, 2012 and was of a case filed in the U.S. District Court for the Eastern District of California. The complaints in all nine of the remaining cases allege various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the defendants violated Real Estate Settlement Procedures Act (“RESPA”) by paying excessive premiums to the lenders’ captive reinsurer in relation to the risk assumed by that captive. MGIC denies any wrongdoing and intends to vigorously defend itself against the allegations in the lawsuits. Following is a list of the remaining cases.

<u>Date Filed</u>	<u>Court</u>
-	-
12/09/2011	U.S. District Court for the Central District of CA
12/31/2011	U.S. District Court for the Eastern District of PA
04/05/2012	U.S. District Court for the Western District of PA
04/05/2012	U.S. District Court for the Eastern District of PA
05/18/2012	U.S. District Court for the Eastern District of PA
06/28/2012	U.S. District Court for the Middle District of PA
10/03/2012	U.S. District Court for the Central District of CA
12/06/2012	U.S. District Court for the Western District of PA
01/04/2013	U.S. District Court for the Eastern District of PA

In June 2012, we received a Civil Investigative Demand (“CID”) from the Consumer Financial Protection Bureau (“CFPB”) requiring additional information and documentation regarding captive mortgage reinsurance. We have met with, and expect to continue to meet with, the CFPB to discuss the CID and how to resolve its investigation. MGIC has also filed a petition to modify the CID which petition is currently pending. While we believe we would have strong defenses to any claims the CFPB might bring against us as a result of the investigation, we continue to work with the CFPB to try to resolve the investigation and any concerns that the CFPB may have about MGIC’s past and current captive reinsurance practices. If we cannot resolve the concerns of the CFPB, it is possible that the CFPB would assert various RESPA and possibly other claims against us.

In December 2009, Countrywide filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco against MGIC. In October 2011, the United States District Court for the Northern District of California, to which the case had been removed, entered an order staying the litigation in favor of the arbitration proceeding we commenced against Countrywide in February 2010. In these proceedings, Countrywide had alleged that MGIC denied valid mortgage insurance claims. (In our SEC reports, we refer to rescissions of insurance and denials of claims collectively as “rescissions” and variations of that term.) In addition to the claim amounts it alleged MGIC had improperly denied, Countrywide contended it was entitled to other damages of almost \$700 million as well as exemplary damages. We sought a determination in those proceedings that we were entitled to rescind coverage on the applicable loans. From January 1, 2008 through December 31, 2012, rescissions of coverage on Countrywide-related loans mitigated our paid losses on the order of \$445 million. This amount is the amount we estimate we would have paid had the coverage not been rescinded. In addition, in connection with the mediation referred to below, we voluntarily suspended rescissions related to loans that we believed could be covered by a settlement. As of December 31, 2012, coverage on approximately 2,150 loans, representing total potential claim payments of approximately \$160 million, that we had determined was rescindable was affected by our decision to suspend such rescissions.

We held a mediation to resolve this dispute and have made substantial progress in reaching a settlement agreement with Countrywide. While there can be no assurance that we will actually enter into a settlement agreement with Countrywide, we have determined that a settlement is probable. For the aggregate impact to loss reserves for this and another probable settlement agreement with another customer, see Note 20 - “Litigation and Contingencies” to our consolidated financial statements in Item 8.

MGIC and Freddie Mac disagreed on the amount of the aggregate loss limit under certain pool insurance policies (the “Disputed Policies”). On May 16, 2012, MGIC filed a lawsuit in U.S. District Court for the Eastern District of Wisconsin (the “Wisconsin Court”) against Freddie Mac and FHFA seeking declaratory relief regarding the proper interpretation of the pool insurance policies (“MGIC’s Lawsuit”). On May 17, 2012, Freddie Mac filed a lawsuit in the Virginia Court against MGIC effectively seeking declaratory judgment regarding the proper interpretation of the pool insurance policies and on June 14, 2012, FHFA was added as a plaintiff (“Freddie Mac’s Lawsuit”). On December 1, 2012, an Agreement of Settlement, Compromise and Release (the “Settlement Agreement”) between MGIC, Freddie Mac and the FHFA became effective, settling their dispute regarding the Disputed Policies. Under the Settlement Agreement, MGIC is to pay Freddie Mac a total of \$267.5 million in satisfaction of all obligations under the Disputed Policies. Of the total, \$100 million was paid in December 2012, as required by the Settlement Agreement, and the remaining \$167.5 million is to be paid in 48 equal installments that began on January 2, 2013.

The Internal Revenue Service (“IRS”) completed examinations of our federal income tax returns for the years 2000 through 2007 and issued assessments for unpaid taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits (“REMICs”). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. The IRS assessment related to the REMIC issue is \$190.7 million in taxes and penalties. There would also be applicable interest which, when computed on the amount of the assessment, is substantial. Depending on the outcome of this matter, additional state income taxes along with any applicable interest may become due when a final resolution is reached and could also be substantial.

We appealed these assessments within the IRS and, in 2007, we made a payment of \$65.2 million to the United States Department of the Treasury related to this assessment. In August 2010, we reached a tentative settlement agreement with the IRS which we were not able to finalize. We currently expect to receive a statutory notice of deficiency (commonly referred to as a “90-day letter”) for the disputed amounts after the first quarter of 2013. We would then be required to litigate their validity in order to avoid payment to the IRS of the entire amount assessed. Any such litigation could be lengthy and costly in terms of legal fees and related expenses. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows and statutory capital.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees’ Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the “Complaint”) in June 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations were that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS (a former minority-owned, unconsolidated, joint venture investment), including its liquidity. The Complaint also named two officers of C-BASS with respect to the Complaints’ allegations regarding C-BASS. Our motion to dismiss the Complaint was granted in February 2010. In March 2010, plaintiffs filed a motion for leave to file an amended complaint. Attached to this motion was a proposed Amended Complaint (the “Amended Complaint”). The Amended Complaint alleged that we and two of our officers named in the Amended Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about C-BASS, including its liquidity, and by failing to properly account for our investment in C-BASS. The Amended Complaint also named two officers of C-BASS with respect to the Amended Complaint’s allegations regarding C-BASS. The Complaint was dismissed and the motion to file the Amended Complaint was denied. These decisions were affirmed by the Appeals Court in April 2012. In early July 2012, the plaintiffs re-filed a motion with the District Court for relief from that court’s judgment of dismissal on the ground of newly discovered evidence consisting of transcripts the plaintiffs obtained of testimony taken by the Securities and Exchange Commission in its now-terminated investigation regarding C-BASS. On October 3, 2012, the District Court denied the July 2012 motion and the plaintiffs did not appeal.

In addition to the above litigation, we face other litigation, regulatory risks and disputes. For additional information about such other litigation and regulatory risks, you should review our risk factors titled “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future.”

Item 4. Mine Safety Disclosures.

Not Applicable.

Executive Officers of the Registrant

Certain information with respect to our executive officers as of February 28, 2013 is set forth below:

<u>Name and Age</u>	<u>Title</u>
Curt S. Culver, 60	Chairman of the Board and Chief Executive Officer of MGIC Investment Corporation and MGIC; Director of MGIC Investment Corporation and MGIC
Patrick Sinks, 56	President and Chief Operating Officer of MGIC Investment Corporation and MGIC
J. Michael Lauer, 68	Executive Vice President and Chief Financial Officer of MGIC Investment Corporation and MGIC
Lawrence J. Pierzchalski, 60	Executive Vice President – Risk Management of MGIC
Jeffrey H. Lane, 63	Executive Vice President, General Counsel and Secretary of MGIC Investment Corporation and MGIC
James A. Karpowicz, 65	Senior Vice President–Chief Investment Officer and Treasurer of MGIC Investment Corporation and MGIC
Gregory A. Chi, 53	Senior Vice President–Information Services and Chief Information Officer of MGIC

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

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

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

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

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

Mr. Karpowicz has served as our and MGIC's Senior Vice President—Chief Investment Officer and Treasurer since January 2005 and has been Treasurer since 1998. From 1986 to January 2005, he held various positions within MGIC's investment operations organization, the last of which was Vice President. Mr. Karpowicz is expected to retire March 1, 2013.

Mr. Chi joined MGIC in February 2012 and has served as MGIC's Senior Vice President—Information Services and Chief Information Officer since March 2012. Prior to joining MGIC, Mr. Chi had been Senior Vice President of Enterprise Delivery Services with SunTrust Bank since 2008. Prior to joining SunTrust, Mr. Chi had been Vice President, Information Technology Development Application with MetLife, Inc. since 2005. Prior to that, Mr. Chi held various senior management positions in the financial services industry.

PART II

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

(a) Our Common Stock is listed on the New York Stock Exchange under the symbol "MTG." The following table sets forth for 2012 and 2011 by calendar quarter the high and low sales prices of our Common Stock on the New York Stock Exchange.

Quarter	2012		2011	
	High	Low	High	Low
First	\$ 5.05	\$ 3.59	\$ 11.79	\$ 7.74
Second	5.09	2.22	9.64	5.41
Third	3.08	0.84	6.82	1.59
Fourth	2.66	1.50	3.99	1.51

In October 2008, the Board suspended payment of our cash dividend. Accordingly, no cash dividends were paid in 2011 or 2012. The payment of future dividends is subject to the discretion of our Board and will depend on many factors, including our operating results, financial condition and capital position. See Note 8, "Debt," to our consolidated financial statements in Item 8 for dividend restrictions during interest deferral periods related to our Convertible Junior Debentures. We are a holding company and the payment of dividends from our insurance subsidiaries is restricted by insurance regulations. For a discussion of these restrictions, see "Management's Discussion and Analysis — Liquidity and Capital Resources" in Item 7 of this annual report and Note 16, "Dividend Restrictions," to our consolidated financial statements in Item 8.

As of February 15, 2013, the number of shareholders of record was 227. In addition, we estimate there are approximately 20,000 beneficial owners of shares held by brokers and fiduciaries.

Information regarding equity compensation plans is contained in Item 12.

(b) Not applicable.

(c) We did not repurchase any shares of Common Stock during the fourth quarter of 2012.

Item 6. Selected Financial Data.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
(In thousands, except per share data)					
Summary of Operations					
Revenues:					
Net premiums written	\$ 1,017,832	\$ 1,064,380	\$ 1,101,795	\$ 1,243,027	\$ 1,466,047
Net premiums earned	\$ 1,033,170	\$ 1,123,835	\$ 1,168,747	\$ 1,302,341	\$ 1,393,180
Investment income, net	121,640	201,270	247,253	304,678	308,517
Realized investment gains (losses), net, including net impairment losses	195,409	142,715	92,937	51,934	(12,486)
Other revenue	28,145	36,459	11,588	49,573	32,315
Total revenues	1,378,364	1,504,279	1,520,525	1,708,526	1,721,526
Losses and expenses:					
Losses incurred, net	2,067,253	1,714,707	1,607,541	3,379,444	3,071,501
Change in premium deficiency reserve	(61,036)	(44,150)	(51,347)	(261,150)	(756,505)
Underwriting and other expenses	201,447	214,750	225,142	239,612	271,314
Reinsurance fee	-	-	-	26,407	1,781
Interest expense	99,344	103,271	98,589	89,266	81,074
Total losses and expenses	2,307,008	1,988,578	1,879,925	3,473,579	2,669,165
Loss before tax and joint ventures	(928,644)	(484,299)	(359,400)	(1,765,053)	(947,639)
(Benefit from) provision for income taxes	(1,565)	1,593	4,335	(442,776)	(397,798)
Income from joint ventures, net of tax(1)	-	-	-	-	24,486
Net loss	\$ (927,079)	\$ (485,892)	\$ (363,735)	\$ (1,322,277)	\$ (525,355)
Weighted average common shares outstanding	201,892	201,019	176,406	124,209	113,962
Diluted loss per share	\$ (4.59)	\$ (2.42)	\$ (2.06)	\$ (10.65)	\$ (4.61)
Dividends per share	\$ -	\$ -	\$ -	\$ -	\$ 0.075
Balance sheet data					
Total investments	\$ 4,230,275	\$ 5,823,647	\$ 7,458,282	\$ 7,254,465	\$ 7,045,536
Cash and cash equivalents	1,027,625	995,799	1,304,154	1,185,739	1,097,334
Total assets	5,574,324	7,216,230	9,333,642	9,404,419	9,146,734
Loss reserves	4,056,843	4,557,512	5,884,171	6,704,990	4,775,552
Premium deficiency reserve	73,781	134,817	178,967	193,186	454,336
Short- and long-term debt	99,910	170,515	376,329	377,098	698,446
Convertible senior notes	345,000	345,000	345,000	-	-
Convertible junior debentures	379,609	344,422	315,626	291,785	272,465
Shareholders' equity	196,940	1,196,815	1,669,055	1,302,581	2,434,233
Book value per share	0.97	5.95	8.33	10.41	19.46

(1) For many years ending in 2008, we had a significant investment in a less than majority owned joint venture, Sherman Financial Group LLC, or "Sherman." In August 2008, we sold our entire interest in Sherman to Sherman. Beginning in the fourth quarter of 2008, our results of operations are no longer affected by any joint venture results.

Year Ended December 31,

	2012	2011	2010	2009	2008
New primary insurance written (\$ millions)	\$ 24,125	\$ 14,234	\$ 12,257	\$ 19,942	\$ 48,230
New primary risk written (\$ millions)	5,949	3,525	2,944	4,149	11,669
New pool risk written (\$ millions)	-	-	-	4	145
Insurance in force (at year-end) (\$ millions)					
Direct primary insurance	162,082	172,873	191,250	212,182	226,955
Direct primary risk	41,735	44,462	48,979	54,343	58,981
Direct pool risk					
With aggregate loss limits	439	674	1,154	1,478	1,752
Without aggregate loss limits	879	1,177	1,532	1,951	2,521
Primary loans in default ratios					
Policies in force	1,006,346	1,090,086	1,228,315	1,360,456	1,472,757
Loans in default	139,845	175,639	214,724	250,440	182,188
Percentage of loans in default	13.90%	16.11%	17.48%	18.41%	12.37%
Percentage of loans in default — bulk	32.10%	35.33%	37.36%	40.87%	32.64%
Insurance operating ratios (GAAP) (1)					
Loss ratio	200.1%	152.6%	137.5%	259.5%	220.4%
Underwriting expense ratio	15.2%	16.0%	16.3%	15.1%	14.2%
Combined ratio	215.3%	168.6%	153.8%	274.6%	234.6%
Risk-to-capital ratio (statutory)					
Mortgage Guaranty Insurance Corporation	44.7:1	20.3:1	19.8:1	19.4:1	12.9:1
MGIC Indemnity Corporation	1.2:1	-	-	-	-
Combined insurance companies	47.8:1	22.2:1	23.2:1	22.1:1	14.7:1

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

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

Overview

Through our subsidiaries Mortgage Guaranty Insurance Corporation (“MGIC”) and MGIC Indemnity Corporation (“MIC”), we are the largest private mortgage insurer in the United States, as measured by \$162.1 billion of primary insurance in force at December 31, 2012. For our rank based on new insurance written in 2012, see Item 1, “Our Products and Services—Sales and Marketing and Competition.”

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” in Item 1A of this Report and “Overview—Australia” below.

Forward Looking and Other Statements

As discussed under “Forward Looking Statements and Risk Factors” in Item 1A of Part 1 of this Report, actual results may differ materially from the results contemplated by forward looking statements. We are not undertaking any obligation to update any forward looking statements or other statements we may make in the following discussion or elsewhere in this document even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. Therefore no reader of this document should rely on these statements being 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 we may continue to write insurance on new residential mortgage loans due to actions our regulators or the GSEs could take based upon our capital position or based upon their projections of future deterioration in our capital position. This challenge is discussed under Note 1 – “Nature of Business – Capital” to our consolidated financial statements in Item 8 and under “Capital” below.
- Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. A definition of “qualified residential mortgages” (“QRM”) that significantly impacts the volume of low down payment mortgages available to be insured or a possible restructuring or change in the charters of the GSEs could significantly affect our business. If final rules implementing Basel III do not consider mortgage insurance when calculating a loan’s risk weighting, the incentive for banking organizations to purchase mortgage insurance for loans held for investment may be reduced. For additional information about this challenge, see “Qualified Residential Mortgages” and “GSE Reform” below and our risk factor titled “The implementation of the Basel III capital accord, or other changes to our customers’ capital requirements, may discourage the use of mortgage insurance” in Item 1A.

Capital

Insurance regulators

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the “Capital Requirements.” New insurance written in the jurisdictions that have Capital Requirements represented approximately 50% of new insurance written in 2011 and 2012. While formulations of minimum capital vary among jurisdictions, the most common formulation allows for a maximum risk-to-capital ratio of 25 to 1.

At December 31, 2012, MGIC’s risk-to-capital ratio was 44.7 to 1, exceeding the maximum allowed by many jurisdictions. We expect MGIC’s risk-to-capital ratio to increase above its December 31, 2012 level. At December 31, 2012, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 47.8 to 1.

Although MGIC does not meet the Capital Requirements of Wisconsin, the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”) has waived them until December 31, 2013. In place of the Capital Requirements, the OCI Order containing the waiver of Capital Requirements (the “OCI Order”) provides that MGIC can write new business as long as it maintains regulatory capital that the OCI determines is reasonably in excess of a level that would constitute a financially hazardous condition. See Note 1 – “Nature of Business – Capital” to our consolidated financial statements in Item 8 for a description of the OCI Order and other state waivers of capital requirements.

MGIC’s failure to meet the Capital Requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force on a timely basis, we cannot assure you that the events that led to MGIC failing to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC’s claims paying resources and claim obligations are based on various assumptions. These assumptions include the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received, our anticipated rescission activity, premiums, housing values and unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management.

As part of our longstanding plan to write new business in MIC, a direct subsidiary of MGIC, MGIC has made capital contributions to MIC. As of December 31, 2012, MIC had statutory capital of \$448 million. In the third quarter of 2012, we began writing new mortgage insurance in MIC on the same policy terms as MGIC, in those jurisdictions where we did not have active waivers of Capital Requirements for MGIC. We project MIC can write 100% of our new insurance for at least five years if MGIC is unable to write new business. This projection is based on the 18:1 risk-to-capital limitation prescribed by Freddie Mac's approval of MIC and assumes the mix and level of new insurance written in the future would be the same as we wrote in 2012. It also assumes MIC's eligibility would extend throughout this period. Approximately 19% of new insurance written in 2011 and 2012 was from jurisdictions in which MIC is currently writing business. If we had to write substantially more of our business in MIC and our levels of new insurance written were to increase materially, MIC may require additional capital to stay below Freddie Mac's prescribed risk-to-capital limit or a waiver of Freddie Mac's risk-to-capital limitation may be required. See Note 1 – "Nature of Business – Capital" to our consolidated financial statements in Item 8 for a discussion of our approvals from the GSEs to utilize MIC.

GSEs

The GSEs have approved MGIC 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. 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 "We may not continue to meet the GSEs' mortgage insurer eligibility requirements," "Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis" and "We have reported losses for the last five years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability" in Item 1A.

Qualified Residential Mortgages

The financial reform legislation that was passed in July 2010 (the "Dodd-Frank Act" or "Dodd-Frank") requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. This risk retention requirement does not apply to mortgage loans that are Qualified Residential Mortgages ("QRMs") or that are insured by the FHA or another federal agency. In March 2011, federal regulators requested public comments on a proposed risk retention rule that includes a definition of QRM. The proposed definition of QRM contains many underwriting requirements, including a maximum loan-to-value ratio ("LTV") of 80% on a home purchase transaction, a prohibition on seller contributions toward a borrower's down payment or closing costs, and certain limits on a borrower's debt-to-income ratio. The LTV is to be calculated without including mortgage insurance. None of our new risk written in 2012 was on loans that qualify as QRMs under the March 2011 proposed rules.

The regulators also requested public comments regarding an alternative QRM definition, the underwriting requirements of which would allow loans with a maximum LTV of 90% and higher debt-to-income ratios than allowed under the proposed QRM definition, and that may consider mortgage insurance in determining whether the LTV requirement is met. We estimate that approximately 22% of our new risk written in 2012 was on loans that would have met the alternative QRM definition. The regulators also requested that the public comments include information that may be used to assess whether mortgage insurance reduces the risk of default. We submitted a comment letter, including studies to the effect that mortgage insurance reduces the risk of default. Under the proposed rule, because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, under the proposed rule, lenders that originate loans that are sold to the GSEs while they are in conservatorship would not be required to retain risk associated with those loans. The public comment period for the proposed rule expired on August 1, 2011. At this time we do not know when a final rule will be issued, although it was not expected that the final QRM rule would be issued until the final rule defining Qualified Mortgages (QMs) (discussed below) was issued. The Consumer Financial Protection Bureau (“CFPB”) issued the final QM rule on January 10, 2013.

Depending on, among other things, (a) the final definition of QRM and its requirements for LTV, seller contributions and debt-to-income ratio, (b) to what extent, if any, the presence of mortgage insurance would allow for a higher LTV in the definition of QRM, and (c) whether lenders choose mortgage insurance for non-QRM loans, the amount of new insurance that we write may be materially adversely affected. For other factors that could decrease the demand for mortgage insurance, see our risk factors titled “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” and “The implementation of the Basel III capital accord, or other changes to our customers’ capital requirements, may discourage the use of mortgage insurance” in Item 1A.

As noted above, on January 10, 2013, the CFPB issued the final rule defining QM, in order to implement laws requiring lenders to consider a borrower’s ability to repay a home loan before extending credit. The QM rule, which becomes effective in January 2014, prohibits loans with certain features, such as negative amortization, points and fees in excess of 3% of the loan amount, and terms exceeding 30 years, from being considered QMs. The rule also establishes general underwriting criteria for QMs including that a borrower have a total debt-to-income ratio of less than or equal to 43%. The rule provides a temporary category of QMs that have more flexible underwriting requirements so long as they satisfy the general product feature requirements of QMs and so long as they meet the underwriting requirements of the GSEs or those of the U.S. Department of Housing and Urban Development, Department of Veterans Affairs or Rural Housing Service (collectively, “Other Federal Agencies”). The temporary category of QMs that meet the underwriting requirements of the GSEs or the Other Federal Agencies will phase out when the GSEs or the Other Federal Agencies issue their own qualified mortgage rules, if the GSEs’ conservatorship ends, and in any case after seven years. We expect that most lenders will be reluctant to make loans that do not qualify as QMs because they will not be entitled to the presumptions about compliance with the ability-to-pay requirements. Given the credit characteristics presented to us, we estimate that 99% of our new risk written in 2012 was for mortgages that would have met the QM definition and 91% of our new risk written in 2012 was for mortgages that would have met the QM definition even without the temporary category allowed for mortgages that meet the GSEs’ underwriting requirements. In making these estimates, we have not considered the limitation on points and fees because the information is not available to us. We do not believe such limitation would materially affect the percentage of our new risk written meeting the QM definition. The QM rule is scheduled to become effective in January 2014.

GSE Reform

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released in February 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. In 2012, Members of Congress introduced several bills intended to scale back the GSEs, however, no legislation was enacted. 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. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

For additional information about the business practices of the GSEs, see our risk factor titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses" in Item 1A.

Loan Modification and Other Similar Programs

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation and the GSEs, and several lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2010, 2011 and 2012, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately \$3.2 billion, \$1.8 billion and \$1.2 billion, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate on these modifications will be. Although the recent re-default rate has been lower, for internal reporting purposes, we assume approximately 50% of these 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 9,300 loans in our primary delinquent inventory at December 31, 2012 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, 2012 approximately 44,400 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In 2011 and 2012, approximately 18% and 17%, respectively, of our primary cures were the result of a modification, with HAMP accounting for approximately 70% of those modifications in each year. By comparison, in 2010, approximately 27% of our primary cures were the result of a modification, with HAMP accounting for approximately 60% of those modifications. We believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly since 2010. Recent announcements by the U.S. Treasury have extended the end date of the HAMP program through 2013, expanded the eligibility criteria of HAMP and increased lenders’ incentives to modify loans through principal forgiveness. Approximately 66% of the loans in our primary delinquent inventory are guaranteed by the GSEs. The GSEs have informed us that they already use expanded criteria (beyond the HAMP guidelines) for determining eligibility for loan modification and currently do not offer principal forgiveness. Therefore, we currently expect new loan modifications will continue to only modestly mitigate our losses in 2013.

In 2009, the GSEs began offering the Home Affordable Refinance Program (“HARP”). HARP allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow the HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. To incent lenders to allow more current borrowers to refinance their loans, in October 2011, the GSEs and their regulator, FHFA, announced an expansion of HARP. The expansion includes, among other changes, releasing certain representations in certain circumstances benefitting the GSEs. We have agreed to allow these additional HARP refinances, including releasing the insured in certain circumstances from certain rescission rights we would have under our policy. While an expansion of HARP may result in fewer delinquent loans and claims in the future, our ability to rescind coverage will be limited in certain circumstances. We are unable to predict what net impact these changes may have on our incurred or paid losses. Approximately 11% of our primary insurance in force has benefitted from HARP and is still in force.

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

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

In response to the significant increase in the number of foreclosures that began in 2009, 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). In October 2010, a number of mortgage servicers temporarily halted some or all of the foreclosures they were processing after discovering deficiencies in their foreclosure processes and those of their service providers. In response to the deficiencies, some states changed their foreclosure laws to require additional review and verification of the accuracy of foreclosure filings. Some states also added requirements to the foreclosure process, including mediation processes and requirements to file new affidavits. Certain state courts have issued rulings calling into question the validity of some existing foreclosure practices. These actions halted or significantly delayed foreclosures. Furthermore five of the nation’s largest mortgage servicers agreed to implement new servicing and foreclosure practices as part of a settlement announced in February 2012, with the federal government and the attorneys general of 49 states.

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

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. Beginning in 2011 and from time to time, various courts have ruled that servicers did not provide sufficient evidence that they were the holders of the mortgages and therefore they lacked authority to foreclose. Some courts in other jurisdictions have considered similar issues and reached similar conclusions, but other courts have reached different conclusions. These decisions have not had a direct impact on our claims processes or rescissions.

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. In addition, new insurance written can be influenced by a lender's assessment of the financial strength of our insurance operations. 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 cancelled 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.
- 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 claim payments and 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 investment grade fixed income securities. The principal factors that influence investment income are the size of the portfolio and its yield. As measured by amortized cost (which excludes changes in fair 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, 2012 is comprised of \$100.1 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 3 – “Debt” to our consolidated financial statements and under “Liquidity and Capital Resources” below. At December 31, 2012, the convertible debentures are reflected as a liability on our consolidated balance sheet at the current amortized value of \$379.6 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 following the year the book was written. 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

We began international operations in Australia, where we started to write business in June 2007. Since 2008, we are no longer writing new business in Australia and we have reduced our headcount. At December 31, 2012 our equity value in our Australian operations was approximately \$150 million and our risk in force in Australia was approximately \$0.7 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.

Summary of 2012 Results

Our results of operations for 2012 were principally affected by the factors referred to below.

· Net premiums written and earned

Net premiums written and earned during 2012 decreased when compared to 2011. The decrease was due to our lower average insurance in force as well as an increase in return premium on claims paid, somewhat offset by a decrease in premiums ceded to captives and a decrease in return premium due to a lower amount of rescissions.

· Investment income

Investment income in 2012 was lower when compared to 2011 due to a decrease in our average invested assets as we continue to meet our claim obligations, as well as a decrease in our average investment yield.

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

Net realized gains for 2012 included \$197.7 million in net realized gains on the sale of fixed income investments, slightly offset by \$2.3 million in other-than-temporary impairment (“OTTI”) losses. Net realized gains for 2011 included \$143.4 million in net realized gains on the sale of fixed income investments, slightly offset by \$0.7 million in OTTI losses. The gross unrealized gains on our investment portfolio were \$46.8 million at December 31, 2012.

· Other revenue

Other revenue for 2012 decreased compared to 2011 primarily due to a decrease in gains on the repurchase of Senior Notes, slightly offset by an increase in contract underwriting fees. We recognized gains of \$17.8 million on repurchases in 2012, compared to gains of \$27.7 million in 2011.

· Losses incurred

Losses incurred for 2012 increased compared to 2011 primarily due to a \$267.5 million settlement related to the Freddie Mac pool policy, approximately \$100 million for probable rescission settlement agreements, and a larger increase in the claim rate as a result of lower cure rate trends, partially offset by a decrease in estimated severity. The primary default inventory decreased by 35,794 delinquencies in 2012, compared to a decrease of 39,085 in 2011. See Note 20 – “Litigation and Contingencies” to our consolidated financial statements in Item 8 for a discussion of our settlement with Freddie Mac as well as our probable settlement agreements.

- Change in premium deficiency reserve

During 2012 the premium deficiency reserve on Wall Street bulk transactions declined by \$61 million from \$135 million, as of December 31, 2011, to \$74 million as of December 31, 2012. 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 2012 is primarily related to higher estimated ultimate losses. The \$74 million premium deficiency reserve as of December 31, 2012 reflects the present value of expected future losses and expenses that exceeds the present value of expected future premiums and already established loss reserves.

- Underwriting and other expenses

Underwriting and other expenses for 2012 decreased when compared to 2011. The decrease primarily reflects our reduction in headcount.

- Interest expense

Interest expense for 2012 decreased when compared to 2011. The decrease is primarily due to lower interest on our Senior Notes due to repayments and repurchases, partially offset by an increase in amortization on our junior debentures.

- Benefit from income taxes

The effective tax rate benefit on our pre-tax loss was (0.2%) in 2012, compared to the effective tax rate provision of 0.3% in 2011. During those periods, the benefit from income taxes was eliminated or reduced by the recognition of a valuation allowance.

Results of Consolidated Operations

New insurance written

The amount of our primary new insurance written during the years ended December 31, 2012, 2011 and 2010 was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Primary NIW (In billions)	\$ 24.1	\$ 14.2	\$ 12.3
Refinance volume as a % of primary NIW	36%	29%	32%

The increase in new insurance written in 2012, compared to 2011, was partially due to larger origination volume as well as a modest increase in the private mortgage insurance industry's market share. Our industry continues to regain market share from the FHA but the pace of that recovery is slower than we expected given the continued differences in underwriting guidelines, loan level price adjustments by the GSEs and the secondary market benefits associated with government insured loans versus loans insured by the private sector. The increase in new insurance written in 2011, compared to 2010, was partially due to a modest increase in the private mortgage insurance industry market share.

As discussed in Note 1 – "Nature of Business-Capital" to our consolidated financial statements, PMI and RMIC ceased writing business in 2011. Based on public disclosures, these competitors approximated slightly more than 20% of the private mortgage insurance industry volume in the first half of 2011. Most of the market share of these two former competitors has gone to other mortgage insurers and not to us because, among other reasons, some competitors have materially lower premiums than we do on single premium policies, one of these competitors also uses a risk weighted pricing model that typically results in lower premiums than we charge on certain loans and several of these competitors have streamlined their underwriting to be closely aligned with that of the GSEs. We continuously monitor the competitive landscape and make adjustments to our pricing and underwriting guidelines as warranted.

The FHA substantially increased its market share beginning in 2008, and beginning in 2011, that market share began to gradually decline. We believe that the FHA's market share increased, in part, because private mortgage insurers tightened their underwriting guidelines (which led to increased utilization of the FHA's programs) and because of increases in the amount of loan level delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). In addition, federal legislation and programs provided the FHA with greater flexibility in establishing new products and increased the FHA's competitive position against private mortgage insurers. We believe that the FHA's current premium pricing, when compared to our current credit-tiered premium pricing (and considering the effects of GSE pricing changes), has allowed us to be more competitive with the FHA than in the recent past for loans with high FICO credit scores. We cannot predict, however, the FHA's share of new insurance written in the future due to, among other factors, different loan eligibility terms between the FHA and the GSEs; future increases in guarantee fees charged by the GSEs; changes to the FHA's annual premiums; and the total profitability that may be realized by mortgage lenders from securitizing loans through Ginnie Mae when compared to securitizing loans through Fannie Mae or Freddie Mac. Our level of new insurance written could also be affected by other items, including those noted in our Risk Factors in Item 1A.

From time to time, in response to market conditions, we change the types of loans that we insure and the guidelines under which we insure them. In addition, we make exceptions to our underwriting guidelines on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 5% of the loans we insured in 2011 and fewer than 2% of the loans we insured in 2012. A large percentage of the exceptions were made for loans with debt-to-income ratios slightly above our guidelines or financial reserves slightly below our guidelines. While the debt-to-income ratio contained in our guidelines exceeds the general requirements of the QM definition, it is within the underwriting guidelines of the GSEs. The rule containing the QM definition provides a temporary category of QMs that have more flexible underwriting requirements so long as they satisfy the general product feature requirements of QMs and so long as they meet the underwriting requirements of certain agencies, including the GSEs. For more information, see our risk factor titled “The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage insurance” in Item 1A. Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future. As noted in our risk factor titled “Competition or changes in our relationships with our customers could reduce our revenues or increase our losses,” in Item 1A, in the first quarter of 2012, we made changes to streamline our underwriting guidelines and lowered our premium rates on loans with credit scores of 760 or higher. Our underwriting guidelines are available on our website at <http://www.mgic.com/underwriting/index.html>

During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our master policy (the “Gold Cert Endorsement”). If a borrower makes payments for three years, our Gold Cert Endorsement limits our ability to rescind coverage except under certain circumstances, including where we prove the lender had knowledge of inaccurate information in the loan file. In addition, our Gold Cert Endorsement limits our ability to rescind on loans for which the borrower makes payments on time for one year with his own funds, if we are provided with certain documents shortly after we insure the loan and we fail to discover that the loan was ineligible for our insurance. We believe the limitations on our rights to rescind coverage under the Gold Cert Endorsement will materially reduce rescissions on such loans. Currently, less than 3% of our insurance in force was written under our Gold Cert Endorsement. However, we estimate that approximately 33% of our new insurance written in the fourth quarter of 2012, and 41% of our new insurance written in December 2012, was written under this endorsement.

The endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012). Availability of the endorsement is subject to approval in specified jurisdictions. We expect that eventually a significant portion of our new insurance written will have rescission terms equivalent to those in this endorsement. Our level of new insurance written could also be affected by other items, including those noted in our Risk Factors in Item 1A.

Cancellations, insurance in force and risk in force

New insurance written and cancellations of primary insurance in force during the years ended December 31, 2012, 2011 and 2010 were as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In billions)		
NIW	\$ 24.1	\$ 14.2	\$ 12.3
Cancellations	<u>(34.9)</u>	<u>(32.6)</u>	<u>(33.2)</u>
Change in primary insurance in force	<u>\$ (10.8)</u>	<u>\$ (18.4)</u>	<u>\$ (20.9)</u>
Direct primary insurance in force as of December 31,	\$ 162.1	\$ 172.9	\$ 191.3
Direct primary risk in force as of December 31,	\$ 41.7	\$ 44.5	\$ 49.0

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. Since 2009, cancellations due to rescissions and claim payments have comprised a significant amount of our cancellations.

Our persistency rate was 79.8% at December 31, 2012 compared to 82.9% at December 31, 2011 and 84.4% at December 31, 2010. These persistency rates 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. 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.

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, 2012, included approximately 70,000 loans with insurance in force of approximately \$10.7 billion and risk in force of approximately \$3.2 billion, which is approximately 72% of our bulk risk in force.

In bulk transactions, the individual loans in the insured portfolio are generally insured to specified levels of coverage. Some of our bulk transactions (approximately 5% of our bulk risk in force) contain aggregate loss limits on the insured portfolio. If claim payments associated with a specific bulk portfolio reach the aggregate loss limit, the remaining insurance in force within the deal may be cancelled and any remaining defaults under the deal are removed from our default inventory.

Pool insurance

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

Our direct pool risk in force was \$1.3 billion (\$0.4 billion on pool policies with aggregate loss limits and \$0.9 billion on pool policies without aggregate loss limits) at December 31, 2012 compared to \$1.9 billion (\$0.7 billion on pool policies with aggregate loss limits and \$1.2 billion on pool policies without aggregate loss limits) at December 31, 2011. If claim payments associated with a specific pool reach the aggregate loss limit the remaining insurance in force within the pool would be cancelled and any remaining defaults under the pool are removed from our default inventory.

See Note 20 – “Litigation and Contingencies” for discussions regarding our settlement of the pool insurance dispute with Freddie Mac.

Net premiums written and earned

Net premiums written and earned during 2012 decreased when compared to 2011. The decrease was due to our lower average insurance in force as well as an increase in return premium on claims paid, somewhat offset by a decrease in premiums ceded to captives and a decrease in return premium due to a lower amount of rescissions.

Net premiums written and earned during 2011 decreased when compared to 2010. The decrease was due to our lower average insurance in force, somewhat offset by lower levels of premium refunds related to rescissions and the continued decline of premiums ceded to captives.

We expect our average insurance in force to continue to decline in 2013 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) for 2013 to decline slightly from the level experienced during 2012.

Risk sharing arrangements

For the year ended December 31, 2012, approximately 4% of our flow new insurance written was subject to arrangements with captives, compared to 5% for the year ended December 31, 2011. We expect the percentage of new insurance written subject to risk sharing arrangements to also approximate 4% in 2013.

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 2009, many of our captive arrangements have either been terminated or placed into run-off. See Note 11 – “Reinsurance” to our consolidated financial statements in Item 8 for a description of these risk sharing arrangements and the related reinsurance recoverables.

We anticipate that our ceded premiums related to risk sharing agreements will continue to decline in 2013 for the reasons discussed above.

In 2012 the captive arrangements reduced our losses incurred by approximately \$56 million, compared to a \$65 million captive reduction in 2011. We anticipate that the reduction in losses incurred will continue to be lower in 2013, as some of our captive arrangements were terminated in 2011 and 2012 and many of the active captives have reached, or will reach in 2013, their maximum potential liability under the terms of the contracts. See our risk factor titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future” in Item 1A for a discussion of requests or subpoenas for information regarding captive mortgage reinsurance arrangements.

Investment income

Investment income in 2012 was lower when compared to 2011 due to a decrease in our average invested assets as we continue to meet our claim obligations as well as a decrease in the average investment yield. Our average investment yield has declined as we have elected to realize gains in our investment portfolio as discussed under “Realized gains and other-than-temporary impairments” below. The average maturity of our investments has continued to decrease, as discussed under “Liquidity and Capital Resources” below. The portfolio’s average pre-tax investment yield was 1.7% at December 31, 2012 and 2.8% at December 31, 2011.

We continue to expect a decline in investment income in 2013, compared to 2012, as the average amortized cost of invested assets decreases due to claim payments exceeding premiums received in future periods. See further discussion under “Liquidity and Capital Resources” below.

Investment income for 2011 decreased when compared to 2010 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 portfolio's average pre-tax investment yield was 3.1% at December 31, 2010.

Realized gains and other-than-temporary impairments

Net realized gains for 2012 included \$197.7 million in net realized gains on the sale of fixed income investments, slightly offset by \$2.3 million in OTTI losses. Net realized gains for 2011 included \$143.4 million in net realized gains on the sale of fixed income investments, slightly offset by \$0.7 million in OTTI losses. We elected to realize these gains, by selling certain securities, given the favorable market conditions experienced in 2011 and 2012. We then reinvested the funds taking into account our anticipated future claim payment obligations. We also continue to reduce our investments in tax exempt municipal securities and increase our investments in taxable securities. For statutory purposes investments are generally held at amortized cost, therefore the realized gains increased our statutory policyholders' position or statutory capital. The impairment losses recognized in 2012 and 2011 were primarily on our auction rate securities. The gross unrealized gains on our investment portfolio were \$46.8 million at December 31, 2012.

We had net realized investment gains on the sale of fixed income investments of \$102.6 million, offset by \$9.6 million in OTTI losses in 2010. In 2010, we reduced our investments in tax exempt municipal securities and increased our investments in taxable securities since the tax benefits to holding tax exempt securities was no longer available. We also sold securities to decrease the duration of the portfolio to provide cash to meet our anticipated claim obligations. 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.

Other revenue

Other revenue for 2012 decreased, when compared to 2011, due primarily to a decrease in gains recognized on debt repurchases, slightly offset by an increase in contract underwriting fees. We recognized \$17.8 million of gains in 2012 on the repurchase of \$70.9 million in par value of our 5.375% Senior Notes due in November 2015, compared to \$27.7 million in gains recognized on the repurchase of \$129.0 million in par value of our 5.375% Senior Notes in 2011.

Other revenue for 2011 increased, when compared to 2010, due to \$27.7 million in gains recognized on the repurchase of \$129 million in par value of our 5.375% Senior Notes due in November 2015, somewhat offset by a decrease in contract underwriting revenue.

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 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 that could result in, among other things, greater losses on loans that have pool insurance, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance, and mitigation from rescissions being materially less than assumed. Our estimates are also affected by any agreements we enter into regarding claim payments, such as the settlement agreements discussed in Note 20 – “Litigation and Contingencies” to our consolidated financial statements in Item 8. 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 “Our losses could increase if we do not prevail in proceedings challenging whether our rescissions were proper or rescission rates decrease faster than we are projecting” in Item 1A.

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 2012, net losses incurred were \$2,067 million, comprised of \$1,494 million of current year loss development and \$573 million of unfavorable prior years’ loss development. In 2011, net losses incurred were \$1,715 million, comprised of \$1,814 million of current year loss development, offset by \$99 million of favorable prior years’ loss development. In 2010, net losses incurred were \$1,608 million, comprised of which \$1,875 million of current year loss development, offset by \$267 million of favorable prior years’ loss development.

See Note 9 – “Loss Reserves” to our consolidated financial statements in Item 8 and under “Critical Accounting Policies” below for a discussion of our losses incurred and rescissions.

Information about the composition of the primary insurance default inventory at December 31, 2012, 2011 and 2010 appears in the table below.

	December 31,		
	2012	2011	2010
Total loans delinquent (1)	139,845	175,639	214,724
Percentage of loans delinquent (default rate)	13.90%	16.11%	17.48%
Prime loans delinquent (2)	90,270	112,403	134,787
Percentage of prime loans delinquent (default rate)	10.44%	12.20%	13.11%
A-minus loans delinquent (2)	20,884	25,989	31,566
Percent of A-minus loans delinquent (default rate)	32.92%	35.10%	36.69%
Subprime credit loans delinquent (2)	7,668	9,326	11,132
Percentage of subprime credit loans delinquent (default rate)	40.78%	43.60%	45.66%
Reduced documentation loans delinquent (3)	21,023	27,921	37,239
Percentage of reduced documentation loans delinquent (default rate)	35.23%	37.96%	41.66%

General Notes: (a) The FICO credit score for a loan with multiple borrowers is the lowest of the borrowers’ “decision FICO scores.” A borrower’s “decision FICO score” is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used.

(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 9,054 defaults with a risk of \$456 million as of December 31, 2012.

(1) At December 31, 2012, 2011 and 2010 25,282, 30,250 and 36,066 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.

The primary and pool loss reserves at December 31, 2012, 2011 and 2010 appear in the table below.

Gross Reserves	December 31,		
	2012	2011	2010
Primary:			
Direct loss reserves (in millions)	\$ 3,744	\$ 4,249	\$ 5,146
Ending default inventory	139,845	175,639	214,724
Average direct reserve per default	\$ 26,771	\$ 24,193	\$ 23,966
Primary claims received inventory included in ending default inventory	11,731	12,610	20,898
Pool (1):			
Direct loss reserves (in millions):			
With aggregate loss limits	\$ 120	\$ 278	\$ 700
Without aggregate loss limits	20	21	30
Reserves related to Freddie Mac settlement (2)	167	-	-
Total pool direct loss reserves	\$ 307	\$ 299	\$ 730
Ending default inventory:			
With aggregate loss limits	7,243	31,483	41,786
Without aggregate loss limits	1,351	1,488	1,543
Total pool ending default inventory	8,594	32,971	43,329
Pool claims received inventory included in ending default inventory	304	1,398	2,510
Other gross reserves (in millions)	\$ 6	\$ 10	\$ 8

(1) 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.

(2) See Note 20 – “Litigation and Contingencies” to our consolidated financial statements in Item 8 for a discussion of our settlement with Freddie Mac regarding a pool policy.

The primary default inventory and primary loss reserves by region at December 31, 2012, 2011 and 2010 appears in the table below.

Losses by Region

Primary Default Inventory

<u>Region</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Great Lakes	16,538	22,158	27,663
Mid-Atlantic	6,948	8,058	9,660
New England	6,160	6,913	7,702
North Central	16,367	20,860	24,192
Northeast	17,553	18,385	19,056
Pacific	13,235	18,381	25,438
Plains	4,126	5,462	7,045
South Central	15,418	21,035	28,984
Southeast	43,500	54,387	64,984
Total	<u>139,845</u>	<u>175,639</u>	<u>214,724</u>

Primary Loss Reserves

(In millions)

<u>Region</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Great Lakes	\$ 295	\$ 348	\$ 426
Mid-Atlantic	178	205	231
New England	144	149	174
North Central	445	454	495
Northeast	371	325	374
Pacific	599	750	886
Plains	69	84	107
South Central	301	413	555
Southeast	1,089	1,198	1,395
Total before IBNR and LAE	<u>\$ 3,491</u>	<u>\$ 3,926</u>	<u>\$ 4,643</u>
IBNR and LAE	253	323	503
Total	<u>\$ 3,744</u>	<u>\$ 4,249</u>	<u>\$ 5,146</u>

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 (before IBNR and LAE) at December 31, 2012, 2011 and 2010 separated between our flow and bulk business appears in the table below.

Primary loss reserves
(In millions)

	2012	2011	2010
Flow	\$ 2,586	\$ 2,820	\$ 3,329
Bulk	905	1,106	1,314
Total primary reserves	<u>\$ 3,491</u>	<u>\$ 3,926</u>	<u>\$ 4,643</u>

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 2012 paid claims) for the years ended December 31, 2012, 2011 and 2010 appears in the table below.

Primary average claim paid

	2012	2011	2010
Florida	\$ 57,181	\$ 59,216	\$ 61,290
California	87,305	85,205	88,761
Illinois	47,615	49,654	51,073
Arizona	54,758	55,503	57,925
Michigan	33,706	35,092	35,675
All other states	43,590	45,005	44,330
All states	<u>\$ 48,722</u>	<u>\$ 49,887</u>	<u>\$ 50,173</u>

The primary average loan size of our insurance in force at December 31, 2012, 2011 and 2010 appears in the table below.

Primary average loan size

	2012	2011	2010
Total insurance in force	\$ 161,060	\$ 158,590	\$ 155,700
Prime (FICO 620 & >)	162,450	158,870	155,050
A-Minus (FICO 575-619)	128,850	130,700	130,360
Subprime (FICO < 575)	119,630	121,130	117,410
Reduced doc (All FICOs)(1)	188,210	194,060	198,000

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

The primary average loan size of our insurance in force at December 31, 2012, 2011 and 2010 for the top 5 states (based on 2012 paid claims) appears in the table below.

Primary average loan size

	2012	2011	2010
Florida	\$ 171,884	\$ 174,439	\$ 174,203
California	281,288	284,034	283,459
Illinois	154,158	154,084	151,479
Arizona	181,912	182,705	184,508
Michigan	125,733	123,709	121,282
All other states	155,508	152,372	148,991

Information about net paid claims during the years ended December 31, 2012, 2011 and 2010 appears in the table below.

Net paid claims (In millions)

	2012	2011	2010
Prime (FICO 620 & >)	\$ 1,558	\$ 1,772	\$ 1,400
A-Minus (FICO 575-619)	235	283	265
Subprime (FICO < 575)	65	70	77
Reduced doc (All FICOs)(1)	372	429	451
Pool (2)	334	480	177
Other	5	6	3
Direct losses paid	2,569	3,040	2,373
Reinsurance	(90)	(140)	(126)
Net losses paid	2,479	2,900	2,247
LAE	45	60	71
Net losses and LAE paid before terminations	2,524	2,960	2,318
Reinsurance terminations	(6)	(39)	(38)
Net losses and LAE paid	\$ 2,518	\$ 2,921	\$ 2,280

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

(2) 2012 includes \$100 million paid under the terms of the settlement with Freddie Mac as discussed under Note 20 - "Litigation and Contingencies" to our consolidated financial statements in Item 8.

Primary claims paid for the top 15 states (based on 2012 paid claims) and all other states for the years ended December 31, 2012, 2011 and 2010 appears in the table below.

Paid Claims by state (In millions)

	2012	2011	2010
Florida	\$ 317	\$ 303	\$ 340
California	309	357	288
Illinois	144	101	91
Arizona	122	203	156
Michigan	110	138	130
Georgia	99	130	97
Nevada	88	134	95
Ohio	70	76	68
Texas	69	108	87
Washington	64	74	41
Minnesota	59	65	56
Wisconsin	50	46	36
North Carolina	48	40	38
Virginia	48	66	57
Maryland	47	51	50
All other states	586	662	563
	<u>\$ 2,230</u>	<u>\$ 2,554</u>	<u>\$ 2,193</u>
Other (Pool, LAE, Reinsurance)	288	367	87
Net losses and LAE paid	<u>\$ 2,518</u>	<u>\$ 2,921</u>	<u>\$ 2,280</u>

We believe paid claims, on a quarterly basis, peaked in the second quarter of 2011 and that the overall level of total paid claims will continue to decline, assuming recent foreclosure patterns continue.

The GSEs have introduced new short sale programs in 2012, which could result in claim payments being accelerated on more recent notices. While a short sale would likely result in the claim being received and paid sooner than would occur through a foreclosure the amount of the claim payment could be less. We do not know what the level of participation in these programs will be. In 2011 and 2012, our claim payments on default notices received in the current year have increased, in part, due to an increase in short sales. See Note 9 – “Loss Reserves” to our consolidated financial statements in Item 8.

The primary default inventory for the top 15 states (based on 2012 paid claims) at December 31, 2012, 2011 and 2010 appears in the table below.

	2012	2011	2010
Florida	22,024	27,533	32,788
California	6,201	9,542	14,070
Illinois	9,313	11,420	12,548
Arizona	2,161	3,809	6,781
Michigan	4,808	7,269	10,278
Georgia	5,100	6,744	9,117
Nevada	2,053	3,001	4,729
Ohio	6,647	8,357	9,850
Texas	6,924	8,961	11,602
Washington	3,053	3,467	3,888
Minnesota	1,937	2,778	3,672
Wisconsin	3,086	3,945	4,519
North Carolina	3,956	4,929	5,641
Virginia	2,100	2,647	3,627
Maryland	3,486	3,869	4,264
All other states	56,996	67,368	77,350
	<u>139,845</u>	<u>175,639</u>	<u>214,724</u>

The primary default inventory at December 31, 2012, 2011 and 2010 separated between our flow and bulk business appears in the table below.

	2012	2011	2010
Flow	107,497	134,101	162,621
Bulk	32,348	41,538	52,103
	<u>139,845</u>	<u>175,639</u>	<u>214,724</u>

The flow default inventory by policy year at December 31, 2012, 2011 and 2010 appears in the table below.

Flow default inventory by policy year

Policy year:	2012	2011	2010
2002 and prior	9,157	12,006	14,914
2003	5,731	7,403	9,069
2004	8,142	10,116	12,077
2005	12,582	15,594	18,789
2006	18,257	23,078	28,284
2007	40,357	50,664	62,855
2008	11,914	14,247	16,059
2009	901	800	546
2010	264	168	28
2011	148	25	-
2012	44	-	-
	<u>107,497</u>	<u>134,101</u>	<u>162,621</u>

As of December 31, 2012, 26% of our primary insurance in force was written subsequent to December 31, 2009, 32% of our primary insurance in force was written subsequent to December 31, 2008, and 46% of our primary insurance in force was written subsequent to December 31, 2007. 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 accelerate 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.

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. The premium deficiency reserve reflects the present value of expected future losses and expenses that exceeded the present value of expected future premiums and already established loss reserves. This premium deficiency reserve as of December 31, 2012, 2011 and 2010 was \$74 million, \$135 million and \$179 million, respectively. The discount rate used in the calculation of the premium deficiency reserve at December 31, 2012, 2011 and 2010 was 1.3%, 2.3% and 2.5%, respectively.

See Note 10 – “Premium Deficiency Reserve” to our consolidated financial statements in Item 8 for a discussion of our premium deficiency reserve, as well as under “Critical Accounting Policies” below.

Underwriting and other expenses

Underwriting and other expenses for 2012 decreased when compared to 2011. The decrease primarily reflects our reduction in headcount.

Underwriting and other expenses for 2011 decreased when compared to 2010. The decrease reflects our reductions in headcount as well as our lower contract underwriting volume.

Ratios

The table below presents our GAAP loss, expense and combined ratios for our combined insurance operations for the years ended December 31, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Loss ratio	200.1%	152.6%	137.5%
Underwriting expense ratio	15.2%	16.0%	16.3%
Combined ratio	<u>215.3%</u>	<u>168.6%</u>	<u>153.8%</u>

The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The loss ratio does not reflect any effects due to premium deficiency. The increase in the loss ratio in 2012 compared to 2011, was due to an increase in losses incurred, as well as a decrease in premiums earned. The underwriting expense ratio is the ratio, expressed as a percentage, of underwriting expenses to net premiums written. The decrease in the underwriting expense ratio in 2012 compared to 2011, was due to a decrease in underwriting and other expenses of the combined insurance operations, partially offset by a decrease in premiums written. The combined ratio is the sum of the loss ratio and the underwriting expense ratio.

The increase in the loss ratio in 2011, compared to 2010, was due to an increase in losses incurred, as well as a decrease in premiums earned. The decrease in the underwriting expense ratio in 2011, compared to 2010, was due to a decrease in underwriting and other expenses of the combined insurance operations, partially offset by a decrease in premiums written.

Interest expense

Interest expense for 2012 decreased when compared to 2011. The decrease is primarily due to lower interest on our Senior Notes due to repayments and repurchases, partially offset by an increase in amortization on our junior debentures.

Interest expense for 2011 increased when compared to 2010. 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, somewhat offset by lower interest on our Senior Notes due to repayments and repurchases.

Income taxes

The effective tax rate benefit on our pre-tax loss was (0.2%) in 2012 compared to the effective tax rate provision of 0.3%, and 1.2% in 2011, and 2010, respectively. During those periods, the benefit from income taxes was eliminated or reduced by the recognition of a valuation allowance.

See Note 14 – “Income Taxes” to our consolidated financial statements in Item 8 for a discussion of our tax position.

Financial Condition

At December 31, 2012 the total fair value of our investment portfolio was \$4.2 billion. In addition, at December 31, 2012 our total assets included approximately \$1.0 billion of cash and cash equivalents as shown on our consolidated balance sheet. At December 31, 2012, based on fair value, less than 1% of our fixed income securities were below investment grade securities. The percentage of investments rated BBB may continue to increase as we reinvest to achieve higher yields and, in part, due to the reduced availability of highly rated corporate securities. Lower rated investments have greater risk. Greater than 99% of our fixed income securities are readily marketable. The composition of ratings at December 31, 2012, 2011 and 2010 are shown in the table below.

Investment Portfolio Ratings

	December 31,		
	2012	2011	2010
AAA	52%	37%	43%
AA	15%	26%	29%
A	22%	27%	23%
BBB	11%	10%	5%
Investment grade	100%	100%	100%
Below investment grade	-	-	-
Total	100%	100%	100%

The ratings above are provided by one or more of the following major rating agencies: Moody's, Standard & Poor's and Fitch Ratings. If three ratings are available the middle rating is utilized, otherwise the lowest rating is utilized.

Approximately 4% 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. At December 31, 2012, less than 1% of our fixed income securities were relying on financial guaranty insurance to elevate their rating.

We primarily place our investments in investment grade securities pursuant to 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, 2012, the modified duration of our fixed income investment portfolio was 2.5 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 2.5% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. See Note 6 – "Investments" to our consolidated financial statements in Item 8 for additional disclosure surrounding our investment portfolio.

At December 31, 2012, we had outstanding \$100.1 million, 5.375% Senior Notes due in November 2015, with an approximate fair value of \$80 million. At December 31, 2012, we also had \$345 million principal amount of 5% Convertible Senior Notes outstanding due in 2017, with an approximate fair value of \$243 million and \$389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, which at December 31, 2012 are reflected as a liability on our consolidated balance sheet at the current amortized value of \$380 million, with the unamortized discount reflected in equity. The fair value of the convertible debentures was approximately \$173 million at December 31, 2012. See Note 8 – "Debt" to our consolidated financial statements in Item 8 for additional disclosure on our debt.

See Note 14 – “Income Taxes” to our consolidated financial statements in Item 8 for a description of our federal income tax contingencies.

Our principal exposure to loss is our obligation to pay claims under MGIC’s mortgage guaranty insurance policies. At December 31, 2012, 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 \$43.0 billion. In addition, as part of our contract underwriting activities provided through a non-insurance subsidiary, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary 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 future obligations. These obligations have been primarily funded by contributions from our holding company and, in part, from the operations of the subsidiary. A generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs in previous years. Historically, a material portion of our new insurance written through the flow channel has involved loans for which that subsidiary provided contract underwriting services, including new insurance written between 2006 and 2008. Claims for remedies may be made a number of years after the underwriting work was performed. We believe the rescission of mortgage insurance coverage on loans for which the subsidiary provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. Beginning in the second half of 2009, our subsidiary has experienced an increase in claims for contract underwriting remedies, which has continued throughout 2012. The related contract underwriting remedy expense was approximately \$27 million, \$23 million and \$19 million for the years ended December 31, 2012, 2011 and 2010. We expect to pay remedy claims in the next two years in amounts similar to what we have paid in recent years, and to fund these payments through capital contributions to MGIC and its affiliates from our holding company’s cash and investments.

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” above).

Our obligations consist primarily of:

- claim payments under MGIC's mortgage guaranty insurance policies,
- \$100 million of 5.375% Senior Notes due in November 2015,
- \$345 million of Convertible Senior Notes due in May 2017,
- \$390 million of Convertible Junior Debentures due in April 2063,
- interest on the foregoing debt instruments, including deferred interest on our convertible debentures, 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.

Since 2009, our claim payments have exceeded our premiums received. We expect that this trend will continue. Due to the uncertainty regarding how 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. As long as the trends discussed above continue, we expect to experience significant declines in our investment portfolio.

The following table summarizes our consolidated cash flows from operating, investing and financing activities:

	For the year ended December 31,		
	2012	2011	2010
	(In thousands)		
Total cash (used in) provided by:			
Operating activities	\$ (1,568,600)	\$ (1,883,851)	\$ (875,430)
Investing activities	1,653,533	1,754,217	(111,904)
Financing activities	(53,107)	(178,721)	1,105,749
Increase (decrease) in cash and cash equivalents	\$ 31,826	\$ (308,355)	\$ 118,415

Cash used in operating activities for 2012 was lower compared to 2011 primarily due to a decrease in losses paid, partially offset by a decrease in premiums collected. Cash used in operating activities for 2011 was higher compared to 2010 primarily due to an increase in losses paid as well as a decrease in premiums collected.

Cash provided by investing activities for 2012 was lower compared to 2011 but at a considerably high level for both periods as we elected to realize gains, by selling certain securities, given the favorable market conditions experienced in 2011 and 2012. We then reinvested the funds taking into account our anticipated future claim payment obligations. We also continue to reduce our investments in tax exempt municipal securities and increase our investments in taxable securities. Cash provided by investing activities for 2011 was significantly higher compared to 2010 due to the factors described above.

Cash used in financing activities for 2012 was lower compared to 2011, as we made less debt repurchases in 2012 than 2011. In 2012 we repurchased \$70.9 million in par value of our 5.375% Senior Notes due in November 2015 at a cost of \$53.1 million, compared to repurchases of \$129 million in par value of our 5.375% Senior Notes in 2011 at a cost of \$101.3 million. In 2011 we also repaid approximately \$77 million in par value of senior notes that came due. Cash used in financing activities was higher in 2011 compared to 2010. In 2010 we received net proceeds from the public offering and sale of our common stock of approximately \$772 million as well as net proceeds from our concurrent debt offering of approximately \$334 million.

Debt at Our Holding Company and Holding Company Capital Resources

The senior notes, convertible senior notes and convertible debentures are obligations of MGIC Investment Corporation and not of its subsidiaries. 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. Since 2008, MGIC has not paid any dividends to our holding company. Through 2013, MGIC cannot pay any dividends to our holding company without approval from the OCI. In connection with the approval of MIC as an eligible mortgage insurer, Freddie Mac and Fannie Mae have imposed dividend restrictions on MGIC and MIC through December 31, 2013.

At December 31, 2012, we had approximately \$315 million in cash and investments at our holding company.

As of December 31, 2012, our holding company's debt obligations were \$835 million in par value consisting of:

- \$100 million in par value of Senior Notes due in November 2015, with an annual interest cost of \$5 million;
- \$345 million in par value of Convertible Senior Notes due in 2017, with an annual interest cost of \$17 million; and
- \$390 million in par value of Convertible Junior Debentures due in 2063, with an annual interest cost of \$35 million

See Note 8 – “Debt” to our consolidated financial statements in Item 8 for additional information about this indebtedness, including restrictive covenants in our Senior Notes and our election to defer interest on our Convertible Junior Debentures. Any deferred interest compounds at the stated rate of 9%. The description in Note 8 - “Debt” to our consolidated financial statements in Item 8 is qualified in its entirety by the terms of the notes and debentures. The terms of our Senior Notes are contained in the Officer's Certificate, dated as of October 4, 2005, which specifies the interest rate, maturity date and other terms, and in the Indenture dated as of October 15, 2000, between us and the trustee, included as an exhibit to our Form 8-K filed with the SEC on October 19, 2000 (the “2000 Indenture”). The terms of our Convertible Senior Notes are contained in a Supplemental Indenture, dated as of April 26, 2010, between us and U.S. Bank National Association, as trustee, which is included as an exhibit to our 8-K filed with the SEC on April 30, 2010, and in the 2000 Indenture. The terms of our Convertible Junior Debentures are contained in the Indenture dated as of March 28, 2008, between us and U.S. Bank National Association filed as an exhibit to our Form 10-Q filed with the SEC on May 12, 2008.

Our holding company has no other material sources of cash inflows other than investment income. Furthermore, our holding company contributed \$100 million in December 2012 and \$200 million in December 2011 to support its insurance operations. Any further contributions to our insurance operations or other non-insurance affiliates would further decrease our holding company cash and investments. See discussion of our non-insurance contract underwriting services under “Financial Condition” above and in Note 20 – “Litigation and Contingencies” to our consolidated financial statements in Item 8.

In the second quarter of 2012, we repurchased for cash approximately \$70.9 million in par value of our 5.375% Senior Notes due in November 2015, at a cost of \$53.1 million. We recognized \$17.8 million in gains on the repurchases, which is included in other revenue on the Consolidated Statements of Operations for the year ended December 31, 2012. In 2011, we repurchased for cash approximately \$129.0 million in par value of our 5.375% Senior Notes due in November 2015, at a cost of \$101.3 million. We recognized \$27.7 million in gains on the repurchases, which is included in other revenue on the Consolidated Statements of Operations for the year ended December 31, 2011. 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. The risk-to-capital ratio 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. 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 in Note 10 – "Premium Deficiency Reserve" to our consolidated financial statements in Item 8 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 on our total in force book, so no deficiency is recorded on a statutory basis. On a GAAP basis, contingency loss reserves are not established and thus not considered when calculating premium deficiency reserve and policies are grouped based on how they are acquired, serviced and measured.

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

	December 31,	
	2012	2011
	(In millions, except ratio)	
Risk in force - net (1)	\$ 30,802	\$ 31,769
Statutory policyholders' surplus	\$ 689	\$ 1,569
Statutory contingency reserve	-	-
Statutory policyholders' position	\$ 689	\$ 1,569
Risk-to-capital	44.7:1	20.3:1

(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,	
	2012	2011
	(In millions, except ratio)	
Risk in force - net (1)	\$ 36,113	\$ 36,805
Statutory policyholders' surplus	\$ 749	\$ 1,657
Statutory contingency reserve	6	4
Statutory policyholders' position	\$ 755	\$ 1,661
Risk-to-capital	47.8:1	22.2:1

(1) Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default (\$6.5 billion at December 31, 2012 and \$8.6 billion at December 31, 2011) and for which loss reserves have been established.

Our risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio.

For additional information regarding regulatory capital see Note 1 – “Nature of Business – Capital” to our consolidated financial statements in Item 8 as well as our risk factor titled “Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” in item 1A.

Financial Strength Ratings

The financial strength of MGIC, our principal mortgage insurance subsidiary, is rated B2 by Moody’s Investors Service with a negative outlook. Standard & Poor’s Rating Services’ insurer financial strength rating of MGIC is B- with a negative outlook. For further information about the importance of MGIC’s ratings, see our risk factor titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements” in Item 1A.

The financial strength of MIC, a subsidiary of MGIC, is rated Ba3 by Moody’s Investors Service with a negative outlook. Standard & Poor’s Rating Services’ insurer financial strength rating of MIC is B- with a negative outlook. For further information about the importance of MIC’s ratings, see our risk factor titled “Competition or changes in our relationships with our customers could reduce our revenues or increase our losses” in Item 1A.

Contractual Obligations

At December 31, 2012, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

Contractual Obligations (In millions):	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$ 2,717	\$ 58	\$ 216	\$ 441	\$ 2,002
Operating lease obligations	7	4	2	1	-
Tax obligations	18	-	-	18	-
Purchase obligations	2	1	1	-	-
Pension, SERP and other post-retirement benefit plans	174	11	27	31	105
Other long-term liabilities	4,057	2,104	1,601	352	-
Total	\$ 6,975	\$ 2,178	\$ 1,847	\$ 843	\$ 2,107

Our long-term debt obligations at December 31, 2012 include, \$100 million of 5.375% Senior Notes due in November 2015, \$345 million of 5% Convertible Senior Notes due in May 2017 and \$389.5 million in convertible debentures due in April 2063, including related interest, as discussed in Note 8 – “Debt” to our consolidated financial statements in Item 8 and under “Liquidity and Capital Resources” above. The interest payment on our convertible debentures that was scheduled to be paid on October 1, 2012, but which we elected to defer as discussed in Note 8 – “Debt” to our consolidated financial statements in Item 8, is included in the “More than 5 years” column in the table 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 in Item 8. Tax obligations consist primarily of amounts related to our current dispute with the IRS, as discussed in Note 14 – “Income Taxes” to our consolidated financial statements in Item 8. 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 in Item 8 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, as well as future payments required under the settlement agreement with Freddie Mac as discussed in Note 20 – “Litigation and Contingencies” to our consolidated financial statements in Item 8. 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 in Item 8 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, Accounting Standards Codification (“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. 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, 2012 and 2011, we had IBNR reserves of approximately \$180 million and \$244 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 \$152 million as of December 31, 2012. 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)	
2012	\$ 573,120	\$ 4,557,512
2011	(99,328)	5,884,171
2010	(266,908)	6,704,990
2009	466,765	4,775,552
2008	387,104	2,642,479

(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.

See Note 9 - "Loss Reserves" to our consolidated financial statements in Item 8 for a discussion of recent loss development.

Estimation of losses 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 that could result in, among other things, greater losses on loans that have pool insurance, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance and mitigation from rescissions being materially less than assumed. Our estimates are also affected by any agreements we enter into regarding claim payments, such as the probable settlement agreements discussed in Note 20 - "Litigation and Contingencies" to our consolidated financial statements in Item 8. Changes to our estimates could result in a material impact to our results of operations, even in a stable economic environment.

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.

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.

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, 2012
Ever to Date Rescission Rates on Primary Claims Received
(based on count)

<u>Quarter in Which the Claim was Received</u>	<u>ETD Rescission Rate (1)</u>	<u>ETD Claims Resolution Percentage (2)</u>
Q1 2011	13.3%	98.6%
Q2 2011	10.3%	97.5%
Q3 2011	7.9%	96.7%
Q4 2011	7.5%	96.1%
Q1 2012	6.1%	95.1%
Q2 2012	4.6%	93.9%

(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 this 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, but could increase materially if we enter into material resolution agreements.

Note: As discussed in Note 20 – “Litigation and Contingencies” to our consolidated financial statements in Item 8 we have made substantial progress in reaching an agreement with Countrywide regarding rescissions. In connection with the Countrywide proceedings, we have voluntarily suspended rescissions of coverage related to loans that we believe could be included in a potential resolution. As of December 31, 2012, coverage on approximately 2,150 loans, representing total potential claim payments of approximately \$160 million, that we had determined was rescindable were affected by our decision to suspend such rescissions. Substantially all of these potential rescissions relate to claims received beginning in the first quarter of 2011 or later. As of December 31, 2012, coverage on approximately 250 loans, representing total potential claims payments of approximately \$17 million, were affected by our decision to suspend such rescissions for another customer for which we also consider settlement probable. See Note 20 – “Litigation and Contingencies” for a discussion of probable settlements. In addition, as of December 31, 2012, approximately 240 rescissions, representing total potential claim payments of approximately \$16 million, were affected by our decision to suspend rescissions for customers other than those for which we consider settlement probable, as defined in ASC 450-20. The decision to suspend these potential rescissions does not represent the only reason for the recent decline in the percentage of claims that have been resolved through rescissions and we continue to expect that our rescissions will continue to decline.

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

For more information regarding rescissions, rescission settlements and related legal proceedings, see Note 9 – “Loss Reserves” and Note 20 – “Litigation and Contingencies” to our consolidated financial statements in Item 8.

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 \$62 million. Additionally, a 5% change in the persistency of the underlying loans could change the Wall Street bulk premium deficiency reserve amount by approximately \$13 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 affect premiums written and earned and change in premium deficiency reserve, respectively. The actual return of premium affects premium 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 directly associated with the successful 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, 2012, the persistency rate of our primary mortgage insurance was 79.8%, compared to 82.9% at December 31, 2011. This change did not significantly affect the amortization of deferred insurance policy acquisition costs for the period ended December 31, 2012. 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

For the years ended December 31, 2012, 2011 and 2010, 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 U.S. government corporations and agencies and Australian government and semi government securities.

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 in Item 8. 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, 2012 and 2011. 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;
- Time to liquidity through December 31, 2013;
- Continued receipt of contractual interest; and
- Discount rates ranging from 16.87% to 18.35%, 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.

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.

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 2012, 2011 and 2010 we recognized OTTI losses in earnings of \$2.3 million, \$0.7 million and \$9.6 million, respectively.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At December 31, 2012, the modified duration of our fixed income investment portfolio, including cash and cash equivalents, was 2.5 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 2.5% in the market value of our fixed income portfolio. For an upward shift in the yield curve, the market value of our portfolio would decrease and for a downward shift in the yield curve, the market value would increase.

Item 8. Financial Statements and Supplementary Data.

The following consolidated financial statements are filed pursuant to this Item 8:

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Consolidated balance sheets at December 31, 2012 and 2011	126
Consolidated statements of operations for each of the three years in the period ended December 31, 2012	127
Consolidated statements of comprehensive income for each of the three years in the period ended December 31, 2012	128
Consolidated statements of shareholders' equity for each of the three years in the period ended December 31, 2012	129
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MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
	(In thousands)	
Investment portfolio (notes 6 and 7):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2012 - \$4,185,937; 2011 - \$5,700,894)	\$ 4,227,339	\$ 5,820,900
Equity securities	2,936	2,747
Total investment portfolio	<u>4,230,275</u>	<u>5,823,647</u>
Cash and cash equivalents	1,027,625	995,799
Accrued investment income	27,243	55,666
Reinsurance recoverable on loss reserves (note 11)	104,848	154,607
Reinsurance recoverable on paid losses	15,605	19,891
Premiums receivable	67,828	71,073
Home office and equipment, net	27,190	28,145
Deferred insurance policy acquisition costs	11,245	7,505
Other assets	62,465	59,897
Total assets	<u>\$ 5,574,324</u>	<u>\$ 7,216,230</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Loss reserves (notes 9 and 11)	\$ 4,056,843	\$ 4,557,512
Premium deficiency reserve (note 10)	73,781	134,817
Unearned premiums (note 11)	138,840	154,866
Senior notes (note 8)	99,910	170,515
Convertible senior notes (note 8)	345,000	345,000
Convertible junior debentures (note 8)	379,609	344,422
Other liabilities	283,401	312,283
Total liabilities	<u>5,377,384</u>	<u>6,019,415</u>
Contingencies (note 20)		
Shareholders' equity (note 15):		
Common stock (one dollar par value, shares authorized 680,000; shares issued 2012 and 2011 - 205,047; outstanding 2012 - 202,032; 2011 - 201,172)	205,047	205,047
Paid-in capital	1,135,296	1,135,821
Treasury stock (shares at cost 2012 - 3,015; 2011 - 3,875)	(104,959)	(162,542)
Accumulated other comprehensive (loss) income, net of tax (note 3)	(48,163)	30,124
Retained deficit	(990,281)	(11,635)
Total shareholders' equity	<u>196,940</u>	<u>1,196,815</u>
Total liabilities and shareholders' equity	<u>\$ 5,574,324</u>	<u>\$ 7,216,230</u>

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
(In thousands, except per share data)			
Revenues:			
Premiums written:			
Direct	\$ 1,049,549	\$ 1,119,182	\$ 1,169,081
Assumed (note 11)	2,425	(4,898)	3,090
Ceded (note 11)	(34,142)	(49,904)	(70,376)
Net premiums written	1,017,832	1,064,380	1,101,795
Decrease in unearned premiums	15,338	59,455	66,952
Net premiums earned (note 11)	1,033,170	1,123,835	1,168,747
Investment income, net of expenses (note 6)	121,640	201,270	247,253
Realized investment gains, net (note 6)	197,719	143,430	102,581
Total other-than-temporary impairment losses	(2,310)	(715)	(9,644)
Portion of losses recognized in other comprehensive income (loss), before taxes (note 3)	-	-	-
Net impairment losses recognized in earnings	(2,310)	(715)	(9,644)
Other revenue	28,145	36,459	11,588
Total revenues	1,378,364	1,504,279	1,520,525
Losses and expenses:			
Losses incurred, net (notes 9 and 11)	2,067,253	1,714,707	1,607,541
Change in premium deficiency reserve (note 10)	(61,036)	(44,150)	(51,347)
Amortization of deferred policy acquisition costs	7,452	6,880	7,062
Other underwriting and operating expenses, net	193,995	207,870	218,080
Interest expense (note 8)	99,344	103,271	98,589
Total losses and expenses	2,307,008	1,988,578	1,879,925
Loss before tax	(928,644)	(484,299)	(359,400)
(Benefit from) provision for income taxes (note 14)	(1,565)	1,593	4,335
Net loss	\$ (927,079)	\$ (485,892)	\$ (363,735)
Loss per share (note 3):			
Basic	\$ (4.59)	\$ (2.42)	\$ (2.06)
Diluted	\$ (4.59)	\$ (2.42)	\$ (2.06)
Weighted average common shares outstanding - basic (note 3)	201,892	201,019	176,406
Weighted average common shares outstanding - diluted (note 3)	201,892	201,019	176,406
Dividends per share	\$ -	\$ -	\$ -

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2012, 2011 and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
		(In thousands)	
Net Loss	\$ (927,079)	\$ (485,892)	\$ (363,735)
Other comprehensive income (loss), net of tax (note 3):			
Unrealized holding (losses) gains for the period included in accumulated other comprehensive income (loss)	(12,646)	68,822	(7,534)
Less: net gains (losses) reclassified out of accumulated other comprehensive income (loss) into earnings for the period	<u>66,013</u>	<u>47,765</u>	<u>61,540</u>
Change in unrealized investment gains and losses (note 6)	(78,659)	21,057	(69,074)
Amortization related to benefit plans (note 13)	(1,221)	(12,862)	6,390
Foreign currency translation adjustment	<u>1,593</u>	<u>(207)</u>	<u>10,665</u>
Other comprehensive (loss) income, net of tax	<u>(78,287)</u>	<u>7,988</u>	<u>(52,019)</u>
Total comprehensive loss	<u>\$ (1,005,366)</u>	<u>\$ (477,904)</u>	<u>\$ (415,754)</u>

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2010, 2011 and 2012

	<u>Common stock</u>	<u>Paid-in capital</u> (In thousands)	<u>Treasury stock</u>	<u>Accumulated other comprehensive income (loss) (note 3)</u>	<u>Retained earnings/(deficit)</u>
Balance, December 31, 2009	\$ 130,163	\$ 443,294	\$ (269,738)	\$ 74,155	\$ 924,707
Net loss					(363,735)
Change in unrealized investment gains and losses, net	-	-	-	(69,074)	-
Common stock shares issued (note 15)	74,884	697,492	-	-	-
Reissuance of treasury stock, net	-	(14,425)	47,106	-	(35,410)
Equity compensation	-	12,581	-	-	-
Defined benefit plan adjustments, net	-	-	-	6,390	-
Unrealized foreign currency translation adjustment, net	-	-	-	10,665	-
Balance, December 31, 2010	\$ 205,047	\$ 1,138,942	\$ (222,632)	\$ 22,136	\$ 525,562
Net loss					(485,892)
Change in unrealized investment gains and losses, net	-	-	-	21,057	-
Reissuance of treasury stock, net	-	(14,577)	60,090	-	(51,305)
Equity compensation	-	11,456	-	-	-
Defined benefit plan adjustments, net	-	-	-	(12,862)	-
Unrealized foreign currency translation adjustment, net	-	-	-	(207)	-
Balance, December 31, 2011	\$ 205,047	\$ 1,135,821	\$ (162,542)	\$ 30,124	\$ (11,635)
Net loss	-	-	-	-	(927,079)
Change in unrealized investment gains and losses, net (note 6)	-	-	-	(78,659)	-
Reissuance of treasury stock, net (note 15)	-	(8,749)	57,583	-	(51,567)
Equity compensation (note 18)	-	8,224	-	-	-
Defined benefit plan adjustments, net (note 13)	-	-	-	(1,221)	-
Unrealized foreign currency translation adjustment, net	-	-	-	1,593	-
Balance, December 31, 2012	<u>\$ 205,047</u>	<u>\$ 1,135,296</u>	<u>\$ (104,959)</u>	<u>\$ (48,163)</u>	<u>\$ (990,281)</u>

See accompanying notes to consolidated financial statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
	(In thousands)		
Cash flows from operating activities:			
Net loss	\$ (927,079)	\$ (485,892)	\$ (363,735)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and other amortization	100,135	84,828	60,882
Deferred tax benefit	(34)	(738)	(75)
Realized investment gains, net	(197,719)	(143,430)	(102,581)
Net investment impairment losses	2,310	715	9,644
Gain on repurchase on senior notes	(17,775)	(27,688)	-
Other	(21,026)	(14,218)	(13,646)
Change in certain assets and liabilities:			
Accrued investment income	28,423	14,639	9,523
Reinsurance recoverable on loss reserves	49,759	120,683	56,937
Reinsurance recoverable on paid losses	4,286	14,269	(24,863)
Premiums receivable	3,245	8,494	10,572
Deferred insurance policy acquisition costs	(3,740)	777	740
Real estate	(1,842)	4,599	(2,390)
Loss reserves	(500,669)	(1,326,659)	(820,819)
Premium deficiency reserve	(61,036)	(44,150)	(14,219)
Unearned premiums	(16,026)	(60,291)	(65,581)
Return premium	(11,700)	(28,300)	90,500
Income taxes payable (current)	1,888	(1,489)	293,681
Net cash used in operating activities	<u>(1,568,600)</u>	<u>(1,883,851)</u>	<u>(875,430)</u>
Cash flows from investing activities:			
Investment purchases:			
Equity securities	(132)	(126)	(156)
Fixed maturities	(5,025,204)	(4,393,471)	(5,225,794)
Proceeds from sale of:			
Equity securities	-	504	-
Fixed maturities	5,216,934	4,742,213	4,287,312
Proceeds from maturity of fixed maturities	1,461,955	1,407,325	740,959
Repayment of note receivable from joint ventures	-	-	83,500
Net (decrease) increase in payable for securities	(20)	(2,228)	2,275
Net cash provided by (used in) investing activities	<u>1,653,533</u>	<u>1,754,217</u>	<u>(111,904)</u>
Cash flows from financing activities:			
Repayment of long-term debt	(53,107)	(178,721)	(1,000)
Net proceeds from convertible senior notes	-	-	334,373
Common stock shares issued	-	-	772,376
Net cash (used in) provided by financing activities	<u>(53,107)</u>	<u>(178,721)</u>	<u>1,105,749</u>
Net increase (decrease) in cash and cash equivalents	31,826	(308,355)	118,415
Cash and cash equivalents at beginning of year	995,799	1,304,154	1,185,739
Cash and cash equivalents at end of year	<u>\$ 1,027,625</u>	<u>\$ 995,799</u>	<u>\$ 1,304,154</u>

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012, 2011 and 2010

1. Nature of Business

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC"), MGIC Indemnity Corporation ("MIC") 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 have not written any business through the bulk channel since 2008. Prior to 2009, we also wrote pool mortgage insurance. Pool insurance generally covers the excess of the loss on a defaulted mortgage loan which exceeds the claim payment under the primary coverage, if primary insurance is required on that mortgage loan, as well as the total loss on a defaulted mortgage loan which did not require primary insurance. Pool insurance may have a stated aggregate loss limit for a pool of loans and may also have a deductible under which no losses are paid by the insurer until losses on the pool of loans exceed the deductible. 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. We began our international operations in Australia, where we started to write business in June 2007. Since 2008, we are no longer writing new business in Australia. Our Australian operations are included in our consolidated financial statements; however they are not material to our consolidated results.

At December 31, 2012, our direct domestic primary insurance in force was \$162.1 billion, which represents the principal balance in our records of all mortgage loans that we insure, and our direct domestic primary risk in force was \$41.7 billion, which represents the insurance in force multiplied by the insurance coverage percentage. Our direct pool risk in force at December 31, 2012 was approximately \$1.3 billion (\$0.4 billion on pool policies with aggregate loss limits and \$0.9 billion on pool policies without aggregate loss limits). Our risk in force in Australia at December 31, 2012 was approximately \$680 million which represents the risk associated with 100% coverage on the insurance in force. The mortgage insurance we provided in Australia only covers the unpaid loan balance after the sale of the underlying property.

Capital

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the “Capital Requirements.” New insurance written in the jurisdictions that have Capital Requirements represented approximately 50% of new insurance written in 2011 and 2012. While formulations of minimum capital vary among jurisdictions, the most common formulation allows for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position (“MPP”). The “policyholder position” of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums.

At December 31, 2012, MGIC’s risk-to-capital ratio was 44.7 to 1, exceeding the maximum allowed by many jurisdictions, and its policyholder position was \$640 million below the required MPP of \$1.2 billion. We expect MGIC’s risk-to-capital ratio to increase above its December 31, 2012 level. At December 31, 2012, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 47.8 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC or MIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC and MIC to write insurance with a higher coverage percentage than they could on their own under certain state-specific requirements.

Statement of Statutory Accounting Principles No. 101 (“SSAP No. 101”), became effective January 1, 2012 and prescribed new standards for determining the amount of deferred tax assets that can be recognized as admitted assets for determining statutory capital. Under a permitted practice effective September 30, 2012 and until further notice, the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”) has approved MGIC to report its net deferred tax asset as an admitted asset in an amount not to exceed 10% of surplus as regards policyholders, notwithstanding any contrary provisions of SSAP No. 101. At December 31, 2012, had MGIC calculated its net deferred tax assets based on the provisions of SSAP No. 101, no deferred tax assets would have been admitted. Pursuant to the permitted practice, deferred tax assets of approximately \$63 million were included in statutory capital.

Although MGIC does not meet the Capital Requirements of Wisconsin, the OCI has waived them until December 31, 2013. In place of the Capital Requirements, the OCI Order containing the waiver of Capital Requirements (the “OCI Order”) provides that MGIC can write new business as long as it maintains regulatory capital that the OCI determines is reasonably in excess of a level that would constitute a financially hazardous condition. The OCI Order requires MGIC Investment Corporation, through the earlier of December 31, 2013 and the termination of the OCI Order (the “Covered Period”), to make cash equity contributions to MGIC as may be necessary so that its “Liquid Assets” are at least \$1 billion (this portion of the OCI Order is referred to as the “Keepwell Provision”). “Liquid Assets,” which include those of MGIC as well as those held in certain of our subsidiaries, including our Australian subsidiaries, but excluding MIC and its reinsurance affiliates, are the sum of (i) the aggregate cash and cash equivalents, (ii) fair market value of investments and (iii) assets held in trusts supporting the obligations of captive mortgage reinsurers to MGIC. As of December 31, 2012, “Liquid Assets” were approximately \$4.8 billion. Although we do not expect that MGIC’s Liquid Assets will fall below \$1 billion during the Covered Period, we do expect the amount of Liquid Assets to continue to decline materially after December 31, 2012 and through the end of the Covered Period as MGIC’s claim payments and other uses of cash continue to exceed cash generated from operations. Factors that could negatively impact MGIC’s Liquid Assets are discussed throughout the financial statement footnotes.

The OCI, in its sole discretion, may modify, terminate or extend its waiver of Capital Requirements, although any modification or extension of the Keepwell Provision requires our written consent. If the OCI modifies or terminates its waiver, or if it fails to renew its waiver upon expiration, depending on the circumstances, MGIC could be prevented from writing new business in all jurisdictions if MGIC does not comply with the Capital Requirements. We cannot assure you that MGIC could obtain the additional capital necessary to comply with the Capital Requirements. At present, the amount of additional capital we would need to comply with the Capital Requirements would be substantial. If MGIC were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the Capital Requirements or obtained a necessary waiver to allow it to once again write new business. Furthermore, if the OCI revokes or fails to renew MGIC's waiver, MIC's ability to write new business would be severely limited because the GSEs' approval of MIC (discussed below) is conditioned upon the continued effectiveness of the OCI Order.

MGIC applied for waivers in the other jurisdictions with Capital Requirements and, at this time, has active waivers from seven of them. MIC is writing new business in the jurisdictions where MGIC does not have active waivers. As a result, MGIC and MIC are collectively writing business on a nationwide basis.

Insurance departments, in their sole discretion, may modify, terminate or extend their waivers of Capital Requirements. If an insurance department other than the OCI modifies or terminates its waiver, or if it fails to grant a waiver or renew its waiver after expiration, depending on the circumstances, MGIC could be prevented from writing new business in that particular jurisdiction. Also, depending on the level of losses that MGIC experiences in the future, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific Capital Requirements, may prevent MGIC from continuing to write new insurance in that jurisdiction. As discussed below, under certain conditions, this business would be written in MIC. Factors that could negatively impact MGIC's statutory capital and compliance with Capital Requirements are discussed throughout the financial statement footnotes.

MGIC's failure to meet the Capital Requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force on a timely basis, we cannot assure you that the events that led to MGIC failing to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received, our anticipated rescission activity, premiums, housing values and unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about when anticipated claims will be received, housing values, and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims that will be rescinded and the outcome of any legal proceedings or settlement discussions related to rescissions. Factors that could negatively affect MGIC's claims paying resources are discussed throughout the financial statement footnotes.

As part of our longstanding plan to write new business in MIC, a direct subsidiary of MGIC, MGIC has made capital contributions to MIC. As of December 31, 2012, MIC had statutory capital of \$448 million. In the third quarter of 2012, we began writing new mortgage insurance in MIC on the same policy terms as MGIC, in those jurisdictions where we did not have active waivers of Capital Requirements for MGIC. In the second half of 2012, MIC's new insurance written was \$2.4 billion, which includes business from certain jurisdictions for which new insurance is again being written in MGIC after it received the necessary waivers. We project MIC can write 100% of our new insurance for at least five years if MGIC is unable to write new business. This projection is based on the 18:1 risk-to-capital limitation prescribed by Freddie Mac's approval of MIC (discussed below) and assumes the mix and level of new insurance written in the future would be the same as we wrote in 2012. It also assumes MIC's eligibility would extend throughout this period. We are currently writing new mortgage insurance in MIC in Florida, Idaho, Missouri, New Jersey, New York, North Carolina, Ohio and Puerto Rico. Approximately 19% of new insurance written in 2011 and 2012 was from jurisdictions in which MIC is currently writing business. If we had to write substantially more of our business in MIC and our levels of new insurance written were to increase materially, MIC may require additional capital to stay below Freddie Mac's prescribed risk-to-capital limit or a waiver of Freddie Mac's risk-to-capital limitation may be required. MIC is licensed to write business in all jurisdictions and, subject to the conditions and restrictions discussed below, has received the necessary approvals from the GSEs and the OCI to write business in all of the jurisdictions that have not waived their Capital Requirements for MGIC.

Under an agreement in place with Fannie Mae, as amended November 30, 2012, MIC will be eligible to write mortgage insurance through December 31, 2013, in those jurisdictions (other than Wisconsin) in which MGIC cannot write new insurance due to MGIC's failure to meet Capital Requirements and to obtain a waiver of them. MIC is also approved to write mortgage insurance for 60 days in jurisdictions that do not have Capital Requirements if a jurisdiction notifies MGIC that, due to its financial condition, it may no longer write new business. The agreement provides that Fannie Mae may, in its discretion, extend such approval to no later than December 31, 2013. The agreement with Fannie Mae contains certain conditions and restrictions to its continued effectiveness including the continued effectiveness of the OCI Order and the continued applicability of the Keepwell Provision of the OCI Order.

Under a letter from Freddie Mac that was amended and restated as of November 30, 2012, Freddie Mac approved MIC to write business only in those jurisdictions (other than Wisconsin) where either (a) MGIC is unable to write business because it does not meet the Capital Requirements and does not obtain waivers of them, or (b) MGIC received notice that it may not write business because of that jurisdiction's view of MGIC's financial condition. This approval of MIC, which may be withdrawn at any time, expires December 31, 2013, or earlier if a financial examination by the OCI determines that there is a reasonable probability that MGIC will be unable to honor claim obligations at any time in the five years after the examination, or if MGIC fails to honor claim payments. The approval from Freddie Mac, contains certain conditions and restrictions to its continued effectiveness, including requirements that MIC not exceed a risk-to-capital ratio of 18:1 (at December 31, 2012, MIC's risk-to-capital ratio was 1.2 to 1); MGIC and MIC comply with all terms and conditions of the OCI Order; the OCI Order remain effective; we contribute \$100 million to MGIC on or before December 3, 2012 (which we did); MGIC enter into and comply with the payment terms of the settlement agreement with Freddie Mac and the FHFA dated December 1, 2012 (for more information about the settlement agreement, see Note 20 – "Litigation and Contingencies"); the OCI issue the order described in the next paragraph (which it did); and MIC provide MGIC access to the capital of MIC in an amount necessary for MGIC to maintain sufficient liquidity to satisfy its obligations under insurance policies issued by MGIC.

On November 29, 2012, the OCI issued an order, effective until December 31, 2013, establishing a procedure for MIC to pay a dividend to MGIC if either of the following two events occurs: (1) an OCI examination determines that there is a reasonable probability that MGIC will be unable to honor its policy obligations at any time during the five years after the examination, or (2) MGIC fails to honor its policy obligations that in good faith believes are valid. If one of these events occurs, the OCI is to conduct a review (to be completed within 60 days after the triggering event) to determine the maximum single dividend MIC could prudently pay to MGIC for the benefit of MGIC's policyholders, taking account of the interests of MIC's policyholders and the general public and certain standards for dividends imposed by Wisconsin law. Upon the completion of the review, the OCI will authorize, and MIC will pay, such a dividend within 30 days.

We cannot assure you that the GSEs will approve or continue to approve MIC to write business in all jurisdictions in which MGIC is unable to do so. If one GSE does not approve MIC in all jurisdictions in which MGIC is unable to write new business, MIC may be able to write insurance on loans that will be sold to the other GSE or retained by private investors. However, because lenders may not know which GSE will purchase their loans until mortgage insurance has been procured, lenders may be unwilling to procure mortgage insurance from MIC. Furthermore, if we are unable to write business on a nationwide basis utilizing a combination of MGIC and MIC, lenders may be unwilling to procure insurance from us anywhere. In addition, new insurance written can be influenced by a lender's assessment of the financial strength of our insurance operations.

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. 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.

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 can access. Financial assets utilizing Level 1 inputs primarily include certain U.S. Treasury securities and obligations of U.S. government corporations and agencies and Australian government and semi government securities.

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 by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including data published in 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 by the independent pricing sources 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 for which 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, 2012 and 2011. The DCF model for estimating the fair value of the auction rate securities as of December 31, 2012 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;
- Time to liquidity through December 31, 2013;
- Continued receipt of contractual interest; and
- Discount rates ranging from 16.87% to 18.35%, which include a spread for liquidity risk.

The spread for liquidity risk at December 31, 2012 increased significantly from September 30, 2012, due to our decision to consider offers from outside the auction process on our remaining two auction rate securities. These secondary market transactions have historically had a higher discount to par than transactions associated with the issuers or trustees.

· 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.")

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 \$51.3 million, \$65.2 million and \$62.9 million at December 31, 2012, 2011 and 2010, respectively. Depreciation expense for the years ended December 31, 2012, 2011 and 2010 was \$1.9 million, \$2.3 million and \$2.9 million, respectively.

Deferred Insurance Policy Acquisition Costs

Costs directly associated with the successful 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, Accounting Standards Codification (“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. 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 Reserve

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. 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

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," we have reduced our benefit from income tax through the recognition of 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 eligible spouses and 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 included in "Other assets." Amounts due from reinsurers on paid claims 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. The fair value of awards classified as liabilities is remeasured at each reporting period until the award is settled. 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 1.1 million, 1.1 million and 1.8 million, respectively, for the years ended December 31, 2012, 2011 and 2010 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; for the years ended December 31, 2012, 2011 and 2010, common stock equivalents of 61.7 million, 55.6 million and 47.4 million, respectively, were not included because they were anti-dilutive.

	Years Ended December 31,		
	2012	2011	2010
	(In thousands, except per share data)		
Basic loss per share:			
Average common shares outstanding	201,892	201,019	176,406
Net loss	<u>\$ (927,079)</u>	<u>\$ (485,892)</u>	<u>\$ (363,735)</u>
Basic loss per share	<u>\$ (4.59)</u>	<u>\$ (2.42)</u>	<u>\$ (2.06)</u>
Diluted loss per share:			
Weighted-average shares - Basic	201,892	201,019	176,406
Common stock equivalents	<u>-</u>	<u>-</u>	<u>-</u>
Weighted-average shares - Diluted	201,892	201,019	176,406
Net loss	<u>\$ (927,079)</u>	<u>\$ (485,892)</u>	<u>\$ (363,735)</u>
Diluted loss per share	<u>\$ (4.59)</u>	<u>\$ (2.42)</u>	<u>\$ (2.06)</u>

Other Comprehensive Income

Our other comprehensive income for the years ended December 31, 2012, 2011 and 2010 was as follows:

	2012			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	\$ (78,546)	\$ 27,510	\$ (27,623)	\$ (78,659)
Amortization related to benefit plans	(1,221)	428	(428)	(1,221)
Unrealized foreign currency translation adjustment	2,452	(859)	-	1,593
Other comprehensive income (loss)	<u>\$ (77,315)</u>	<u>\$ 27,079</u>	<u>\$ (28,051)</u>	<u>\$ (78,287)</u>
	2011			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	\$ 31,662	\$ (10,605)	-	\$ 21,057
Amortization related to benefit plans	(19,789)	6,927	-	(12,862)
Unrealized foreign currency translation adjustment	(318)	111	-	(207)
Other comprehensive income (loss)	<u>\$ 11,555</u>	<u>\$ (3,567)</u>	<u>\$ -</u>	<u>\$ 7,988</u>
	2010			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	\$ (71,308)	\$ 27,220	\$ (24,986)	\$ (69,074)
Amortization related to benefit plans	6,390	(2,236)	2,236	6,390
Unrealized foreign currency translation adjustment	15,615	(5,479)	529	10,665
Other comprehensive income (loss)	<u>\$ (49,303)</u>	<u>\$ 19,505</u>	<u>\$ (22,221)</u>	<u>\$ (52,019)</u>

See Note 14 – “Income Taxes” for a discussion of the valuation allowance.

Our total accumulated other comprehensive income was as follows:

	December 31,	
	2012	2011
	(In thousands)	
Unrealized gains (losses) on investments	\$ 41,541	\$ 120,087
Defined benefit plans	(71,804)	(70,582)
Foreign currency translation adjustment	32,747	30,294
Accumulated other comprehensive income, before tax	2,484	79,799
Tax effect (1)	(50,647)	(49,675)
Total accumulated other comprehensive (loss) income	\$ (48,163)	\$ 30,124

(1) Tax effect does not approximate 35% due to amounts of tax benefits not provided in various periods due to our tax valuation allowance.

Cash and Cash Equivalents

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

Subsequent Events

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

4. New Accounting Policies

In May 2011, new guidance was issued regarding fair value measurement. The guidance in the new standard is intended to harmonize the fair value measurement and disclosure requirements for accounting principles generally accepted in the United States ("GAAP") and International Financial Reporting Standards. Many of the changes in the standard represent clarifications to existing guidance, but the standard also includes some new guidance and new required disclosures. Our disclosures reflect the requirements of this new guidance beginning with the first quarter of 2012.

In June 2011, as amended in December 2011, new guidance was issued requiring entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. Our disclosures reflect the requirements of this new guidance beginning with the first quarter of 2012. Other provisions of this guidance regarding reclassifications out of other comprehensive income were finalized in February 2013. We are currently evaluating these additional provisions and intend to meet the new requirements beginning in the first quarter of 2013.

In October 2010, new guidance was issued on accounting for costs associated with acquiring or renewing insurance contracts. The new guidance changed how insurance companies account for acquisition costs, particularly in determining what costs are deferrable. The new requirements were effective beginning in the first quarter of 2012 and we have adopted them prospectively. Under the new guidance in effect, for the year ended December 31, 2012, we deferred \$9.2 million of acquisition costs. For the year ended December 31, 2011, we deferred \$5.2 million in acquisition costs and under the new guidance we would have deferred \$7.2 million of such costs. Acquisition costs are not deferred on a statutory accounting basis; therefore this new guidance has no impact on our statutory capital.

5. Related Party Transactions

There were no related party transactions during 2012, 2011 or 2010.

6. Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at December 31, 2012 and 2011 are shown below.

<u>December 31, 2012</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses (1)</u>	<u>Fair Value</u>
	(In thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 863,282	\$ 3,040	\$ (71)	\$ 866,251
Obligations of U.S. states and political subdivisions	795,935	16,965	(506)	812,394
Corporate debt securities (2)	1,792,646	15,470	(2,739)	1,805,377
Residential mortgage-backed securities	451,352	871	(1,314)	450,909
Commercial mortgage-backed securities	150,232	524	(414)	150,342
Debt securities issued by foreign sovereign governments	132,490	9,784	(208)	142,066
Total debt securities	<u>4,185,937</u>	<u>46,654</u>	<u>(5,252)</u>	<u>4,227,339</u>
Equity securities	2,797	139	-	2,936
Total investment portfolio	<u>\$ 4,188,734</u>	<u>\$ 46,793</u>	<u>\$ (5,252)</u>	<u>\$ 4,230,275</u>

<u>December 31, 2011:</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses (1)</u>	<u>Fair Value</u>
	(In thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 592,108	\$ 4,965	\$ (36)	\$ 597,037
Obligations of U.S. states and political subdivisions	2,255,192	74,918	(6,639)	2,323,471
Corporate debt securities (2)	2,007,720	32,750	(7,619)	2,032,851
Residential mortgage-backed securities	441,589	4,113	(285)	445,417
Commercial mortgage-backed securities	257,530	7,404	-	264,934
Debt securities issued by foreign sovereign governments	146,755	10,441	(6)	157,190
Total debt securities	<u>5,700,894</u>	<u>134,591</u>	<u>(14,585)</u>	<u>5,820,900</u>
Equity securities	2,666	82	(1)	2,747
Total investment portfolio	<u>\$ 5,703,560</u>	<u>\$ 134,673</u>	<u>\$ (14,586)</u>	<u>\$ 5,823,647</u>

- (1) There were no other-than-temporary impairment losses recorded in other comprehensive income at December 31, 2012 and 2011.
- (2) Includes investments in corporate asset-backed securities with a fair value of \$324 million and \$199 million at December 31, 2012 and 2011, respectively.

Our foreign investments primarily consist of the investment portfolio supporting our Australian domiciled subsidiary. This portfolio is comprised of Australian government and semi government securities, representing 88% of the market value of our foreign investments with the remaining 11% invested in corporate securities and 1% in cash equivalents. The Australian portfolio is rated AAA, by one or more of the following major rating agencies: Moody's, Standard & Poor's and Fitch Ratings.

The amortized cost and fair values of debt securities at December 31, 2012, 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.

<u>December 31, 2012</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
	(In thousands)	
Due in one year or less	\$ 1,097,193	\$ 1,099,383
Due after one year through five years	1,673,962	1,696,376
Due after five years through ten years	480,319	491,933
Due after ten years	315,765	321,282
	<u>3,567,239</u>	<u>3,608,974</u>
Residential mortgage-backed securities	451,352	450,909
Commercial mortgage-backed securities	150,232	150,342
Auction rate securities (1)	17,114	17,114
	<u>17,114</u>	<u>17,114</u>
Total at December 31, 2012	<u>\$ 4,185,937</u>	<u>\$ 4,227,339</u>

(1) At December 31, 2012, 100% of auction rate securities had a contractual maturity greater than 10 years.

At December 31, 2012 and 2011, the investment portfolio had gross unrealized losses of \$5.3 million and \$14.6 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)						
<u>December 31, 2012</u>						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 24,094	\$ 71	\$ -	\$ -	\$ 24,094	\$ 71
Obligations of U.S. states and political subdivisions	156,111	505	1,006	1	157,117	506
Corporate debt securities	310,440	2,737	3,353	2	313,793	2,739
Residential mortgage-backed securities	315,000	982	19,939	332	334,939	1,314
Commercial mortgage- backed securities	72,689	414	-	-	72,689	414
Debt securities issued by foreign sovereign governments	14,695	208	-	-	14,695	208
Total investment portfolio	\$ 893,029	\$ 4,917	\$ 24,298	\$ 335	\$ 917,327	\$ 5,252

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
<u>December 31, 2011</u>						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 78,546	\$ 36	\$ -	\$ -	\$ 78,546	\$ 36
Obligations of U.S. states and political subdivisions	188,879	837	137,965	5,802	326,844	6,639
Corporate debt securities	689,396	6,709	28,174	910	717,570	7,619
Residential mortgage-backed securities	120,405	285	-	-	120,405	285
Debt securities issued by foreign sovereign governments	484	6	-	-	484	6
Equity securities	-	-	33	1	33	1
Total investment portfolio	\$ 1,077,710	\$ 7,873	\$ 166,172	\$ 6,713	\$ 1,243,882	\$ 14,586

The unrealized losses in all categories of our investments at December 31, 2012 were primarily caused by the difference in interest rates at December 31, 2012, compared to interest rates at the time of purchase. At December 31, 2011, the securities in an unrealized loss position for 12 months or greater are primarily auction rate securities (“ARS”) backed by student loans. See further discussion of these securities below. The unrealized losses in all categories of our investments were primarily caused by the difference in interest rates at December 31, 2011, compared to the interest rates at the time of purchase as well as the liquidity discount rate applied in our auction rate securities discounted cash flow model.

The fair value of our ARS backed by student loans was approximately \$17 million and \$170 million at December 31, 2012 and 2011, respectively. The two ARS we hold are collateralized by portfolios of student loans, both of which are ultimately 97% guaranteed by the United States Department of Education. At December 31, 2012, our remaining ARS portfolio was 100% AAA/Aaa-rated by one or more of the major rating agencies.

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 2012 we recognized OTTI losses in earnings of \$2.3 million, related to impairments on certain ARS, some of which were previously impaired in 2011. During 2011 we recognized OTTI losses in earnings of \$0.7 million. During 2010 we recognized OTTI losses in earnings of \$9.6 million. In 2010, our OTTI losses were primarily related to certain securities for which the expected cash flows are not sufficient to recover the amortized cost.

For the years ended December 31, 2012 and 2011, there were no credit losses recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income (loss).

Net investment income is comprised of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In thousands)		
Fixed maturities	\$ 122,886	\$ 202,301	\$ 236,734
Equity securities	200	330	315
Cash equivalents	333	496	1,526
Interest on Sherman note	-	-	10,796
Other	<u>782</u>	<u>926</u>	<u>1,081</u>
Investment income	124,201	204,053	250,452
Investment expenses	<u>(2,561)</u>	<u>(2,783)</u>	<u>(3,199)</u>
Net investment income	<u>\$ 121,640</u>	<u>\$ 201,270</u>	<u>\$ 247,253</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In thousands)		
Net realized investment gains (losses) on investments:			
Fixed maturities	\$ 195,652	\$ 142,284	\$ 93,017
Equity securities	487	330	151
Joint ventures	-	-	(466)
Other	(730)	101	235
Total net realized investment gains	<u>\$ 195,409</u>	<u>\$ 142,715</u>	<u>\$ 92,937</u>
Change in net unrealized appreciation (depreciation):			
Fixed maturities	\$ (78,604)	\$ 31,576	\$ (71,304)
Equity securities	58	86	(4)
Other	-	-	-
Total change in net unrealized appreciation (depreciation)	<u>\$ (78,546)</u>	<u>\$ 31,662</u>	<u>\$ (71,308)</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In thousands)		
Gross realized gains	\$ 213,827	\$ 158,659	\$ 119,325
Gross realized losses	(16,108)	(15,229)	(16,278)
Impairment losses	(2,310)	(715)	(9,644)
Net realized gains on securities	195,409	142,715	93,403
Loss from joint ventures	-	-	(466)
Total net realized gains	<u>\$ 195,409</u>	<u>\$ 142,715</u>	<u>\$ 92,937</u>

We had \$21.4 million and \$22.3 million of investments on deposit with various states at December 31, 2012 and 2011, respectively, 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, 2012 and 2011:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
	(In thousands)			
<u>December 31, 2012</u>				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 866,251	\$ 866,251	\$ -	\$ -
Obligations of U.S. states and political subdivisions	812,394	-	809,264	3,130
Corporate debt securities	1,805,377	-	1,788,263	17,114
Residential mortgage-backed securities	450,909	-	450,909	-
Commercial mortgage-backed securities	150,342	-	150,342	-
Debt securities issued by foreign sovereign governments	142,066	142,066	-	-
Total debt securities	<u>4,227,339</u>	<u>1,008,317</u>	<u>3,198,778</u>	<u>20,244</u>
Equity securities	2,936	2,615	-	321
Total investments	<u>\$ 4,230,275</u>	<u>\$ 1,010,932</u>	<u>\$ 3,198,778</u>	<u>\$ 20,565</u>
Real estate acquired (1)	\$ 3,463	\$ -	\$ -	\$ 3,463

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

<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
(In thousands)			

December 31, 2011

U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 597,037	\$ 597,037	\$ -	\$ -
Obligations of U.S. states and political subdivisions	2,323,471	-	2,209,245	114,226
Corporate debt securities	2,032,851	1,455	1,971,168	60,228
Residential mortgage-backed securities	445,417	-	445,417	-
Commercial mortgage-backed securities	264,934	-	264,934	-
Debt securities issued by foreign sovereign governments	157,190	147,976	9,214	-
Total debt securities	<u>5,820,900</u>	<u>746,468</u>	<u>4,899,978</u>	<u>174,454</u>
Equity securities	2,747	2,426	-	321
Total investments	<u>\$ 5,823,647</u>	<u>\$ 748,894</u>	<u>\$ 4,899,978</u>	<u>\$ 174,775</u>
Real estate acquired (1)	\$ 1,621	\$ -	\$ -	\$ 1,621

(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 2012 or 2011.

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, 2012 and 2011 is as follows:

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities (In thousands)	Total Investments	Real Estate Acquired
Balance at December 31, 2011	\$ 114,226	\$ 60,228	\$ 321	\$ 174,775	\$ 1,621
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment gains (losses), net	(8,669)	(3,129)	-	(11,798)	-
Included in earnings and reported as net impairment losses recognized in earnings	-	(2,310)	-	(2,310)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(1,126)
Included in other comprehensive income	5,630	733	-	6,363	-
Purchases	27	-	-	27	11,991
Sales	(108,084)	(38,408)	-	(146,492)	(9,023)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at December 31, 2012	<u>\$ 3,130</u>	<u>\$ 17,114</u>	<u>\$ 321</u>	<u>\$ 20,565</u>	<u>\$ 3,463</u>
Amount of total losses included in earnings for the year ended December 31, 2012 attributable to the change in unrealized losses on assets still held at December 31, 2012					
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
	(In thousands)				
Balance at December 31, 2010	\$ 295,690	\$ 70,053	\$ 321	\$ 366,064	\$ 6,220
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment gains (losses), net	(7,883)	200	-	(7,683)	-
Included in earnings and reported as net impairment losses recognized in earnings	-	(662)	-	(662)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(371)
Included in other comprehensive income	6,894	637	-	7,531	-
Purchases	-	-	-	-	5,279
Sales	(180,475)	(10,000)	-	(190,475)	(9,507)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at December 31, 2011	<u>\$ 114,226</u>	<u>\$ 60,228</u>	<u>\$ 321</u>	<u>\$ 174,775</u>	<u>\$ 1,621</u>
Amount of total losses included in earnings for the year ended December 31, 2011 attributable to the change in unrealized losses on assets still held at December 31, 2011					
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	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 gains (losses):					
Included in earnings and reported as realized investment gains (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					
	-	-	-	-	15,606
Sales					
	(79,564)	(59,070)	-	(138,634)	(11,290)
Transfers into Level 3					
	-	-	-	-	-
Transfers out of Level 3					
	-	-	-	-	-
Balance at December 31, 2010	<u>\$ 295,690</u>	<u>\$ 70,053</u>	<u>\$ 321</u>	<u>\$ 366,064</u>	<u>\$ 6,220</u>
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					
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2012 and 2011 we had outstanding \$100.1 million and \$171.0 million, respectively, of 5.375% Senior Notes due in November 2015. During 2012 we repurchased \$70.9 million in par value of those Senior Notes. We recognized a gain on the repurchases of approximately \$17.8 million, which is included in other revenue on the Consolidated Statements of Operations for the year ended December 31, 2012. During 2011 we repurchased \$129.0 million in par value of these same Senior Notes. We recognized a gain on the repurchases of approximately \$27.7 million, which is included in other revenue on the Consolidated Statements of Operations for the year ended December 31, 2011. 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 any 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, 2012.

If we fail to meet any of the covenants of the 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; or we fail to make a payment of principal on 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 Senior Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of our Senior Notes would have the right to accelerate the maturity of those notes. In addition, the trustee of the Senior Notes could, independent of any action by holders of Senior Notes, accelerate the maturity of the Senior Notes. The amounts we owe under the Senior Notes would also be accelerated upon certain bankruptcy or insolvency-related events involving our holding company, including certain events involving the appointment of a custodian, receiver, liquidator, assignee, trustee or other similar official (collectively, an "Insolvency Official") of our holding company or any substantial part of its property or the consent of our holding company to such an appointment. The description above is not intended to be complete in all respects. Moreover, the description is qualified in its entirety by the terms of the notes, which are contained in the Indenture, dated as of October 15, 2000, between us and U.S. Bank, National Association, as trustee, and in an Officer's Certificate dated as of October 4, 2005, which specifies the interest rate, maturity date and other terms of the Senior Notes.

Interest payments on the Senior Notes outstanding at the beginning of 2012 were \$7.4 million and \$14.9 million for the years ended December 31, 2012 and 2011, respectively. For the year ended December 31, 2011 we also had interest payments of \$4.4 million related to Senior Notes repaid in 2011.

Convertible Senior Notes

At December 31, 2012 and 2011 we had outstanding \$345 million principal amount of 5% Convertible Senior Notes due in 2017. Interest on the Convertible Senior Notes is payable semi-annually in arrears on May 1 and November 1 of each year. 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 any 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 on 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 amounts we owe under the Convertible Senior Notes would also be accelerated upon certain bankruptcy or insolvency-related events involving our holding company or a Significant Subsidiary, including the failure to have dismissed or stayed a petition seeking relief under bankruptcy or insolvency laws or the consent of our holding company or a Significant Subsidiary to the appointment of an Insolvency Official for all or substantially all of their respective property. "Significant Subsidiary" is defined in Regulation S-X under the Securities Act of 1933 and is measured as of the most recently completed fiscal year. As of December 31, 2012, MGIC and MGIC Reinsurance Corporation of Wisconsin were our Significant Subsidiaries.

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. 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 are being 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.

Interest payments on the Convertible Senior Notes were \$17.3 million in each of the years ended December 31, 2012 and 2011.

Convertible Junior Subordinated Debentures

At December 31, 2012 and 2011 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, 2012 and 2011 the amortized value of the principal amount of the debentures is reflected as a liability on our consolidated balance sheet of \$379.6 million and \$344.4 million, respectively, with the unamortized discount reflected in equity. The debentures rank junior to all of our existing and future senior indebtedness.

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, if we fail to pay principal or interest when due under the debentures, then the holders of 25% or more of the debentures would have the right to accelerate the maturity of them. In addition, the trustee of the debentures could, independent of any action by holders, accelerate the maturity of the debentures. The amounts we owe under the Convertible Junior Subordinated Debentures would also be accelerated upon certain bankruptcy or insolvency-related events involving our holding company, including the appointment of a custodian of it or any substantial part of its properties.

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.

On September 11, 2012, we sent notice to the holders of record of our debentures that we were deferring to October 1, 2022, the interest payment of \$17.5 million that was scheduled to be paid on October 1, 2012. During this 10-year deferral period the deferred interest will continue to accrue and compound semi-annually to the extent permitted by applicable law at an annual rate of 9%.

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.

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 debentures 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 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.

Interest payments on the debentures were \$17.5 million for the year ended December 31, 2012 and \$35.1 million for the year ended December 31, 2011.

All debt

The par value and fair value of our debt at December 31, 2012 and 2011 appears in the table below.

	<u>Par Value</u>	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1) (In thousands)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2012</u>					
Liabilities:					
Senior Notes	\$ 100,118	\$ 79,594	\$ 79,594	\$ -	\$ -
Convertible Senior Notes	345,000	242,880	242,880	-	-
Convertible Junior Subordinated Debentures	389,522	173,096	-	173,096	-
Total Debt	<u>\$ 834,640</u>	<u>\$ 495,570</u>	<u>\$ 322,474</u>	<u>\$ 173,096</u>	<u>\$ -</u>
<u>December 31, 2011</u>					
Liabilities:					
Senior Notes	\$ 171,000	\$ 116,708	\$ 116,708	\$ -	\$ -
Convertible Senior Notes	345,000	202,256	202,256	-	-
Convertible Junior Subordinated Debentures	389,522	189,648	-	189,648	-
Total Debt	<u>\$ 905,522</u>	<u>\$ 508,612</u>	<u>\$ 318,964</u>	<u>\$ 189,648</u>	<u>\$ -</u>

The fair value of our Senior Notes and Convertible Senior Notes was determined using publicly available trade information and are considered Level 1 securities as described in Note 7 – “Fair Value Measurements.” The fair value of our debentures was determined using available pricing for these debentures or similar instruments and are considered Level 2 securities as described in Note 7 – “Fair Value Measurements.”

The Senior Notes, Convertible Senior Notes and Convertible Junior Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. At December 31, 2012, we had approximately \$315 million in cash and investments at our holding company. The net unrealized gains on our holding company investment portfolio were approximately \$2 million at December 31, 2012. The modified duration of the holding company investment portfolio, excluding cash and cash equivalents, was 2.2 years at December 31, 2012.

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 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 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 drop in housing values that could result in, among other things, greater losses on loans that have pool insurance, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance, and mitigation from rescissions being materially less than assumed. Changes to our estimates could result in a material impact to our results of operations and capital position, 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:

	2012	2011	2010
	(In thousands)		
Reserve at beginning of year	\$ 4,557,512	\$ 5,884,171	\$ 6,704,990
Less reinsurance recoverable	154,607	275,290	332,227
Net reserve at beginning of year (1)	4,402,905	5,608,881	6,372,763
Adjustment to reserves (2)	-	-	(92,000)
Adjusted beginning reserves	4,402,905	5,608,881	6,280,763
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	1,494,133	1,814,035	1,874,449
Prior years (3)	573,120	(99,328)	(266,908)
Subtotal (4)	2,067,253	1,714,707	1,607,541
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	134,509	121,383	60,897
Prior years (5)	2,389,985	2,838,069	2,256,206
Reinsurance terminations (6)	(6,331)	(38,769)	(37,680)
Subtotal (7)	2,518,163	2,920,683	2,279,423
Net reserve at end of year (8)	3,951,995	4,402,905	5,608,881
Plus reinsurance recoverables	104,848	154,607	275,290
Reserve at end of year	\$ 4,056,843	\$ 4,557,512	\$ 5,884,171

- (1) At December 31, 2011, 2010 and 2009 the estimated reduction in loss reserves related to rescissions approximated \$0.7 billion, \$1.3 billion and \$2.1 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. See table below regarding prior year loss development.
- (4) Our estimated rescissions were reduced by approximately \$0.2 billion in 2012 due to our probable settlement agreements (See Note 20 – “Litigation and Contingencies”), other rescissions had no significant impact on our losses incurred in 2012. Rescissions mitigated our incurred losses by an estimated \$0.2 billion in 2010. Rescissions did not have a significant impact on incurred losses in 2011.
- (5) In 2012, includes \$0.1 billion payment under the Freddie Mac settlement agreement (See Note 20 – “Litigation and Contingencies”).
- (6) 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”)
- (7) Rescissions mitigated our paid losses by an estimated \$0.3 billion, \$0.6 billion and \$1.0 billion in 2012, 2011 and 2010, respectively, which excludes amounts that may have been applied to a deductible.
- (8) At December 31, 2012, 2011 and 2010 the estimated reduction in loss reserves related to rescissions approximated \$0.2 billion, \$0.7 billion and \$1.3 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. 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 the 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.

Losses incurred on default notices received in the current year decreased in 2012 compared to 2011, and in 2011 compared to 2010, primarily due to a decrease in the number of new default notices received, net of cures. These factors were somewhat offset by a smaller benefit from captive arrangements.

The prior year development of the reserves in 2012, 2011 and 2010 is reflected in the table below.

	<u>2012</u>	<u>2011</u> (In millions)	<u>2010</u>
Prior year loss development:			
Pool policy settlement (1)	\$ 267	\$ -	\$ -
Estimated probable rescission settlements (1)	100	-	-
Increase (decrease) in estimated claim rate on primary defaults	260	200	(432)
Decrease in estimated severity on primary defaults	(70)	(165)	-
Change in estimates related to pool reserves, LAE reserves and reinsurance (2)	16	(134)	165
Total prior year loss development	<u>\$ 573</u>	<u>\$ (99)</u>	<u>\$ (267)</u>

(1) See Note 20 - "Litigation and Contingencies" for a discussion of our settlement with Freddie Mac and our probable settlements regarding rescissions.

(2) Includes approximately (\$114) million related to LAE reserves in 2011 and approximately \$185 million related to pool reserves in 2010.

The increase (decrease) in the claim rate was based on the resolution of approximately 55%, 57% and 55% in 2012, 2011 and 2010, respectively 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 and estimated incurred but not reported items from the end of the prior year. In addition, during 2012, lower estimated rescission rates, as well as our experience on defaults that are 12 months or more delinquent have increased our estimate of the claim rate. In 2010, our estimated claim rates decreased due to greater cures experienced, a portion of which resulted from loan modifications. The decrease in the estimated severity in 2012 and 2011 was based on the resolution of the prior year default inventory. The decrease in estimated loss adjustment expense in 2011 was based on recent historical trends in the costs associated with resolving a claim. In 2010, the increase in estimated 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 “Losses paid” section of the table above shows the breakdown between claims paid on default notices received in the current year, claims paid on default notices received in prior years and the decrease in losses paid related to terminated reinsurance agreements as noted in footnote (6) of the table above. It has historically taken, prior to the last few years, 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 had 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. In 2012 and 2011, we experienced an increase in claims paid on default notices received in the current year due to fewer claim investigations and an increase in short sales.

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at December 31, 2012 and 2011 and approximated \$134 million and \$114 million, respectively. 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”)

A rollforward of our primary default inventory for the years ended December 31, 2012, 2011 and 2010 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, the number of business days in a month and by transfers of servicing between loan servicers.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Default inventory at beginning of period	175,639	214,724	250,440
New Notices	133,232	169,305	205,069
Cures	(120,248)	(149,643)	(183,017)
Paid (including those charged to a deductible or captive)	(45,741)	(51,138)	(43,826)
Rescissions and denials	(3,037)	(7,609)	(13,942)
Default inventory at end of period	<u>139,845</u>	<u>175,639</u>	<u>214,724</u>

Pool insurance notice inventory decreased from 32,971 at December 31, 2011 to 8,594 at December 31, 2012. During the third quarter of 2012, approximately 15,600 pool notices were removed from the pool notice inventory due to the exhaustion of the aggregate loss on a pool policy we have with Freddie Mac. See Note 20 – “Litigation and Contingencies” for a discussion of our settlement with Freddie Mac regarding this pool policy. The pool insurance notice inventory was 43,329 at December 31, 2010.

The decrease in the primary default inventory experienced during 2012 and 2011 was generally across all markets and all book years. However the percentage of loans in the inventory that have been in default for 12 or more consecutive months has increased, as shown in the table below. Historically as a default ages it becomes more likely to result in a claim.

Aging of the Primary Default Inventory

	December 31, 2012		December 31, 2011		December 31, 2010	
Consecutive months in default						
3 months or less	23,282	17%	31,456	18%	37,640	18%
4 - 11 months	34,688	25%	46,352	26%	58,701	27%
12 months or more	81,875	58%	97,831	56%	118,383	55%
Total primary default inventory	139,845	100%	175,639	100%	214,724	100%
Primary claims received inventory						
included in ending default inventory (1)	11,731	8%	12,610	7%	20,898	10%

(1) Our claims received inventory includes suspended rescissions as discussed in Note 20 – “Litigation and Contingencies”. In connection with the Countrywide proceedings, we have voluntarily suspended rescissions of coverage related to loans that we believe could be included in a potential resolution. As of December 31, 2012, coverage on approximately 2,150 loans, representing total potential claim payments of approximately \$160 million, that we had determined was rescindable were affected by our decision to suspend such rescissions. Substantially all of these potential rescissions relate to claims received beginning in the first quarter of 2011 or later. As of December 31, 2012, coverage on approximately 250 loans, representing total potential claim payments of approximately \$17 million, were affected by our decision to suspend rescissions for another customer for which we also consider settlement probable. In addition, as of December 31, 2012, approximately 240 rescissions, representing total potential claim payments of approximately \$16 million, were affected by our decision to suspend rescissions for customers other than those for which we consider settlement probable, as defined in ASC 450-20.

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, 2012		December 31, 2011		December 31, 2010	
3 payments or less	34,245	24%	42,804	24%	51,003	24%
4 - 11 payments	34,458	25%	47,864	27%	65,797	31%
12 payments or more	71,142	51%	84,971	49%	97,924	45%
Total primary default inventory	139,845	100%	175,639	100%	214,724	100%

Rescissions

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.

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. Prior to 2008, rescissions of coverage on loans were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of coverage on loans have materially mitigated our paid losses. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately \$1.2 billion; in 2011, rescissions mitigated our paid losses by approximately \$0.6 billion; and in 2012, rescissions mitigated our paid losses by approximately \$0.3 billion (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, less than 10% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, the number of rescissions that we have reversed has been immaterial. A variance between ultimate actual rescission and reversal rates and our 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 \$2.5 billion in 2009 and \$0.2 billion in 2010. In 2011, we estimate that rescissions had no significant impact on our losses incurred. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In the fourth quarter of 2012, we estimate that our rescission benefit in loss reserves was reduced due to probable rescission settlement agreements and that other rescissions had no significant impact on our losses incurred in 2012. For information about two settlements that we believe are probable, as defined in ASC 450-20, see Note 20 – “Litigation and Contingencies.” The completion of those settlements, assuming they occur, may encourage other lender-customers to seek remedies against us.

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 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.

	<u>2012</u>	<u>2011</u> (In billions)	<u>2010</u>
Estimated rescission reduction - beginning reserve	\$ 0.7	\$ 1.3	\$ 2.1
Estimated rescission reduction - losses incurred (1)	(0.2)	-	0.2
Rescission reduction - paid claims	0.3	0.6	1.2
Amounts that may have been applied to a deductible	-	-	(0.2)
Net rescission reduction - paid claims	<u>0.3</u>	<u>0.6</u>	<u>1.0</u>
Estimated rescission reduction - ending reserve	<u>\$ 0.2</u>	<u>\$ 0.7</u>	<u>\$ 1.3</u>

(1) As discussed in Note 20 – “Litigation and Contingencies” we have made substantial progress in reaching an agreement with Countrywide to settle the dispute we have concerning rescissions. We have determined that a settlement with Countrywide is probable and under this probable settlement agreement, we estimate that our rescission benefit in loss reserves was reduced by approximately \$0.2 billion. This adjustment to loss reserves was partially offset by an estimated benefit of approximately \$0.1 billion under the terms of the settlement agreements we consider probable, as defined in ASC 450-20. As a result, in the fourth quarter of 2012, we increased our loss reserve estimates by approximately \$0.1 billion to reflect potential settlements we consider probable.

At December 31, 2012, our loss reserves continued to be impacted by expected rescission activity. We expect that the reduction of our loss reserves due to rescissions will continue to decline.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Under our policies, legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. For the majority of our rescissions since the beginning of 2009 that are not subject to a settlement agreement, this period in which a dispute may be brought has not ended. Until a liability associated with a settlement agreement or litigation becomes probable and can be reasonably estimated, we consider a rescission resolved for financial reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are sometimes 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 generally include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings. For more information about these legal proceedings, see Note 20 – “Litigation and Contingencies.”

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At December 31, 2012 and 2011 the estimate of this liability totaled \$18 million and \$58 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.

In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. Since those announcements, the GSEs have approved our settlement agreement with one customer and have rejected settlement agreements that were structured differently. We have reached and implemented settlement agreements that do not require GSE approval, but they have not been material in the aggregate.

As discussed in Note 20 – “Litigation and Contingencies” we have made substantial progress in reaching an agreement with Countrywide concerning 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. We continue to discuss with other customers their objections to material rescissions and have reached settlement terms with several of our significant customers. In connection with some of these settlement discussions, we have suspended rescissions related to loans that we believe could be included in potential settlements. As of December 31, 2012, approximately 240 rescissions, representing total potential claim payments of approximately \$16 million, were affected by our decision to suspend rescissions for customers other than the two customers for which we consider a settlement agreement probable, as defined in ASC 450-20. Although it is reasonably possible that, when the discussions or legal proceedings with customers regarding rescissions are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

10. Premium Deficiency Reserve

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. The premium deficiency reserve reflects the present value of expected future losses and expenses that exceeded the present value of expected future premiums and already established loss reserves.

The components of the premium deficiency reserve at December 31, 2012, 2011 and 2010 appear in the table below.

	<u>2012</u>	<u>December 31, 2011</u>	<u>2010</u>
	(In millions)		
Present value of expected future premium	\$ 445	\$ 494	\$ 506
Present value of expected future paid losses and expenses	<u>(1,285)</u>	<u>(1,455)</u>	<u>(1,760)</u>
Net present value of future cash flows	(840)	(961)	(1,254)
Established loss reserves	<u>766</u>	<u>826</u>	<u>1,075</u>
Net deficiency	<u>\$ (74)</u>	<u>\$ (135)</u>	<u>\$ (179)</u>
Discount rate utilized at December 31,	1.3%	2.3%	2.5%

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, 2012, 2011 and 2010 was \$61 million, \$44 million and \$14 million, respectively, as shown in the charts below. The decrease 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 2012 is primarily related to higher estimated ultimate losses resulting principally from an increase in the number of projected claims that will ultimately be paid. The change in assumptions for 2011 is primarily related to higher estimated ultimate premiums resulting principally from an increase in the projected persistency rate, somewhat offset by higher estimated ultimate losses resulting principally from an increase in the number of projected claims that will ultimately be paid. 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 decrease in the premium deficiency reserve for the years ended December 31, 2012, 2011 and 2010 appears in the table below.

	Year ended December 31,		
	2012	2011	2010
	(In millions)		
Premium Deficiency Reserve at beginning of period	\$ (135)	\$ (179)	\$ (193)
Adjustment to premium deficiency reserve (1)	-	-	(37)
Adjusted premium deficiency reserve at beginning of period	(135)	(179)	(230)
Paid claims and loss adjustment expenses	\$ 279	\$ 334	\$ 426
Decrease in loss reserves	(60)	(249)	(425)
Premium earned	(102)	(120)	(128)
Effects of present valuing on future premiums, losses and expenses	(1)	(8)	(25)
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized	116	(43)	(152)
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (2)	(55)	87	203
Premium Deficiency Reserve at end of period	<u>\$ (74)</u>	<u>\$ (135)</u>	<u>\$ (179)</u>

- (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 (negative) positive number for changes in assumptions relating to premiums, losses, expenses and discount rate indicates a (deficiency) 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, 2012, 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 calculation of future premium depends on, among other things, assumptions about persistency and repayment patterns on underlying loans. The calculation 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 and affiliates of certain mortgage lenders ("captives"). The majority of ceded premiums relates to these agreements. Historically, most of these reinsurance arrangements were 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 no longer cede new business under excess of loss reinsurance treaties with captives. 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 maximum 25% cede rate. During 2009 through 2012, many of our captive arrangements have either been terminated or placed into run-off.

Under reinsurance agreements with captives, 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 to cure the shortfall, we may also be allowed to terminate the captive agreement, assume the captive's obligations, transfer the assets in the relevant trust accounts to us, and retain all future premium payments.

The reinsurance recoverable on loss reserves as of December 31, 2012 and 2011 was approximately \$105 million and \$155 million, respectively. The reinsurance recoverable on loss reserves related to captive agreements was approximately \$104 million at December 31, 2012, which was supported by \$303 million of trust assets, while at December 31, 2011 the reinsurance recoverable on loss reserves related to captives was \$142 million which was supported by \$359 million in trust assets. As of December 31, 2012 and 2011 there was an additional \$25 million and \$27 million, respectively, of trust assets in captive agreements where there was no related reinsurance recoverable on loss reserves. During 2012 and 2011, \$6 million and \$39 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. One agreement is in the final stages of termination, with no ceded risk in force at December 31, 2012. The remaining agreement had ceded risk in force at December 31, 2012 of approximately \$0.8 million. 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:

	<u>2012</u>	<u>2011</u> (In thousands)	<u>2010</u>
Premiums earned:			
Direct	\$ 1,065,663	\$ 1,170,868	\$ 1,236,949
Assumed	2,425	3,891	3,091
Ceded	<u>(34,918)</u>	<u>(50,924)</u>	<u>(71,293)</u>
Net premiums earned	<u>\$ 1,033,170</u>	<u>\$ 1,123,835</u>	<u>\$ 1,168,747</u>
Losses incurred:			
Direct	\$ 2,115,974	\$ 1,775,122	\$ 1,716,538
Assumed	6,912	5,229	4,128
Ceded	<u>(55,633)</u>	<u>(65,644)</u>	<u>(113,125)</u>
Net losses incurred	<u>\$ 2,067,253</u>	<u>\$ 1,714,707</u>	<u>\$ 1,607,541</u>

See Note 20 – “Litigation and Contingencies” for a discussion of requests or subpoenas for information regarding captive mortgage reinsurance arrangements.

In the third quarter of 2011, our Australian writing company terminated a reinsurance agreement under which it had assumed business from a third party. As a result of that termination, it returned approximately \$7 million in unearned premium and it has no further obligations under this reinsurance agreement. The termination of this reinsurance agreement had no significant impact on our remaining risk in force in Australia.

12. Investments in Joint Ventures

Sherman

In August 2008 we sold our entire interest in Sherman Financial Group, LLC (“Sherman”) to Sherman. Our interest sold represented approximately 24.25% of Sherman’s equity. The sale price was \$124.5 million in cash and 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. 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.

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. The following tables provide the components of aggregate annual net periodic benefit cost, changes in the benefit obligation and the funded status of the pension, supplemental executive retirement and other postretirement benefit plans as recognized in the consolidated balance sheet:

Components of Net Periodic Benefit Cost for fiscal year ending	Pension and Supplemental Executive Retirement Plans			Other Postretirement Benefits		
	12/31/2012	12/31/2011	12/31/2010	12/31/2012	12/31/2011	12/31/2010
	(In thousands)					
1. Company Service Cost	\$ 9,662	\$ 8,917	\$ 8,531	\$ 1,226	\$ 1,090	\$ 1,126
2. Interest Cost	16,481	16,098	15,535	1,144	1,350	1,183
3. Expected Return on Assets	(18,211)	(17,373)	(14,502)	(3,162)	(3,299)	(2,891)
4. Other Adjustments	-	-	-	-	-	-
<i>Subtotal</i>	7,932	7,642	9,564	(792)	(859)	(582)
5. Amortization of :						
a. Net Transition Obligation/(Asset)	-	-	-	-	-	-
b. Net Prior Service Cost/(Credit)	665	661	650	(6,217)	(6,217)	(6,138)
c. Net Losses/(Gains)	5,829	4,010	5,924	797	632	764
<i>Total Amortization</i>	6,494	4,671	6,574	(5,420)	(5,585)	(5,374)
6. Net Periodic Benefit Cost	14,426	12,313	16,138	(6,212)	(6,445)	(5,956)
7. Cost of settlements or curtailments	-	-	-	-	-	-
8. Total Expense for Year	\$ 14,426	\$ 12,313	\$ 16,138	\$ (6,212)	\$ (6,445)	\$ (5,956)

Development of Funded Status

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
	(In thousands)			

Actuarial Value of Benefit Obligations

1. Measurement Date	12/31/2012	12/31/2011	12/31/2012	12/31/2011
2. Accumulated Benefit Obligation	\$ 331,985	\$ 297,145	\$ 16,284	\$ 25,007

Funded Status/Asset (Liability) on the Consolidated Balance Sheet

1. Projected Benefit Obligation	\$ (362,657)	\$ (318,048)	\$ (16,284)	\$ (25,007)
2. Plan Assets at Fair Value	340,335	305,748	49,391	42,578
3. Funded Status - Overfunded/Asset	N/A	N/A	\$ 33,107	\$ 17,571
4. Funded Status - Underfunded/Liability	\$ (22,322)	\$ (12,300)	N/A	N/A

Accumulated Other Comprehensive Income

	12/31/2012	12/31/2011	12/31/2012	12/31/2011
	(In thousands)			
	1. Net Actuarial (Gain)/Loss	\$ 106,661	\$ 95,298	\$ 1,985
2. Net Prior Service Cost/(Credit)	1,775	2,278	(38,587)	(41,072)
3. Net Transition Obligation/(Asset)	-	-	-	-
4. Total at Year End	\$ 108,436	\$ 97,576	\$ (36,602)	\$ (26,964)

Under Statement of Statutory Accounting Principles (“SSAP”) No. 92 and No. 102, which became effective January 1, 2013, the measurement of pension and other postretirement benefit liabilities will begin to include non-vested employees. This measurement, referred to as the projected benefit obligation, is the measurement currently used under GAAP, as disclosed in the tables above. The new SSAPs will increase our statutory benefit obligations. We have evaluated the provisions of this guidance, and we do not expect the new guidance to have a material impact on our statutory benefit obligations.

The changes in the projected benefit obligation are as follows:

Change in Projected Benefit Obligation	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
	(In thousands)			
1. Benefit Obligation at Beginning of Year	\$ 318,048	\$ 291,456	\$ 25,007	\$ 26,200
2. Company Service Cost	9,662	8,917	1,226	1,090
3. Interest Cost	16,481	16,098	1,144	1,350
4. Plan Participants' Contributions	-	-	356	261
5. Net Actuarial (Gain)/Loss due to Assumption Changes	37,418	23,037	(6,517)	397
6. Net Actuarial (Gain)/Loss due to Plan Experience	634	(6,544)	(497)	(3,643)
7. Benefit Payments from Fund (1)	(19,483)	(14,692)	(661)	(560)
8. Benefit Payments Directly by Company	(265)	(316)	(42)	(87)
9. Plan Amendments	162	92	(3,732)	-
10. Other Adjustment	-	-	-	-
11. Benefit Obligation at End of Year	\$ 362,657	\$ 318,048	\$ 16,284	\$ 25,007

(1) In 2012, includes lump sum payments of \$12.0 million from our pension plan to eligible participants, which were former employees with vested benefits of \$100 thousand or less. Additional former employees may elect this option in 2013. In 2011, includes lump sum payments of \$8.2 million from our pension plan to eligible participants, which were former employees with vested benefits of \$50 thousand or less.

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

Change in Plan Assets	12/31/2012		12/31/2011	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
	(In thousands)			
1. Fair Value of Plan Assets at Beginning of Year	\$ 305,748	\$ 284,080	\$ 42,578	\$ 44,362
2. Company Contributions	15,265	20,316	-	-
3. Plan Participants' Contributions	-	-	356	261
4. Benefit Payments from Fund	(19,483)	(14,692)	(661)	(560)
5. Benefit Payments paid directly by Company	(265)	(316)	(42)	(87)
6. Actual Return on Assets	39,070	16,360	7,474	(1,224)
7. Other Adjustment	-	-	(314)	(173)
8. Fair Value of Plan Assets at End of Year	\$ 340,335	\$ 305,748	\$ 49,391	\$ 42,578

Change in Accumulated Other Comprehensive Income (AOCI)	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
	(In thousands)			
1. AOCI in Prior Year	\$ 97,576	\$ 84,649	\$ (26,964)	\$ (33,827)
2. Increase/(Decrease) in AOCI				
a. Recognized during year - Prior Service (Cost)/Credit	(665)	(661)	6,217	6,217
b. Recognized during year - Net Actuarial (Losses)/Gains	(5,829)	(4,010)	(797)	(632)
c. Occurring during year - Prior Service Cost	162	92	(3,732)	-
d. Occurring during year - Net Actuarial Losses/(Gains)	17,192	17,507	(11,326)	1,278
3. AOCI in Current Year	\$ 108,436	\$ 97,576	\$ (36,602)	\$ (26,964)

Amortizations Expected to be Recognized During Next Fiscal Year Ending

	12/31/2013	12/31/2013
	(In thousands)	
1. Amortization of Net Transition Obligation/(Asset)	\$ -	\$ -
2. Amortization of Prior Service Cost/(Credit)	500	(6,649)
3. Amortization of Net Losses/(Gains)	6,063	-

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	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Weighted-Average Assumptions Used to Determine Benefit Obligations at year end				
1. Discount Rate	4.25%	5.25%	3.85%	4.75%
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	5.25%	5.75%	4.75%	5.50%
2. Expected Long-term Return on Plan Assets	6.00%	6.00%	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	7.50%	8.00%
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	2018

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 \$50 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	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
<u>Allocation of Assets at year end</u>				
1. Equity Securities	40%	38%	100%	100%
2. Debt Securities	60%	62%	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 U.S. government corporations and agencies.

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 by the independent pricing sources 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. In addition, on a quarterly basis, we perform quality controls over values received from the pricing source (the “Trustee”) which include comparing values to other independent pricing sources. In addition, we review annually the Trustee’s auditor’s report on internal controls in order to determine that their controls around valuing securities are operating effectively. We have not made any adjustments to the prices obtained from the independent sources.

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31, 2012.

Assets at Fair Value as of December 31, 2012

Pension Plan	Level 1	Level 2	Level 3	Total
	(In thousands)			
Domestic Mutual Funds	\$ 45,071	\$ -	\$ -	\$ 45,071
International Mutual Funds	39,479	-	-	39,479
Common Stocks	54,210	-	-	54,210
Corporate Bonds	-	130,643	-	130,643
U.S. Government Securities	25,859	-	-	25,859
Municipals	-	26,595	-	26,595
Foreign Bonds	-	17,710	-	17,710
Foreign Stocks	768	-	-	768
Total Assets at fair value	<u>\$ 165,387</u>	<u>\$ 174,948</u>	<u>\$ -</u>	<u>\$ 340,335</u>

Our pension plan portfolio is designed 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%

The following table sets forth by level, within the fair value hierarchy, the postretirement plan assets at fair value as of December 31, 2012.

Assets at Fair Value as of December 31, 2012

Postretirement Plan	Level 1	Level 2	Level 3	Total
	(In thousands)			
Domestic Mutual Funds	\$ 34,720	\$ -	\$ -	\$ 34,720
International Mutual Funds	14,671	-	-	14,671
Total Assets at fair value	\$ 49,391	\$ -	\$ -	\$ 49,391

Our postretirement plan portfolio is designed 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 30% of the equity range. The current international allocation is invested in two mutual funds with 5% of the equity allocation in a fund which has the objective of investments primarily in equity securities of emerging markets countries, and 25% of the equity allocation in a fund investing in securities of companies based outside the United States. It invests in companies primarily based in Europe and the Pacific Basin, and includes common and preferred stocks, convertibles, ADRs, EDRs, bonds and cash. In addition to the foreign mutual funds, separately managed accounts have investments in equity securities of foreign corporations, and fixed income securities issued by foreign entities.

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

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2012		12/31/2012	
(In thousands)				
Company Contributions				
<u>Company Contributions for the Year Ending:</u>				
1. Current	\$	15,265	\$	-
2. Current + 1		1,278		-

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2012		12/31/2012	
(In thousands)				
Benefit Payments (Total)				
<u>Actual Benefit Payments for the Year Ending:</u>				
1. Current	\$	19,748	\$	347
<u>Expected Benefit Payments for the Year Ending:</u>				
2. Current + 1		10,253		670
3. Current + 2		12,333		764
4. Current + 3		13,258		782
5. Current + 4		14,011		831
6. Current + 5		15,357		932
7. Current + 6 - 10		97,759		6,880

Health care sensitivities

For measurement purposes, an 8.0% health care trend rate was used for benefits for retirees before they reach age 65 for 2012. In 2013, the rate is assumed to be 7.5%, 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	\$	506	\$	(401)
Effect on postretirement benefit obligation		2,772		(2,121)

We have a profit sharing and 401(k) savings plan for employees. At the discretion of the Board of Directors, we may make a 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 expenses related to these plans of \$3.1 million, \$3.6 million and \$3.7 million in 2012, 2011 and 2010, respectively.

14. Income Taxes

Net deferred tax assets and liabilities as of December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
	(In thousands)	
Total deferred tax assets	\$ 997,784	\$ 683,645
Total deferred tax liabilities	<u>(44,350)</u>	<u>(86,490)</u>
Net deferred tax asset before valuation allowance	953,434	597,155
Valuation allowance	<u>(965,987)</u>	<u>(608,761)</u>
Net deferred tax liability	<u>\$ (12,553)</u>	<u>\$ (11,606)</u>

The components of the net deferred tax liability as of December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
	(In thousands)	
Convertible debentures	\$ (3,470)	\$ (15,785)
Net operating loss	866,700	506,614
Loss reserves	55,615	60,478
Unrealized (appreciation) depreciation in investments	(14,448)	(42,009)
Mortgage investments	14,602	18,944
Deferred compensation	13,288	17,447
Premium deficiency reserves	25,823	47,186
Loss due to "other than temporary" impairments	1,088	11,068
Other, net	<u>(5,764)</u>	<u>(6,788)</u>
Net deferred tax asset before valuation allowance	953,434	597,155
Valuation allowance	<u>(965,987)</u>	<u>(608,761)</u>
Net deferred tax liability	<u>\$ (12,553)</u>	<u>\$ (11,606)</u>

We review the need to adjust the 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. Based on our analysis and the level of cumulative operating losses, we have reduced our benefit from income tax through the recognition of a valuation allowance.

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 2010, our deferred tax valuation allowance was increased due to a decrease in the deferred tax liability related to \$63.5 million of losses that were recorded in other comprehensive income. During 2011, our deferred tax asset valuation allowance was reduced due to an increase in the deferred tax liability related to \$2.3 million of income that was recorded in other comprehensive income. During 2012, our deferred tax valuation allowance was increased due to a decrease in the deferred tax liability related to \$80.1 million of losses 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 other comprehensive income.

The effect of the change in valuation allowance on the benefit from income taxes was as follows:

	<u>2012</u>	<u>2011</u> (In thousands)	<u>2010</u>
Benefit from income taxes	\$ (330,740)	\$ (196,835)	\$ (145,334)
Change in valuation allowance	<u>329,175</u>	<u>198,428</u>	<u>149,669</u>
(Benefit from) provision for income taxes	<u>\$ (1,565)</u>	<u>\$ 1,593</u>	<u>\$ 4,335</u>

The increase in the valuation allowance that was included in other comprehensive income was \$28.1 million, zero, and \$22.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. The total valuation allowance as of December 31, 2012, December 31, 2011 and December 31, 2010 was \$966.0 million, \$608.8 million and \$410.3 million, respectively.

Giving full effect to the carryback of net operating losses for federal income tax purposes, we have approximately \$2,477 million of net operating loss carryforwards on a regular tax basis and \$1,595 million of net operating loss carryforwards for computing the alternative minimum tax as of December 31, 2012. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 through 2032.

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

	<u>2012</u>	<u>2011</u> (In thousands)	<u>2010</u>
Current	\$ (4,251)	\$ 598	\$ 1,618
Deferred	90	(945)	(19)
Other	<u>2,596</u>	<u>1,940</u>	<u>2,736</u>
(Benefit from) provision for income taxes	<u>\$ (1,565)</u>	<u>\$ 1,593</u>	<u>\$ 4,335</u>

We received \$7.0 million and \$289.1 million in federal income tax refunds in 2012 and 2010, respectively. Proceeds received in 2010 were primarily from the carryback of 2009 losses.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Federal statutory income tax benefit rate	(35.0)%	(35.0)%	(35.0) %
Valuation allowance	35.4	41.0	41.6
Tax exempt municipal bond interest	(0.8)	(5.4)	(10.5)
Other, net	<u>0.2</u>	<u>(0.3)</u>	<u>5.1</u>
Effective income tax (benefit) rate	<u>(0.2)%</u>	<u>0.3%</u>	<u>1.2 %</u>

The Internal Revenue Service (“IRS”) completed examinations of our federal income tax returns for the years 2000 through 2007 and issued assessments for unpaid taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits (“REMICs”). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. The IRS assessment related to the REMIC issue is \$190.7 million in taxes and penalties. There would also be applicable interest which, when computed on the amount of the assessment, is substantial. Depending on the outcome of this matter, additional state income taxes along with any applicable interest may become due when a final resolution is reached and could also be substantial.

We appealed these assessments within the IRS and, in 2007, we made a payment of \$65.2 million to the United States Department of the Treasury related to this assessment. In August 2010, we reached a tentative settlement agreement with the IRS which was not finalized. We currently expect to receive a statutory notice of deficiency (commonly referred to as a “90-day letter”) for the disputed amounts after the first quarter of 2013. We would then be required to litigate their validity in order to avoid payment to the IRS of the entire amount assessed. Any such litigation could be lengthy and costly in terms of legal fees and related expenses. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows and statutory capital. In this regard, see Note 1 – “Nature of Business - Capital.”

In March 2012, we received a Revenue Agent's Report from the IRS related to the examination of our federal income tax returns for the years 2008 and 2009. In January 2013, we received a Revenue Agent's Report from the IRS related to the examination of our federal income tax return for the year 2010. The adjustments that are proposed by the IRS are temporary in nature and will have no material effect on the financial statements.

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		
	2012	2011	2010
	(In thousands)		
Balance at beginning of year	\$ 110,080	\$ 109,282	\$ 91,117
Additions based on tax positions related to the current year	-	-	-
Additions for tax positions of prior years	511	798	18,165
Reductions for tax positions of prior years	(4,041)	-	-
Settlements	(2,000)	-	-
Balance at end of year	<u>\$ 104,550</u>	<u>\$ 110,080</u>	<u>\$ 109,282</u>

The total amount of the unrecognized tax benefits, related to our aforementioned REMIC issue, that would affect our effective tax rate is \$92.0 million. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. During 2012, we recognized \$(1.4) million in interest. As of December 31, 2012 and 2011, we had \$25.3 million and \$26.7 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.

15. Shareholders' Equity

In April 2012, we amended our Articles of Incorporation to increase our authorized common stock from 460 million shares to 680 million shares.

We have a Shareholders Rights Agreement (the "Agreement"), which was amended in July 2012, that seeks to diminish the risk that our ability to use our net operating losses ("NOLs") to reduce potential future federal income tax obligations may become substantially limited and to deter certain abusive takeover practices. The benefit of the NOLs, would be substantially limited, and the timing of the usage of the NOLs could be substantially delayed, if we were to experience an "ownership change" as defined by Section 382 of the Internal Revenue Code.

Under the Agreement each outstanding share of our Common Stock is accompanied by one Right. The Distribution Date occurs on the earlier of ten days after a public announcement that a person has become an Acquiring Person, or ten business days after a person announces or begins a tender offer in which consummation of such offer would result in a person becoming an Acquiring Person. An Acquiring Person is any person that becomes, by itself or together with its affiliates and associates, a beneficial owner of 5% or more of the shares of our Common Stock then outstanding, but excludes, among others, certain exempt and grandfathered persons as defined in the Agreement. The Rights are not exercisable until the Distribution Date. Each Right will initially entitle shareholders to buy one-half of one share of our Common Stock at a Purchase Price of \$14 per full share (equivalent to \$7.00 for each one-half share), subject to adjustment. Each exercisable Right (subject to certain limitations) will entitle its holder to purchase, at the Rights' then-current Purchase Price, a number of our shares of Common Stock (or if after the Shares Acquisition Date, we are acquired in a business combination, common shares of the acquiror) having a market value at the time equal to twice the Purchase Price. The Rights will expire on August 1, 2015, or earlier as described in the Agreement. The Rights are redeemable at a price of \$0.001 per Right at any time prior to the time a person becomes an Acquiring Person. Other than certain amendments, the Board of Directors may amend the Rights in any respect without the consent of the holders of the Rights.

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 35.9 million authorized shares reserved for conversion under our convertible debentures, including deferred interest, 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. 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 through 2012, MGIC has not paid any dividends to our holding company. In 2013, MGIC and our other insurance subsidiaries cannot pay any dividends to our holding company without approval from the OCI. In connection with the approval of MIC as an eligible mortgage insurer, Freddie Mac and Fannie Mae have imposed dividend restrictions on MGIC and MIC through December 31, 2013.

In the fourth quarter of 2008, we suspended the payment of dividends to shareholders.

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, including practices prescribed by the OCI, 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. On a GAAP basis, when calculating a premium deficiency reserve policies are grouped based on how they are acquired, serviced and measured. On a statutory basis, a premium deficiency reserve is calculated on all policies in force.

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, including certain deferred tax assets, designated as non-admitted assets, are charged directly against statutory surplus. Such assets are reflected on the GAAP financial statements.

SSAP No. 101 became effective January 1, 2012 and prescribed new standards for determining the amount of deferred tax assets that can be recognized as admitted assets for determining statutory capital. Under a permitted practice effective September 30, 2012 and until further notice, the OCI has approved MGIC to report its net deferred tax asset as an admitted asset in an amount not to exceed 10% of surplus as regards policyholders, notwithstanding any contrary provisions of SSAP No. 101. At December 31, 2012, had MGIC calculated its net deferred tax assets based on the provisions of SSAP No. 101, no deferred tax assets would have been admitted. Pursuant to the permitted practice, deferred tax assets of approximately \$63 million were included in statutory capital.

The statutory net income, surplus and the contingency reserve liability of the insurance subsidiaries (excluding the non-insurance subsidiaries of our parent company), as well as the surplus contributions made to MGIC and other insurance subsidiaries and dividends paid by MGIC to us, are included below. The surplus amounts included below are the combined surplus of our insurance operations as utilized in our risk-to-capital calculations.

Year Ended December 31,	Net (Loss) Income	Surplus	Contingency Reserve
		(In thousands)	
2012	\$ (902,878)	\$ 748,592	\$ 6,430
2011	(436,277)	1,657,349	4,104
2010	113,651	1,692,392	5,480

Year Ended December 31,	Additions to the surplus of MGIC from parent company funds	Additions to the surplus of other insurance subsidiaries from parent company funds	Dividends paid by MGIC to the parent company
		(In thousands)	
2012	\$ 100,000	\$ -	\$ -
2011	200,000	-	-
2010	200,000	-	-

Statutory Capital Requirements

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 (such minimum, the "MPP"). 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 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 guaranty 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 guaranty 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, 2012, MGIC's risk-to-capital ratio was 44.7 to 1, exceeding the maximum allowed by many jurisdictions, and its policyholder position was \$640 million below the required MPP of \$1.2 billion. We expect MGIC's risk-to-capital ratio to increase and to continue to exceed 25 to 1. At December 31, 2012, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 47.8 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC or MIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC and MIC to write insurance with a higher coverage percentage than they could on their own under certain state-specific requirements. See Note 1 – "Nature of Business – Capital" for additional information regarding our statutory capital.

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. The fair value of awards classified as liabilities is remeasured at each reporting period until the award is settled. Awards under our plans generally vest over periods ranging from one to five years.

We have a stock incentive plan that was adopted in May 2011. When the 2011 plan was adopted, no further awards could be made under our previous 2002 plan. All share based compensation granted in 2011 was granted under the 2002 plan prior to the adoption of the 2011 plan. The purpose of the 2011 plan is to motivate and incent performance by, and to retain the services of, key employees and non-employee directors through receipt of equity-based and other incentive awards under the plan. The maximum number of shares of stock that can be awarded under the 2011 plan is 7.0 million. Awards issued under the plan that are subsequently forfeited will not count against the limit on the maximum number of shares that may be issued under the plan. In addition, shares used for income tax withholding or used for payment of the exercise price of an option will not be counted against such limit. The plan provides for the award of stock options, stock appreciation rights, restricted stock and restricted stock units, as well as cash incentive awards. No awards may be granted after May 5, 2021 under the 2011 plan. 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. Shares issued under the 2011 plan are treasury shares if available, otherwise they will be newly issued shares. Treasury shares will continue to be issued for unit awards under the 2002 plan as they vest.

The compensation cost that has been charged against income for the share-based plans was \$8.6 million, \$12.1 million and \$13.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. The related income tax benefit, before valuation allowance, recognized for the share-based compensation plans was \$3.0 million, \$4.2 million and \$1.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. See Note 14 – “Income Taxes” for a discussion of our valuation allowance.

A summary of option activity in the stock incentive plans during 2012 is as follows:

	Weighted Average Exercise Price	Shares Subject to Option
	<u>Price</u>	<u>to Option</u>
Outstanding, December 31, 2011	\$ 60.50	1,420,500
Granted	-	-
Exercised	-	-
Forfeited or expired	63.78	(542,200)
Outstanding, December 31, 2012	<u>\$ 58.48</u>	<u>878,300</u>

There were no options granted or exercised in 2012, 2011 or 2010.

The following is a summary of stock options outstanding, all of which are exercisable, at December 31, 2012:

Options Outstanding and Exercisable			
Exercise Price	Shares	Remaining Average Life (years)	Weighted Average Exercise Price
\$43.70	348,500	0.1	\$ 43.70
\$68.20	529,800	1.1	\$ 68.20
Total	878,300	0.7	\$ 58.48

The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2012 was zero. The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price of \$2.66 as of December 31, 2012 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, 2012 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 2012 is as follows:

	Weighted Average Grant Date Fair Market Value	Shares
Restricted stock outstanding at December 31, 2011	\$ 12.88	2,945,762
Granted	3.97	1,810,445
Vested	7.62	(1,470,965)
Forfeited	58.24	(207,660)
Restricted stock outstanding at December 31, 2012	\$ 7.08	3,077,582

At December 31, 2012, the 3.1 million shares of restricted stock outstanding consisted of 2.3 million shares that are subject to performance conditions (“performance shares”) and 0.8 million shares that are subject only to service conditions (“time vested shares”). The weighted-average grant date fair value of restricted stock granted during 2011 and 2010 was \$8.94 and \$6.82, 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. The total fair value of restricted stock vested during 2012, 2011 and 2010 was \$6.9 million, \$14.9 million and \$8.5 million, respectively.

As of December 31, 2012, there was \$8.8 million of total unrecognized compensation cost related to nonvested share-based compensation agreements granted under the plans. Of this total, \$7.5 million of unrecognized compensation costs relate to performance shares and \$1.3 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 1.3 years.

During 2011, we granted 449,350 shares that will be settled as cash payments over the vesting period under the 2002 stock incentive plan. The grant date fair value of these restricted share units was \$8.94 in 2011. During 2012, 147,968 shares of this grant vested resulting in cash payments of \$0.6 million and 1,200 shares of this grant were forfeited. During 2011, 5,400 shares of this grant were forfeited. As of December 31, 2012, there was \$0.4 million of total unrecognized compensation cost related to the 294,782 nonvested shares under this grant. The unrecognized compensation cost associated with this grant is expected to be recognized over a period of 1.1 years.

At December 31, 2012, 5.2 million shares were available for future grant under the 2011 stock incentive plan.

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 \$4.8 million, \$5.4 million and \$6.3 million in 2012, 2011 and 2010, respectively.

At December 31, 2012, minimum future operating lease payments are as follows (in thousands):

2013	\$ 4,377
2014	1,931
2015	497
2016	306
2017 and thereafter	<u>174</u>
Total (1)	<u>\$ 7,285</u>

(1) Minimum payments have not been reduced by minimum sublease rentals of \$38 thousand due in the future under noncancelable subleases.

20. **Litigation and Contingencies**

Consumers continue to bring lawsuits against home mortgage lenders and settlement service providers. Mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in December 2004, following denial of class certification in June 2004. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. Beginning in December 2011, MGIC, various mortgage lenders and various other mortgage insurers have been named as defendants in twelve lawsuits, alleged to be class actions, filed in various U.S. District Courts. Three of those cases have previously been dismissed. The complaints in all nine of the remaining cases allege various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the defendants violated RESPA by paying excessive premiums to the lenders' captive reinsurer in relation to the risk assumed by that captive. MGIC denies any wrongdoing and intends to vigorously defend itself against the allegations in the lawsuits. There can be no assurance that we will not be subject to further litigation under RESPA (or FCRA) or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us.

Since June 2005, various state and federal regulators have also conducted investigations or requested information regarding captive mortgage reinsurance arrangements, including (1) a request received by MGIC in June 2005 from the New York Department of Financial Services for information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation; (2) the Minnesota Department of Commerce (the "MN Department"), which regulates insurance, began requesting information in February 2006, regarding captive mortgage reinsurance and certain other matters in response to which MGIC has provided information on several occasions, including as recently as May 2011; (3) various subpoenas received by MGIC beginning in March 2008 from the U.S. Department of Housing and Urban Development ("HUD"), seeking information about captive mortgage reinsurance similar to that requested by the MN Department, but not limited in scope to the state of Minnesota; and (4) correspondence received by MGIC in January 2012 from the Consumer Financial Protection Bureau ("CFPB") indicating that HUD had transferred authority to the CFPB to investigate captive reinsurance arrangements in the mortgage insurance industry and requesting, among other things, certain information regarding captive mortgage reinsurance transactions in which we participated. In June 2012, we received a Civil Investigative Demand ("CID") from the CFPB requiring additional information and documentation regarding captive mortgage reinsurance. We have met with, and expect to continue to meet with, the CFPB to discuss the Civil Investigative Demand and how to resolve its investigation. MGIC has also filed a petition to modify the CID which petition is currently pending. While MGIC believes it would have strong defenses to any claims the CFPB might bring against it as a result of the investigation, it continues to work with the CFPB to try to resolve the investigation and any concerns that the CFPB may have about MGIC's past and current captive reinsurance practices. If MGIC cannot resolve the concerns of the CFPB, it is possible that the CFPB would assert various RESPA and possibly other claims against it. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. In January 2013, the CFPB issued rules to implement laws requiring mortgage lenders to make ability-to-pay determinations prior to extending credit. We are uncertain whether the CFPB will issue any other rules or regulations that affect our business apart from any action it may take as a result of its investigation of captive mortgage reinsurance. Such rules and regulations could have a material adverse effect on us.

In October 2010, a purported class action lawsuit was filed against MGIC in the U.S. District Court for the Western District of Pennsylvania by a loan applicant on whose behalf a now-settled action we previously disclosed had been filed by the U.S. Department of Justice. In this lawsuit, the loan applicant alleged that MGIC discriminated against her and certain proposed class members on the basis of sex and familial status when MGIC underwrote their loans for mortgage insurance. In May 2011, the District Court granted MGIC's motion to dismiss with respect to all claims except certain Fair Housing Act claims. On November 29, 2012, the District Court granted final approval for a class action settlement of the lawsuit. The settlement created a settlement class of 265 borrowers. Under the terms of the settlement, MGIC deposited \$500,000 into an escrow account to fund possible payments to affected borrowers. In addition, MGIC paid the named plaintiff an "incentive fee" of \$7,500 and paid class counsels' fees of \$337,500. Any funds remaining in the escrow account after payment of all claims approved under the procedures established by the settlement will be returned to MGIC.

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

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

We have made substantial progress in reaching an agreement with Countrywide to settle the dispute we have regarding rescissions. Since December 2009, we have been involved in legal proceedings with Countrywide in which Countrywide alleged that MGIC denied valid mortgage insurance claims. (In these financial statement footnotes, we refer to rescissions of insurance and denials of claims collectively as “rescissions” and variations of that term.) In addition to the claim amounts it alleged MGIC had improperly denied, Countrywide contended it was entitled to other damages of almost \$700 million as well as exemplary damages. We sought a determination in those proceedings that we were entitled to rescind coverage on the applicable loans. From January 1, 2008 through December 31, 2012, rescissions of coverage on Countrywide-related loans mitigated our paid losses on the order of \$445 million. This amount is the amount we estimate we would have paid had the coverage not been rescinded. In addition, in connection with mediation, we voluntarily suspended rescissions related to loans that we believed could be covered by a settlement. As of December 31, 2012, coverage on approximately 2,150 loans, representing total potential claim payments of approximately \$160 million, that we had determined was rescindable was affected by our decision to suspend such rescissions. While there can be no assurance that we will actually enter into a settlement agreement with Countrywide, we have determined that a settlement with Countrywide is probable.

We are also discussing a settlement with another customer. We have also determined that it is probable we will reach a settlement of our dispute with this customer. As of December 31, 2012, coverage on approximately 250 loans, representing total potential claim payments of approximately \$17 million, was affected by our decision to suspend rescissions for that customer.

We are now able to reasonably estimate the probable loss associated with each probable settlement and, as required by ASC 450-20, we have recorded the estimated impact of the two probable settlements referred to above in our financial statements for the quarter ending December 31, 2012. The aggregate impact to loss reserves for the probable settlement agreements was an increase of approximately \$100 million. This impact was somewhat offset by impacts to our return premium accrual and premium deficiency reserve. All of these impacts were reflected in the fourth quarter 2012 financial results. If we are not able to reach settlement with Countrywide, we intend to defend MGIC against any related legal proceedings, vigorously.

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. From January 1, 2008 through December 31, 2012, we estimate that total rescissions mitigated our incurred losses by approximately \$2.9 billion, which included approximately \$2.9 billion of mitigation on paid losses, excluding \$0.6 billion that would have been applied to a deductible. At December 31, 2012, we estimate that our total loss reserves were benefited from anticipated rescissions by approximately \$0.2 billion.

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us “curtailments.” In 2012, curtailments reduced our average claim paid by approximately 4%. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as mortgage insurance premiums, hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments.

After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid. Historically, we have not had material disputes regarding our curtailments or other adjustments. As part of our settlement discussions, Countrywide informed us that they object to approximately \$40 million of curtailment and other adjustments. In connection with any settlement agreement with Countrywide, we expect we would enter into a separate agreement with them that would provide for a process to resolve this dispute. However, we do not believe a loss is probable regarding this curtailment dispute and have not accrued any reserves that would reflect an adverse outcome to this dispute. We intend to defend vigorously our position regarding the correctness of these curtailments under our insurance policy. Although we have not had other material objections to our curtailment and adjustment practices, there can be no assurances that we will not face additional challenges to such practices.

MGIC and Freddie Mac disagreed on the amount of the aggregate loss limit under certain pool insurance policies (the “Disputed Policies”). On December 1, 2012, an Agreement of Settlement, Compromise and Release (the “Settlement Agreement”) between MGIC, Freddie Mac and the FHFA became effective, settling their dispute regarding the Disputed Policies. Under the Settlement Agreement, MGIC is to pay Freddie Mac a total of \$267.5 million in satisfaction of all obligations under the Disputed Policies. Of the total, \$100 million was paid in December 2012, as required by the Settlement Agreement, and the remaining \$167.5 million is to be paid in 48 equal installments that began on January 2, 2013.

If MGIC fails to make payments as required by the Settlement Agreement, or if payments or obligations to make payments are set aside, voided or otherwise rendered unenforceable (a “Default”), then Freddie Mac may elect to: (a) to collect an additional settlement payment of \$57.5 million (for a Default occurring on or after December 1, 2015), \$82.5 million (for a Default occurring on or after December 1, 2014, but before December 1, 2015) or \$132.5 million (for a Default occurring before December 1, 2014), in addition to the remainder of the \$267.5 million that it has not received or retained due to the Default, (b) to keep all payments previously retained and reinitiate litigation regarding the Disputed Policies, seeking damages of \$540 million less the amounts previously retained, or (c) seek specific performance of the Settlement Agreement.

MGIC has also agreed to indemnify Freddie Mac and FHFA from any claims made against either of them by MGIC and certain associated parties of MGIC (including regulators and creditors) that are premised upon the performance of the Settlement Agreement.

A non-insurance subsidiary of our holding company is a shareholder of the corporation that operates the Mortgage Electronic Registration System (“MERS”). Our subsidiary, as a shareholder of MERS, has been named as a defendant (along with MERS and its other shareholders) in nine lawsuits asserting various causes of action arising from allegedly improper recording and foreclosure activities by MERS. Three of those lawsuits remain pending and the other six lawsuits have been dismissed without an appeal. The damages sought in the remaining cases are substantial. We deny any wrongdoing and intend to vigorously defend ourselves against the allegations in the lawsuits.

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.

Through a non-insurance subsidiary, we utilize our underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of the contract underwriting activities, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to its customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. These obligations have been primarily funded by contributions from our holding company and, in part, from the operations of the subsidiary. A generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs in previous years. Historically, a material portion of our new insurance written through the flow channel has involved loans for which that subsidiary provided contract underwriting services, including new insurance written between 2006 and 2008. Claims for remedies may be made a number of years after the underwriting work was performed. We believe the rescission of mortgage insurance coverage on loans for which the subsidiary provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. Beginning in the second half of 2009, our subsidiary experienced an increase in claims for contract underwriting remedies, which has continued throughout 2012. The related contract underwriting remedy expense was approximately \$27 million, \$23 million and \$19 million for the years ended December 31, 2012, 2011 and 2010.

See Note 14 – “Income Taxes” for a description of federal income tax contingencies.

21. Unaudited Quarterly Financial Data

2012:	Quarter				2012 Year
	First	Second	Third	Fourth (b)	
	(In thousands, except share data)				
Net premiums written	\$ 254,986	\$ 238,605	\$ 263,505	\$ 260,736	\$ 1,017,832
Net premiums earned	262,405	242,628	266,432	261,705	1,033,170
Investment income, net of expenses	37,408	32,178	30,394	21,660	121,640
Loss incurred, net	337,088	551,408	490,121	688,636	2,067,253
Change in premium deficiency reserves	(14,183)	(27,358)	(9,144)	(10,351)	(61,036)
Underwriting and other operating expenses	50,343	48,910	50,678	51,516	201,447
Interest expense	24,627	24,912	24,478	25,327	99,344
Net income (loss)	(19,555)	(273,891)	(246,942)	(386,691)	(927,079)
Income (loss) per share (a):					
Basic	(0.10)	(1.36)	(1.22)	(1.91)	(4.59)
Diluted	(0.10)	(1.36)	(1.22)	(1.91)	(4.59)

2011:	Quarter				2011 Year
	First	Second	Third	Fourth	
	(In thousands, except share data)				
Net premiums written	\$ 274,463	\$ 270,399	\$ 255,745	\$ 263,773	\$ 1,064,380
Net premiums earned	288,546	284,454	275,094	275,741	1,123,835
Investment income, net of expenses	56,543	55,490	48,898	40,339	201,270
Loss incurred, net	310,431	459,552	462,654	482,070	1,714,707
Change in premium deficiency reserves	(9,018)	(11,035)	(12,388)	(11,709)	(44,150)
Underwriting and other operating expenses	57,550	54,043	52,477	50,680	214,750
Interest expense	26,042	26,326	25,761	25,142	103,271
Net income (loss)	(33,661)	(151,732)	(165,205)	(135,294)	(485,892)
Income (loss) per share (a):					
Basic	(0.17)	(0.75)	(0.82)	(0.67)	(2.42)
Diluted	(0.17)	(0.75)	(0.82)	(0.67)	(2.42)

(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) The results for the fourth quarter of 2012 include a loss of approximately \$267 million related to our settlement with Freddie Mac and approximately \$100 million related to our probable rescission settlement agreements. See Note 20 – “Litigation and Contingencies.”

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
MGIC Investment Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, 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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 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, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. 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.

/s/ PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
March 1, 2013

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Management's Conclusion Regarding the Effectiveness of Disclosure Controls

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this annual report. Based on such evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures were effective as of the end of such period.

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, 2012.

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, 2012 as stated in their report which appears herein.

Changes in Internal Control during the Fourth Quarter

There was no change in our internal control over financial reporting that occurred during the fourth quarter of 2012 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

This information (other than on the executive officers) will be included in our Proxy Statement for the 2013 Annual Meeting of Shareholders, and is hereby incorporated by reference. The information on the executive officers appears at the end of Part I of this Form 10-K.

Our Code of Business Conduct is available on our website (<http://mtg.mgic.com>) under the “Investor Information; Corporate Governance” links. Written copies of our Code of Business Conduct are available to any shareholder who submits a written request to our Secretary, addressed to: MGIC Investment Corporation, Secretary, P.O. Box 488, Milwaukee, WI 53201. We intend to disclose on our website any waivers and amendments to our Code of Business Conduct that are required to be disclosed under Item 5.05 of Form 8-K.

Item 11. Executive Compensation.

This information will be included in our Proxy Statement for the 2013 Annual Meeting of Shareholders and is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

This information, other than information regarding equity compensation plans required by Item 201(d) of Regulation S-K of the Securities and Exchange Commission which appears below, will be included in our Proxy Statement for the 2013 Annual Meeting of Shareholders, and is hereby incorporated by reference.

The table below sets forth certain information, as of December 31, 2012, about options outstanding (all of which are exercisable) under our 2002 Stock Incentive Plan (the “2002 Plan”). Other than under this plan, no options, warrants or rights were outstanding at that date under any compensation plan or individual compensation arrangement with us. We have no compensation plan under which our equity securities may be issued that has not been approved by shareholders. Share units or phantom shares, which have no voting power and can be settled only in cash, are not considered to be equity securities for this purpose.

Plan Category	(a)	(b)	(c)
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	878,300(1)	\$ 58.48	5,189,555(2)
Equity compensation plans not approved by security holders	-	-	-
Total	878,300(1)	\$ 58.48	5,189,555(2)

(1) Excludes 3,059,431 restricted stock units (RSUs) granted for which shares will be issued if certain criteria are met. Of the 3,059,431 RSUs granted, 2,329,590 are subject to performance conditions and the remainder are subject to service conditions. Those RSUs were granted under our 2002 Plan and our 2011 Omnibus Incentive Plan (the “2011 Plan”)

(2) Reflects shares available for granting. All of these shares are available under our 2011 Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

To the extent applicable, this information will be included in our Proxy Statement for the 2013 Annual Meeting of Shareholders, and is hereby incorporated by reference.

Item 14. Principal Accountant Fees and Services.

This information will be included in our Proxy Statement for the 2013 Annual Meeting of Shareholders, and is hereby incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)

1. Financial statements. The following financial statements are filed in Item 8 of this annual report:

Consolidated statements of operations for each of the three years in the period ended December 31, 2012

Consolidated balance sheets at December 31, 2012 and 2011

Consolidated statements of comprehensive income for each of the three years in the period ended December 31, 2012

Consolidated statements of shareholders’ equity for each of the three years in the period ended December 31, 2012

Consolidated statements of cash flows for each of the three years in the period ended December 31, 2012

Notes to consolidated financial statements

Report of independent registered public accounting firm

2. Financial statement schedules. The following financial statement schedules are filed as part of this Form 10-K and appear immediately following the signature page:

Report of independent registered public accounting firm on financial statement schedules

Schedules at and for the specified years in the three-year period ended December 31, 2012:

Schedule I - Summary of investments, other than investments in related parties

Schedule II - Condensed financial information of Registrant

Schedule IV - Reinsurance

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the consolidated financial statements and notes thereto.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 28, 2013.

MGIC INVESTMENT CORPORATION

/s/ Curt S. Culver

Curt S. Culver
Chairman of the Board and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of the date set forth above by the following persons on behalf of the registrant and in the capacities indicated.

Name and Title

/s/ Curt S. Culver

Curt S. Culver
Chairman of the Board, Chief Executive
Officer and Director

/s/ Timothy A. Holt

Timothy A. Holt, Director

/s/ Kenneth M. Jastrow, II

Kenneth M. Jastrow, II, Director

/s/ J. Michael Lauer

J. Michael Lauer
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Daniel P. Kearney

Daniel P. Kearney, Director

/s/ Timothy J. Mattke

Timothy J. Mattke
Senior Vice President, Controller and
Chief Accounting Officer
(Principal Accounting Officer)

/s/ Michael E. Lehman

Michael E. Lehman, Director

/s/ William A. McIntosh

William A. McIntosh, Director

/s/ James A. Abbott

James A. Abbott, Director

/s/ Leslie M. Muma

Leslie M. Muma, Director

/s/ Thomas M. Hagerty

Thomas M. Hagerty, Director

/s/ Donald T. Nicolaisen

Donald T. Nicolaisen, Director

/s/ Mark M. Zandi

Mark M. Zandi, Director

**Report of Independent Registered Public Accounting Firm on
Financial Statement Schedules**

To the Board of Directors and Shareholders of
MGIC Investment Corporation

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated March 1, 2013 appearing in this Annual Report to Shareholders of MGIC Investment Corporation on Form 10-K also included an audit of the financial statement schedules listed in the index appearing under Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
March 1, 2013

MGIC INVESTMENT CORPORATION
SCHEDULE I — SUMMARY OF INVESTMENTS -
OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2012

Type of Investment	Amortized Cost	Fair Value (In thousands)	Amount at which shown in the balance sheet
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	\$ 863,282	\$ 866,251	\$ 866,251
States, municipalities and political subdivisions	795,935	812,394	812,394
Foreign governments	132,490	142,066	142,066
Public utilities	115,561	116,988	116,988
Mortgage-backed	601,584	601,251	601,251
All other corporate bonds	<u>1,677,085</u>	<u>1,688,389</u>	<u>1,688,389</u>
Total fixed maturities	4,185,937	4,227,339	4,227,339
Equity securities:			
Common stocks:			
Industrial, miscellaneous and all other	<u>2,797</u>	<u>2,936</u>	<u>2,936</u>
Total equity securities	<u>2,797</u>	<u>2,936</u>	<u>2,936</u>
Total investments	<u>\$ 4,188,734</u>	<u>\$ 4,230,275</u>	<u>\$ 4,230,275</u>

MGIC INVESTMENT CORPORATION

SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED BALANCE SHEETS
PARENT COMPANY ONLY
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	(In thousands)	
<u>ASSETS</u>		
Fixed maturities (amortized cost, 2012-\$137,330; 2011-\$421,250)	\$ 139,019	\$ 428,985
Cash and cash equivalents	175,880	57,636
Investment in subsidiaries, at equity in net assets	709,946	1,544,017
Accounts receivable - affiliates	669	-
Income taxes receivable	17,955	23,864
Accrued investment income	1,018	3,720
Other assets	7,431	11,785
Total assets	<u>\$ 1,051,918</u>	<u>\$ 2,070,007</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Senior notes	\$ 99,910	\$ 170,515
Convertible senior notes	345,000	345,000
Convertible junior debentures	379,609	344,422
Accounts payable - affiliates	-	84
Accrued interest	30,459	13,171
Total liabilities	<u>854,978</u>	<u>873,192</u>
Shareholders' equity		
Common stock, (one dollar par value, shares authorized 680,000; shares issued 2012 and 2011 - 205,047; shares outstanding 2012 - 202,032; 2011 - 201,172)	205,047	205,047
Paid-in capital	1,135,296	1,135,821
Treasury stock (shares at cost, 2012 - 3,015; 2011 - 3,875)	(104,959)	(162,542)
Accumulated other comprehensive (loss) income, net of tax	(48,163)	30,124
Retained deficit	(990,281)	(11,635)
Total shareholders' equity	<u>196,940</u>	<u>1,196,815</u>
Total liabilities and shareholders' equity	<u>\$ 1,051,918</u>	<u>\$ 2,070,007</u>

See accompanying supplementary notes to Parent Company condensed financial statements.

MGIC INVESTMENT CORPORATION

SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF OPERATIONS
PARENT COMPANY ONLY
Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
		(In thousands)	
Revenues:			
Investment income, net of expenses	\$ 6,921	\$ 15,693	\$ 5,573
Realized investment gains, net	9,895	4,724	163
Other income	17,775	27,688	-
Total revenues	<u>34,591</u>	<u>48,105</u>	<u>5,736</u>
Expenses:			
Operating expenses	2,227	(133)	2,116
Interest expense	99,344	103,271	98,589
Total expenses	<u>101,571</u>	<u>103,138</u>	<u>100,705</u>
Loss before income taxes	(66,980)	(55,033)	(94,969)
Benefit from income taxes	-	(6,872)	(2,078)
Equity in undistributed net loss of subsidiaries	(860,099)	(437,731)	(270,844)
Net loss	(927,079)	(485,892)	(363,735)
Other comprehensive (loss) income, net	(78,287)	7,988	(52,019)
Comprehensive loss	<u>\$ (1,005,366)</u>	<u>\$ (477,904)</u>	<u>\$ (415,754)</u>

See accompanying supplementary notes to Parent Company condensed financial statements.

MGIC INVESTMENT CORPORATION

SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF CASH FLOWS
PARENT COMPANY ONLY
Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
	(In thousands)		
Cash flows from operating activities:			
Net loss	\$ (927,079)	\$ (485,892)	\$ (363,735)
Adjustments to reconcile net loss to net cash used in operating activities:			
Equity in undistributed net loss of subsidiaries	860,099	437,731	270,844
Other	23,765	7,378	40,638
Change in certain assets and liabilities:			
Accounts receivable - affiliates	(753)	770	658
Income taxes receivable	5,909	(2,452)	6,330
Accrued investment income	2,702	1,890	(5,474)
Accrued interest	17,288	(2,438)	(33,795)
Net cash used in operating activities	<u>(18,069)</u>	<u>(43,013)</u>	<u>(84,534)</u>
Cash flows from investing activities:			
Transactions with subsidiaries	(100,000)	(200,000)	(200,000)
Purchase of fixed maturities	(120,181)	(130,503)	(977,408)
Sale of fixed maturities	409,601	551,493	135,413
Net cash provided by (used in) investing activities	<u>189,420</u>	<u>220,990</u>	<u>(1,041,995)</u>
Cash flows from financing activities:			
Repayment of long-term debt	(53,107)	(178,721)	(1,000)
Net proceeds from convertible senior notes	-	-	334,373
Common stock shares issued	-	-	772,376
Net cash (used in) provided by financing activities	<u>(53,107)</u>	<u>(178,721)</u>	<u>1,105,749</u>
Net increase (decrease) in cash and cash equivalents	118,244	(744)	(20,780)
Cash and cash equivalents at beginning of year	<u>57,636</u>	<u>58,380</u>	<u>79,160</u>
Cash and cash equivalents at end of period	<u>\$ 175,880</u>	<u>\$ 57,636</u>	<u>\$ 58,380</u>

See accompanying supplementary notes to Parent Company condensed financial statements.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT

PARENT COMPANY ONLY

SUPPLEMENTARY NOTES

Note A

The accompanying Parent Company financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements appearing in Item 8 of this annual report.

Note B

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” to our consolidated financial statements in Item 8, are obligations of MGIC Investment Corporation, our holding company, and not of its subsidiaries. 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 through 2012, MGIC has not paid any dividends to our holding company. In 2013, MGIC and our other insurance subsidiaries cannot pay any dividends to our holding company without approval from the OCI.

In the fourth quarter of 2008, we suspended the payment of dividends to shareholders.

MGIC INVESTMENT CORPORATION**SCHEDULE IV — REINSURANCE****MORTGAGE INSURANCE PREMIUMS EARNED**
Years Ended December 31, 2012, 2011 and 2010

	<u>Gross Amount</u>	<u>Ceded to Other Companies</u>	<u>Assumed From Other Companies</u>	<u>Net Amount</u>	<u>Percentage of Amount Assumed to Net</u>
	(In thousands of dollars)				
Year ended December 31, 2012	\$ 1,065,663	\$ 34,918	\$ 2,425	\$ 1,033,170	0.2%
2011	1,170,868	50,924	3,891	1,123,835	0.3%
2010	1,236,949	71,293	3,091	1,168,747	0.3%

Item 15(a)3

INDEX TO EXHIBITS

Exhibit Number	Description of Exhibit	Incorporated by Reference		
		Form	Exhibit(s)	Filing Date
3.1	Articles of Incorporation, as amended.	10-Q	3.1	May 10, 2012
3.2	Amended and Restated Bylaws, as amended.	8-K	3.2	January 30, 2013
4.1	Articles of Incorporation (included within Exhibit 3.1).	10-Q	3.1	May 10, 2012
4.2	Amended and Restated Bylaws (included as Exhibit 3.2).	8-K	3.2	January 30, 2013
4.3	Amended and Restated Rights Agreement, dated as of July 25, 2012, between MGIC Investment Corporation and Wells Fargo Bank, National Association, which includes as Exhibit A thereto the Form of Right Certificate, as Exhibit B thereto the Summary of Rights to Purchase Common Shares, and as Exhibit C thereto the Form of Representation and Request Letter.	8-A/A	4.1	July 31, 2012
4.4	Indenture, dated as of October 15, 2000, between the MGIC Investment Corporation and Bank One Trust Company, National Association, as Trustee.	8-K	4.1	October 19, 2000
4.5	Supplemental Indenture, dated as of April 26, 2010, between MGIC Investment Corporation and U.S. Bank National Association (as successor to Bank One Trust Company, National Association), as Trustee, under the Indenture, dated as of October 15, 2000, between the Company and the Trustee.	8-K	4.1	April 30, 2010
4.6	Indenture, dated as of March 28, 2008, between U.S. Bank National Association, as trustee, and MGIC Investment Corporation.	10-Q	4.6	May 12, 2008
	[We are a party to various other agreements with respect to our long-term debt. These agreements are not being filed pursuant to Reg. S-K Item 601(b) (4) (iii) (A). We hereby agree to furnish a copy of such agreements to the Commission upon its request.]			
10.1	Form of Stock Option Agreement under 2002 Stock Incentive Plan. *	10-K	10.1	March 31, 2003
10.1.1	Form of Incorporated Terms to Stock Option Agreement under 2002 Stock Incentive Plan. *	10-K	10.1.1	March 31, 2003
10.2	Form of Restricted Stock and Restricted Stock Unit Agreement under 2002 Stock Incentive Plan. *	10-K	10.2.1	March 13, 2006
10.2.1	Form of Incorporated Terms to Restricted Stock and Restricted Stock Unit Agreement under 2002 Stock Incentive Plan. *	10-K	10.2.2	March 13, 2006
10.2.2	Form of Restricted Stock and Restricted Stock Unit Agreement under 2002 Stock Incentive Plan. *	10-K	10.2.4	March 1, 2007
10.2.3	Form of Incorporated Terms to Restricted Stock and Restricted Stock Unit Agreement under 2002 Stock Incentive Plan. *	10-K	10.2.5	March 1, 2007
10.2.4	Form of Restricted Stock and Restricted Stock Unit Agreement (for Directors) under 2002 Stock Incentive Plan. *	10-K	10.2.4	March 16, 2005

Exhibit Number	Description of Exhibit	Incorporated by Reference		
		Form	Exhibit(s)	Filing Date
10.2.5	Form of Incorporated Terms to Restricted Stock and Restricted Stock Unit Agreement (for Directors) under 2002 Stock Incentive Plan. *	10-K	10.2.5	March 16, 2005
10.2.6	Form of Restricted Stock Unit Agreement under 2002 Stock Incentive Plan (Adopted January 2011). *	10-K	10.2.18	February 29, 2012
10.2.7	Form of Incorporated Terms to Restricted Stock Unit Agreement under 2002 Stock Incentive Plan (Adopted January 2011). *	10-K	10.2.19	February 29, 2012
10.2.8	Form of Restricted Stock Unit Agreement under 2011 Omnibus Incentive Plan (Adopted January 2012). * †			
10.2.9	Form of Incorporated Terms to Restricted Stock Unit Agreement under 2011 Omnibus Incentive Plan (Adopted January 2012). * †			
10.3	MGIC Investment Corporation 1991 Stock Incentive Plan. *	10-K	10.7	March 29, 2000
10.3.1	MGIC Investment Corporation 2002 Stock Incentive Plan, as amended. *	10-K	10.3.1	March 1, 2011
10.3.2	MGIC Investment Corporation 2011 Omnibus Incentive Plan. *	DEF 14A	App. B	March 31, 2011
10.5	Two Forms of Restricted Stock Award Agreement under 1991 Stock Incentive Plan. *	10-K	10.10	March 29, 2000
10.6	Executive Bonus Plan. * †			
10.7	Supplemental Executive Retirement Plan. *	8-K	10.7	October 25, 2011
10.8	MGIC Investment Corporation Deferred Compensation Plan for Non-Employee Directors, as amended.*	10-K	10.8	March 1, 2011
10.9	MGIC Investment Corporation 1993 Restricted Stock Plan for Non-Employee Directors. *	10-K	10.24	Dated December 31, 1993
10.10	Two Forms of Award Agreement under MGIC Investment Corporation 1993 Restricted Stock Plan for Non-Employee Directors. *	10-Q	10.27 and 10.28	Dated June 30, 1994
10.11.1	Form of Key Executive Employment and Severance Agreement. *	10-K	10.11.1	March 2, 2009
10.11.2	Form of Incorporated Terms to Key Executive Employment and Severance Agreement. *	10-K	10.11.2	March 2, 2009
10.11.3	Form of Letter Agreement Amending Certain of the Company's Key Executive Employment and Severance Agreements. *	8-K	10.11.3	April 13, 2009
10.11.4	Supplemental Plan for Executives covered by MGIC Investment Corporation Key Executive Employment and Severance Agreements. *	8-K	10.11.4	October 25, 2011
10.12	Form of Agreement Not to Compete. * †			
10.13	Agreement of Settlement, Compromise and Release dated as of November 30, 2012 among Federal Home Loan Mortgage Corporation, Federal Housing Finance Agency and Mortgage Guaranty Insurance Corporation. †			
21	Direct and Indirect Subsidiaries. †			
23	Consent of Independent Registered Public Accounting Firm. †			

Exhibit Number	Description of Exhibit	Incorporated by Reference		
		Form	Exhibit(s)	Filing Date
31.1	Certification of CEO under Section 302 of the Sarbanes-Oxley Act of 2002. †			
31.2	Certification of CFO under Section 302 of the Sarbanes-Oxley Act of 2002. †			
32	Certification of CEO and CFO under Section 906 of the Sarbanes-Oxley Act of 2002 (as indicated in Item 15 of this Annual Report on Form 10-K, this Exhibit is not being “filed”). ††			
99.1	Mortgage Guaranty Insurance Corporation’s “Flow” Master Insurance Policy and Declaration Page, Restated to Include Selected Endorsements.	10-K	99.1	March 2, 2009
99.2	Endorsement to Mortgage Guaranty Insurance Corporation’s “Flow” Master Insurance Policy Applicable to Lenders with Delegated Underwriting Authority.	10-K	99.2	March 2, 2009
99.3	Order of the Office of the Commissioner of Insurance for the State of Wisconsin dated as of January 23, 2012.	8-K	99.2	January 24, 2012
99.4	Letter Agreement dated as of November 30, 2012, by and between MGIC Investment Corporation, Mortgage Guaranty Insurance Corporation and MGIC Indemnity Corporation and Federal National Mortgage Association (including exhibits thereto and agreements incorporated therein by reference).	8-K	99.3	November 30, 2012
99.5	Letter dated November 30, 2012, by Federal Home Loan Mortgage Corporation to MGIC Indemnity Corporation and Mortgage Guaranty Insurance Corporation.	8-K	99.4	November 30, 2012
99.6	Specimen Gold Cert Endorsement	10-Q	99.7	May 10, 2012
99.7	Order of the Office of the Commissioner of Insurance for the State of Wisconsin dated as of November 29, 2012.	8-K	99.1	November 30, 2012
101	The following financial information from MGIC Investment Corporation’s Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2012 and 2011 (ii) Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010, (iv) Consolidated Statements of Shareholders’ Equity for the years ended December 31, 2012, 2011, and 2010, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010, (vi) the Notes to Consolidated Financial Statements and (vii) the Financial Statement Schedules.			

* Denotes a management contract or compensatory plan.

† Filed herewith.

†† Furnished herewith.

RESTRICTED STOCK UNIT AGREEMENT

THIS RESTRICTED STOCK UNIT AGREEMENT is made and entered into as of the date indicated on the signature page under "Date of Agreement" by and between MGIC Investment Corporation, a Wisconsin corporation (the "Company"), and the employee of Mortgage Guaranty Insurance Corporation, or one of its subsidiaries, whose signature is set forth on the signature page hereto (the "Employee").

INTRODUCTION

The Company is awarding Restricted Stock Units to the Employee under the MGIC Investment Corporation 2011 Omnibus Incentive Plan (the "Plan") and this Agreement.

This Agreement consists of this instrument and the Incorporated Terms Dated As of January 30, 2012 to Restricted Stock Unit Agreement (the "Incorporated Terms"), which although not attached to this instrument, are part of this Agreement and were provided to the Employee as indicated in Paragraph 1(b) below.

The parties mutually agree as follows:

1. Award of RSUs; Incorporated Terms.

(a) Subject to the terms and conditions set forth herein, the Company is confirming the award to the Employee of:

(i) the number of Restricted Stock Units equal to the number referred to after "Time Vested Restricted Stock Units" on the signature page, which shall be the "Time Vested RSUs"; and

(ii) the number of Restricted Stock Units equal to the number referred to after "Performance Restricted Stock Units" on the signature page, which shall be the "Performance RSUs."

As used in this Agreement, the term "RSUs" means collectively all Time Vested RSUs and all Performance RSUs.

(b) The Incorporated Terms are incorporated in this instrument with the same effect as if they were physically set forth in this instrument. The Incorporated Terms and this instrument constitute a single agreement which is referred to as "this Agreement." The terms "herein," "hereof," "above" and similar terms used in this Agreement refer to this Agreement as a whole. The "Award Notification" is the document entitled "Executive Compensation" that was delivered to the Employee by the Company in January or February 2012 to notify the Employee of the award of RSUs, the legal terms of which are set forth in this Agreement. The Employee agrees if there is any difference between the number of RSUs determined by (i) the Award Notification, as delivered to the Employee, and (ii) the number of RSUs awarded by the Committee, as reflected in the records of the Committee, the number of RSUs reflected in the records of the Committee shall control. The Incorporated Terms were attached to an email sent in December 2012 to the Employee from a member of the Legal Department of the Company which included other documents relating to the RSUs. The Company is hereby advising the Employee to print and retain a copy of the Incorporated Terms. The Employee agrees if there is any difference between the text of the Incorporated Terms obtained as indicated above and the text of the Incorporated Terms retained by the Company's Secretary, the text of the copy retained by the Secretary will control.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized signer, and the Employee has executed this Agreement, all as of the day and year set forth below.

Date of Agreement:

As of January 30, 2012

MGIC INVESTMENT CORPORATION

By: _____

Title: Authorized Signer

Sign Here:

Name: _____

Time Vested Restricted Stock Units:

Performance Restricted Stock Units:

Performance RSU Multiplier:

Time Vested RSUs Release Date:

Performance RSUs Release Date:

Holding Period:

Threshold Expense Ratio:
Target Expense Ratio:
Maximum Expense Ratio:

Threshold Loss Ratio:
Target Loss Ratio:
Maximum Loss Ratio:

Threshold Share:
Target Share:
Maximum Share:

Goal:

Dividend Start Date:

* * * *

Beneficiary Name: _____

Address of Beneficiary:

Beneficiary Tax Identification

No: _____

INCORPORATED TERMS
DATED AS OF _____
TO
RESTRICTED STOCK UNIT AGREEMENT

The following are the “Incorporated Terms” referred to in the instrument entitled “Restricted Stock Unit Agreement” which refers to these Incorporated Terms and which has been signed by the Company and the Employee (the “Base Instrument”). The Incorporated Terms and the Base Instrument constitute a single agreement and that agreement consists of the Base Instrument and the Incorporated Terms. The Incorporated Terms dovetail with the Base Instrument; because the last paragraph of the Base Instrument is Paragraph 1, the Incorporated Terms begin with Paragraph 2.

2. Release Date.

(a) (i) The Release Date, which determines the date on which the property underlying RSUs shall be released and settled, shall be determined as described below.

(ii) The term “Release Date” shall be applied separately to the Time Vested RSUs and the Performance RSUs as if the term “Release Date” were the term “Time Vested RSUs Release Date,” or “Performance RSUs Release Date,” as the case may be, and such application shall correspond to the application of the term “RSUs” as set forth in Paragraph 1(a) of the Base Instrument.

(b) (i) For each date set forth after “Time Vested RSUs Release Date” on the signature page, divide the number of shares referred to after “Time Vested Restricted Stock Units” by the sum of one and the difference between the latest year set forth after “Time Vested RSUs Release Date” on the signature page and the earliest year set forth thereafter. The resulting quotient, rounded down to the nearest whole RSU, is the number of Time Vested RSUs for which a Release Date shall occur on the corresponding date set forth after “Time Vested RSUs Release Date” and such date shall be the Release Date for such RSUs (and only for such RSUs), except that if after “Goal” on the signature page “Applicable” appears, then such date shall be a Release Date only if the condition set forth after “Goal” applicable to such Release Date is satisfied, provided that if such condition is not satisfied, the number of RSUs for which a Release Date did not occur as a result thereof (the “Unreleased RSUs”), shall be added to the number of RSUs for which a Release Date shall occur on the next date on which a Release Date occurs, and provided further that if on the last date set forth after “Time Vested RSUs Release Date” on the signature page, there are Unreleased RSUs, such RSUs shall be released on the earliest of the next two anniversaries of such last date on which the condition set forth after “Goal” is satisfied and such anniversary shall be a Release Date.

(ii) As used herein, “Combined Ratio” shall mean, for any year, the sum of the Loss Ratio and the Expense Ratio for such year, expressed as a percentage. “Loss Ratio” shall mean, for any year, the ratio, expressed as a percentage, of the Company’s direct losses incurred from primary NIW written that year, excluding losses associated with incurred but not reported defaults, to its direct premiums earned from primary NIW written that year, in each case as computed in accordance with Past Practices. “Expense Ratio” shall mean, for any year, the ratio, expressed as a percentage, of the underwriting and other expenses of the Company’s insurance company subsidiaries that year to its net premiums written that year, in each case as computed in accordance with Past Practices. As used herein, “Past Practices” shall mean the manner in which the applicable item was calculated by the Company prior to the date of this Agreement.

The foregoing notwithstanding, if after “Goal” on the signature page “Applicable” appears, then the Release Date shall not occur earlier than the date on which the Committee (as defined in Paragraph 6) certifies the Combined Ratio in accordance with the regulations under Section 162(m) of the Code.

(c) (i) The Release Date for Performance RSUs shall be determined as follows. For each date set forth after “Performance RSUs Release Date” on the signature page, multiply the number referred to after “Performance Restricted Stock Units” on the signature page by the product of (i) the Aggregate Percentage Achievement for the fiscal year of the Company ended on the December 31 immediately preceding such date, and (ii) one-third, and if after “Performance RSU Multiplier” on the signature page “Applicable” appears, (iii) the fraction set forth after “Performance RSU Multiplier.” The resulting product, rounded down to the nearest whole RSU, is the number of Performance RSUs for which a Release Date shall occur on the corresponding date set forth after “Performance RSUs Release Date” and such date shall be the Release Date for such RSUs (and only for such RSUs); provided that the number of Performance RSUs for which a Release Date occurs shall in no event exceed the number of Performance RSUs that, when added together with Performance RSUs as to which a Release Date has previously occurred under this Agreement, equals the number set forth after “Performance Restricted Stock Units” on the signature page.

(ii) The “Aggregate Percentage Achievement” for any year shall be determined as follows:

(A) If the Company’s Flow Market Share for such year can be determined based on information published by Inside Mortgage Finance (along with any successor publication thereto, “Inside Mortgage Finance”) on or before March 1, 2013, then the Aggregate Percentage Achievement for such year shall mean the sum of the Expense Ratio Achievement Percentage, the Loss Ratio Achievement Percentage and the Share Achievement Percentage for such year.

(B) If the Company’s Flow Market Share for such year cannot be determined based on information published by Inside Mortgage Finance on or before March 1, 2013, then the Aggregate Percentage Achievement for such year shall mean the sum of the Expense Ratio Achievement Percentage and the Loss Ratio Achievement Percentage for such year.

(iii) The “Expense Ratio Achievement Percentage” for any year shall be determined as follows:

(A) If the Company’s Expense Ratio (as defined above) for such year is equal to or higher than the Expense Ratio set forth after “Maximum Expense Ratio” on the signature page, then the Expense Ratio Achievement Percentage shall be 0%;

(B) If the Company's Expense Ratio for such year is equal to the Expense Ratio set forth after "Target Expense Ratio" on the signature page, then the Expense Ratio Achievement Percentage shall be (I) 33.34% if the Company's Flow Market Share for such year can be determined as described above, or (II) 50% if the Company's Flow Market Share for such year cannot be so determined;

(C) If the Company's Expense Ratio for such year is equal to or lower than the Expense Ratio set forth after "Threshold Expense Ratio" on the signature page, then the Expense Ratio Achievement Percentage shall be (I) 50% if the Company's Flow Market Share for such year can be determined as described above, or (II) 75% if the Company's Flow Market Share for such year cannot be so determined; and

(D) If the Company's Expense Ratio for such year is between the Maximum Expense Ratio and the Target Expense Ratio, or between the Target Expense Ratio and the Threshold Expense Ratio, then the Expense Ratio Achievement Percentage shall be correspondingly interpolated on a linear basis between 0% and the Expense Ratio Achievement Percentage associated with the Target Expense Ratio, or between the Expense Ratio Achievement Percentage associated with the Target Expense Ratio and the Expense Ratio associated with the Threshold Expense Ratio, respectively.

(iv) The "Loss Ratio Achievement Percentage" for any year shall be determined as follows:

(A) If the Company's Loss Ratio (defined above) for such year is equal to or higher than the Loss Ratio set forth after "Maximum Loss Ratio" on the signature page, the Loss Ratio Achievement Percentage shall be 0%;

(B) If the Company's Loss Ratio for such year is equal to the Loss Ratio set forth after "Target Loss Ratio" on the signature page, then the Loss Ratio Achievement Percentage shall be (I) 33.33% if the Company's Flow Market Share for such year can be determined as described above, or (II) 50% if the Company's Flow Market Share for such year cannot be so determined;

(C) If the Company's Loss Ratio for such year is equal to or lower than the Loss Ratio set forth after "Threshold Loss Ratio" on the signature page, then the Loss Ratio Achievement Percentage shall be (I) 50% if the Company's Flow Market Share for such year can be determined as described above, or (II) 75% if the Company's Flow Market Share for such year cannot be so determined; and

(D) If the Company's Loss Ratio for such year is between the Maximum Loss Ratio and the Target Loss Ratio, or between the Target Loss Ratio and the Threshold Loss Ratio, then the Loss Ratio Achievement Percentage shall be correspondingly interpolated on a linear basis between 0% and the Loss Ratio Achievement Percentage associated with the Target Loss Ratio, or between the Loss Ratio Achievement Percentage associated with the Target Loss Ratio and the the Loss Ratio Achievement Percentage associated with the Threshold Loss Ratio, respectively.

(v) If the Company's Flow Market Share for such year can be determined based on information published by Inside Mortgage Finance on or before March 1, 2013, the "Share Achievement Percentage" for such year shall be determined as follows:

(A) If the Company's Flow Market Share for such year is equal to or lower than the Flow Market Share set forth after "Threshold Share" on the signature page, then the Flow Market Share Achievement Percentage shall be 0%;

(B) If the Company's Flow Market Share for such year is equal to the Flow Market Share set forth after "Target Share" on the signature page, then the Flow Market Share Achievement Percentage shall be 33.33%;

(C) If the Company's Flow Market Share for such year is equal to or higher than the Flow Market Share set forth after "Maximum Share" on the signature page, then the Flow Market Share Achievement Percentage shall be 50%; and

(D) If the Company's Flow Market Share for such year is between the Threshold Share and the Target Share, or between the Target Share and the Maximum Share, then the Flow Market Share Achievement Percentage shall be correspondingly interpolated on a linear basis between 0% and 33.33%, or between 33.33% and 50%, respectively.

"Flow Market Share" for any year shall mean the Company's market share of the industry's flow NIW for that year, expressed as a percentage, determined based on information reported by Inside Mortgage Finance; provided, however, that if Inside Mortgage Finance has not reported the necessary information by March 1, 2013, the Flow Market Share shall be deemed to be unable to be determined.

The foregoing notwithstanding, the Release Date shall not occur earlier than the date on which the Committee (as defined in Paragraph 6) certifies the Aggregate Percentage Achievement in accordance with the regulations under Section 162(m) of the Code.

(d) If all Time Vested RSUs set forth after "Time Vested Restricted Stock Units" on the signature page or if all Performance RSUs set forth after "Performance Restricted Stock Units" on the signature page would have been released but for the provisions of this Agreement that round down RSUs to the nearest whole number, the number of RSUs released on the last Release Date shall be the RSUs awarded minus the RSUs that were previously released such that on such last Release Date the fractional RSUs that were not released due to rounding shall be released.

3. [Reserved]

4. Transfer After Release Date; Securities Law Restrictions; Holding Period.

(a) Notwithstanding the foregoing or anything to the contrary herein, the Employee agrees and acknowledges with respect to any Stock delivered in settlement of RSUs that has not been registered under the Securities Act of 1933, as amended (the "Act") and that, in the opinion of counsel to the Company, absent such registration cannot be publicly sold or otherwise disposed of, (i) he will not sell or otherwise dispose of such Stock except pursuant to an effective registration statement under the Act and any applicable state securities laws, or in a transaction which, in the opinion of counsel for the Company, is exempt from such registration, and (ii) a legend will be placed on the certificates or other evidence for the Stock delivered in settlement of the RSUs to such effect.

(b) If after “Holding Period” on the signature page “Applicable” appears, then the Employee agrees that, during the Holding Period, the Employee will not make a Sale of the Holding Period Shares. “Holding Period” means a period beginning on the Release Date and ending on the earlier of (i) the first anniversary of the Release Date and (ii) the first date on which the Employee is no longer subject to the reporting requirements of Section 16(a) of the Act (as such term is defined in the Annex). “Holding Period Shares” means a number of shares of Stock for which a Release Date shall occur that are released on such Release Date equal to the lesser of (1) 25% of the aggregate number of RSUs that are released on the Release Date and (2) 50% of the difference between (i) the aggregate number of RSUs that are released on the Release Date and (ii) the aggregate number of shares that are withheld to satisfy withholding tax requirements under Paragraph 10(b) of this Agreement. “Sale” means a transfer for value, except that, (i) the transfer to the Company of Holding Period Shares in payment of the exercise price of an option granted to the Employee by the Company shall not be a Sale if there is no Sale for the remainder of the Holding Period of a number of shares of Stock received upon exercise of such option that are not less than the number of Holding Period Shares so transferred in connection with such exercise, and (ii) an involuntary transfer, including Holding Period Shares converted in a merger, is not a Sale; it is understood that neither a pledge nor a gift, including to an entity in which the Employee has an interest (provided that in the case of such an entity, such entity does not make a Sale for the remainder of the Holding Period), is a transfer for value.

(c) If after “Holding Period” on the signature page “Applicable” appears, then the Employee agrees that, during the Holding Period (for purposes of applying such definition to this Paragraph 4(c), Release Date means each date on which the Option is exercised), the Employee will not make a Sale of the Option Holding Period Shares. “Option Holding Period Shares” means a number of shares of Stock acquired at each exercise of the Option equal to the lesser of (1) 25% of the aggregate number of shares for which the Option is exercised, and (2) 50% of the difference between (i) the aggregate number of shares for which the Option is exercised and (ii) the aggregate number of shares that are withheld from the shares delivered on such exercise to satisfy withholding tax requirements applicable to such exercise, except that the Option Holding Period Shares shall not exceed the number of shares for which the Option is exercised minus the sum of the number of shares that are withheld to satisfy withholding tax requirements under Paragraph 10(b) of this Agreement and the number of shares transferred to the Company in payment of the exercise price of the Option. The Option, if applicable, is the option granted to the Employee by the Company on January 28, 2004.

(d) Except as otherwise provided in the parenthetical in clause (ii) of the definition of Sale, if a transfer that is not a Sale occurs, the Holding Period for the shares involved in such transfer shall terminate at the time of such transfer.

5. Termination of Employment Due to Death. If the Employee’s employment with the Company or any of its subsidiaries is terminated because of death prior to the Release Date, a Release Date shall be deemed to have occurred for all RSUs.

6. Forfeiture of RSUs.

(a) If the Employee's employment with the Company and all of its subsidiaries is terminated prior to the Release Date for any reason (including without limitation, disability or termination by the Company and all subsidiaries thereof, with or without cause) other than death, all RSUs shall be forfeited to the Company on the date of such termination unless otherwise provided in subparagraph (b) below, or unless the Management Development, Nominating and Governance Committee of the Company's Board of Directors (the "Management Development Committee") or other Committee of such Board administering the Plan (the Management Development Committee or such other Committee is herein referred to as the "Committee") determines, on such terms and conditions, if any, as the Committee may impose, that all or a portion of the Stock deliverable on settlement of RSUs shall be released to the Employee and the restrictions of Paragraph 2 applicable thereto shall terminate. Absence of the Employee on leave approved by a duly elected officer of the Company, other than the Employee, shall not be considered a termination of employment during the period of such leave.

The Release Date for the Time Vested RSUs and the Performance RSUs may occur on multiple dates, each of which is a Release Date for the number of RSUs determined as provided in Paragraphs 2(b) and (c). Hence, any forfeiture of Time Vested RSUs or Performance RSUs applies only to the RSUs for which a Release Date had not yet occurred on the date of forfeiture. The preceding sentence has been included in this Agreement for the purpose of avoiding any doubt that the result described in the preceding sentence would occur; therefore, such result will occur under prior agreements awarding restricted stock or RSUs to the Employee even though a comparable provision is not included in such agreements.

(b) If the Employee's employment with the Company and all of its subsidiaries terminates by reason of retirement after reaching age 62 and after having been employed by the Company or any subsidiary thereof for an aggregate period of at least seven years, such retirement shall not result in forfeiture of any Time Vested RSUs or Performance RSUs if (1) the Employee's employment with the Company or one of its subsidiaries continues for no less than one year after the date of this Agreement, and (2) no later than the date on which employment terminates, the Employee enters into an agreement with the Company (which agreement shall be drafted by and acceptable to the Company) under which the Employee agrees not to compete with the Company and its subsidiaries during a period ending one year after the latest of the dates set forth after (i) "Time Vested RSUs Release Date" on the signature page, and (ii) "Performance RSUs Release Date" on the signature page, and the Employee complies with such agreement. If the Employee enters into such a non-competition agreement and thereafter breaches the terms thereof, the RSUs shall be forfeited and the Employee shall return to the Company any cash or Stock, as applicable, awarded under this Agreement that was delivered to the Employee after the date on which such non-competition agreement was entered into. If the conditions in the second preceding sentence are satisfied and the Employee complies with the terms of such agreement, upon the Employee's death, the provisions of Paragraph 5 shall apply as if the Employee's employment with the Company and its subsidiaries terminated because of such death.

(c) Any (i) Performance RSUs for which a Release Date has not occurred by the latest date set forth after "Performance RSUs Release Date" on the signature page (as such date may be extended under Paragraph 2(e) hereof) and (ii) Time Vested RSUs for which a Release Date does not occur because the condition set forth after "Goal" on the signature page is not satisfied by the second anniversary of the latest date set forth after "Time Vested RSUs Release Date" on the signature page (as such date may be extended under Paragraph 2(e) hereof), shall be forfeited to the Company, unless in the case of (i) and (ii) the Committee determines otherwise as contemplated in subparagraph (a) above.

7. Beneficiary. (a) The person whose name appears on the signature page hereof after the caption “Beneficiary” or any successor designated by the Employee in accordance herewith (the person who is the Employee’s Beneficiary at the time of his death herein referred to as the “Beneficiary”) shall be entitled to receive the Stock to be delivered in settlement of RSUs under Paragraph 5 as a result of the death of the Employee. The Employee may from time to time revoke or change his Beneficiary without the consent of any prior Beneficiary by filing a new designation with the Committee. The last such designation received by the Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Employee’s death, and in no event shall any designation be effective as of a date prior to such receipt.

(b) If no such Beneficiary designation is in effect at the time of an Employee’s death, or if no designated Beneficiary survives the Employee or if such designation conflicts with law, upon the death of the Employee, the Employee’s estate shall be entitled to receive the Stock to be delivered in settlement of RSUs. If the Committee is in doubt as to the right of any person to receive such property, the Company may retain the same and any distributions thereon, without liability for any interest thereon, until the Committee determines the person entitled thereto, or the Company may deliver such such property and any distributions thereon to any court of appropriate jurisdiction and such delivery shall be a complete discharge of the liability of the Company therefor.

8. Stock Legends. If after “Holding Period” on the signature page “Applicable” appears, at the option of the Company, an appropriate legend may be placed on certificates for Stock delivered in settlement of RSUs noting the requirements to hold such Stock imposed by Paragraphs 4(b) and (c) of this Agreement. When such requirements terminate, the Employee shall be entitled to have the foregoing legend removed from such certificates.

9. Settlement; Voting Rights; Dividends and Other Distributions; Rights of RSUs.

(a) Settlement. Except to the extent forfeited as provided herein, on the Release Date set forth on the signature page or determined herein, RSUs shall be settled by the issuance (or transfer from treasury) of shares of Stock equal to the number determined in Paragraph 2, and certificates for such Stock shall be delivered to the Employee, or in the case of his death, to his Beneficiary.

(b) Voting and Other Rights of RSUs. RSUs represent only the right to receive Stock, on the terms provided herein. The Employee with respect to RSUs shall have no rights as a holder of Stock, including the right to vote or to receive dividends, until certificates for such Stock are actually delivered in settlement.

(c) Dividend Rights. Notwithstanding the preceding subparagraph, to the extent RSUs are settled on a Release Date, the Company shall make a payment in cash equal to the aggregate amount that would have been paid as dividends on the shares of Stock issued or transferred in settlement as if such shares had been outstanding on each dividend record date on and after the Dividend Start Date specified on the signature page and prior to the date on which settlement occurs.

10. Tax Withholding.

(a) It shall be a condition of the obligation of the Company to deliver Stock in settlement of RSUs, and the Employee agrees, that the Employee shall pay to the Company upon its demand, such amount as may be requested by the Company for the purpose of satisfying its liability to withhold federal, state, or local income or other taxes incurred by reason of the award of the RSUs or the delivery of Stock in settlement of the RSUs.

(b) If the Employee does not satisfy the withholding obligations prior to the Tax Date (as defined below) by paying sufficient cash to the Company or transferring ownership of a sufficient number of other shares of Stock to the Company as provided in Paragraph 10(c), then the withholding tax requirements arising from the settlement of RSUs shall be satisfied through a withholding by the Company of shares of Stock that would otherwise be delivered to the Employee. In such event, the Company shall withhold that number of shares of Stock that would otherwise be delivered in settlement of RSUs, in each case, having a Fair Market Value (as such term is defined in the Plan) on the day prior to the Tax Date equal to the amount required to be withheld as a result of the settlement of RSUs. As used herein, "Tax Date" means the date on which the Employee must include in his gross income for federal income tax purposes the fair market value of the Stock delivered in settlement of the RSUs, over the purchase price therefor.

(c) If the Employee desires to use cash or other shares of Stock to satisfy the withholding obligations set forth above, the Employee must: (i) make an election to do so in writing on a form provided by the Company, (ii) deliver such election form to the Company by the deadline specified by the Company, and (iii) deliver to the Company the required cash or other shares of Stock having a Fair Market Value on the Tax Date (as defined above) equal to the amount required to be withheld.

(d) To the extent provided in the resolutions of the Committee awarding RSUs subject to this Agreement, the Employee shall be entitled to have amounts withheld in excess of the minimum amount required to be withheld by the Company.

11. Adjustments in Event of Change in Stock or Fiscal Year. In the event of any change in the outstanding shares of Stock ("capital adjustment") for any reason, including but not limited to, any stock splits, stock dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of shares or other similar event which, in the judgment of the Committee, could distort the implementation of the award of RSUs or the realization of the objectives of such award, the Committee shall make such adjustments in the RSUs, or in the terms, conditions or restrictions of this Agreement as the Committee deems equitable, except that in the event of any stock split, reverse stock split, stock dividend, combination or reclassification of the Stock that occurs after the date of this Agreement (collectively, "future capital adjustment"), the number of RSUs shall be proportionally adjusted for any increase or decrease in the number of outstanding shares resulting from such future capital adjustment, any such adjustment rounded down to the next lower whole share. In addition, if the Company changes its fiscal year from a year ending December 31, the Committee may make such adjustments in the Time Vested RSUs Release Date and the Performance RSUs Release Date as set forth on the signature page as the Committee deems equitable. The determination of the Committee as to any such adjustment shall be conclusive and binding for all purposes of this Agreement.

12. Change in Control. If a “Change in Control of the Company” (as defined in the Annex attached hereto) occurs, notwithstanding anything herein, a Release Date shall be deemed to have occurred for all RSUs. The Employee agrees that such Annex may be amended by the Company on one or more occasions without the consent or approval of the Employee if in the determination of the Committee such amendment is necessary or appropriate to conform the provisions of such Annex to Treasury Regulation 1.409A-1 et seq. or any position published by the IRS with respect to Section 409A of the Internal Revenue Code of 1986, as amended. The right of the Company to make such an amendment does not depend on whether the RSUs are subject to such Section but will enable the Company to have uniform provisions governing a change of control among all agreements having such change of control provisions, including those under which compensation is subject to such Section. Any such amendment will become effective upon notice to the Employee. The Company will seek to give the Employee notice of an amendment with reasonable promptness after the Committee has approved the amendment.

13. Powers of Company Not Affected; No Right to Continued Employment.

(a) The existence of the RSUs shall not affect in any way the right or power of the Company or its stockholders to make or authorize any combination, subdivision or reclassification of the Stock or any reorganization, merger, consolidation, business combination, exchange of shares, or other change in the Company’s capital structure or its business, or any issue of bonds, debentures or stock having rights or preferences equal, superior or affecting any property to be issued in settlement of RSUs or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) Nothing herein contained shall confer upon the Employee any right to continue in the employment of the Company or any subsidiary or interfere with or limit in any way the right of the Company or any subsidiary to terminate the Employee’s employment at any time, subject, however, to the provisions of any agreement of employment between the Company or any subsidiary and the Employee. The Employee acknowledges that a termination of his or her employment could occur at a time before which the Release Date occurs, resulting in the forfeiture of the RSUs by the Employee, unless otherwise provided herein. In such event, the Employee will not be able to realize the value of the property that underlies the RSUs nor will the Employee be entitled to any compensation on account of such value.

14. Interpretation by Committee. The Employee agrees that any dispute or disagreement which may arise in connection with this Agreement shall be resolved by the Committee, in its sole discretion, and that any interpretation by the Committee of the terms of this Agreement or the Plan and any determination made by the Committee under this Agreement or the Plan may be made in the sole discretion of the Committee and shall be final, binding, and conclusive. Any such determination need not be uniform and may be made differently among Employees awarded RSUs.

15. Clawback. If and to the extent the Committee deems it appropriate for such payment to be made, each Covered Employee shall pay the Company an amount equal to the Excess Compensation. "Covered Employee" means an Employee who was a Section 16 Filer at an Affected Release Date regardless of whether such Employee ceased to be a Section 16 Filer thereafter. "Section 16 Filer" is a person who is required to file reports under Section 16(a) of the Act as such requirement to so file is in effect at each Affected Release Date. "Affected Release Date" means each Release Date on which, had a financial restatement that was made after such Release Date been in effect at such Release Date, the number of shares of Stock settled on account of RSUs would have been lower. "Excess Compensation" means (i) the difference between the Income that was recognized by the Covered Employee on an Affected Release Date and the Income that would have been recognized had the financial restatement referred to in the definition of Affected Release Date then been in effect, except that such difference will be deemed to be zero for each Affected Release Date prior to the date on which Covered Employee was a Section 16 Filer, plus (ii) the value of any deduction to which the Covered Employee is entitled on account of the payment to the Company required by this Paragraph 15. "Income" means income determined for federal income tax purposes minus the amount of federal, state and local income taxes and, to the extent applicable, the employee portion of Social Security and Medicaid payroll taxes, payable on account of such income. The amount of federal, state and local income taxes and the value of any deduction contemplated by clause (ii) of the second preceding sentence shall be computed by assuming that Income is taxed at the highest marginal rate, with such rate for any state and local income taxes appropriately adjusted to reflect the benefit of an itemized federal deduction for such taxes (if in the case of local taxes, such taxes are eligible for such a deduction), which adjustment shall be made by assuming that no reduction in such deduction on account of the Covered Employee's adjusted gross income applies.

16. Miscellaneous. (a) This Agreement shall be governed and construed in accordance with the laws of the State of Wisconsin applicable to contracts made and to be performed therein between residents thereof.

(b) The waiver by the Company of any provision of this Agreement shall not operate or be construed to be a subsequent waiver of the same provision or waiver of any other provision hereof.

(c) The RSUs shall be deemed to have been awarded pursuant to the Plan and the action of the Committee authorizing such awards; as a result, such awards are subject to the terms and conditions thereof. In the event of any conflict between the terms hereof and the provisions of the Plan or such authorization, the provisions of the Plan (to such extent) and/or such authorization shall prevail. Any and all terms used herein, unless specifically defined herein shall have the meaning ascribed to them in the Plan. A copy of the Plan is available on request of the Employee made in writing or by e-mail to the Company's Secretary.

(d) Any notice, filing or delivery hereunder or with respect to RSUs shall be given to the Employee at either his usual work location or his home address as indicated in the records of the Company, and shall be given to the Committee or the Company at 250 East Kilbourn Avenue, Milwaukee 53202, Attention: Secretary. All such notices shall be given by first class mail, postage pre-paid, or by personal delivery.

(e) This Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns and shall be binding upon and inure to the benefit of the Employee, the Beneficiary and the personal representative(s) and heirs of the Employee, except that the Employee may not transfer any RSUs or any interest in any RSUs.

(f) As a condition to the grant of the RSUs, the Employee must execute an agreement not to compete in the form provided to the Employee by the Company.

(g) If any payment or benefit (or any acceleration of any payment or benefit) made or provided to the Employee or for the Employee's benefit in connection with this Agreement or any other agreement between the Employee and the Company pursuant to which the Employee was awarded restricted stock, restricted stock units or stock options (the "Payments") are determined to be subject to the interest charges and taxes imposed by Section 409A(a)(1)(B) of the Internal Revenue Code of 1986, as amended, or any state, local, or foreign taxes of a similar nature, or any interest charges or penalties with respect to such taxes (such taxes, together with any such interest charges and penalties, are collectively referred to as the "Section 409A Tax"), then the Company shall pay the Employee, within 30 days after the date on which the Employee provides the Company with a written request for reimbursement thereof (accompanied by proof of taxes paid), but in no event later than the end of the calendar year following the year in which the Employee remits the Section 409A tax to the Internal Revenue Service or other applicable taxing authority, an additional amount (the "Section 409A Gross-Up Payment"); *provided, however,* that any Section 409A Gross-Up Payment shall be reduced to the extent that the Section 409A Tax payable is due to the direct fault of the Employee. The Section 409A Gross-Up Payment shall, subject to the proviso at the end of the previous sentence, be such that the net amount retained by the Employee after deduction of the Section 409A Tax (but not any federal, state, or local income tax or employment tax) and any federal, state, or local income tax, or employment tax upon the payment provided for by this Subsection 16(g) shall be equal to the Payments. For purposes of determining the amount of the Section 409A Gross-Up Payment, the Employee shall be deemed to pay federal income tax and employment taxes at the highest marginal rate of federal income and employment taxation in the calendar year in which the Section 409A Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Employee's domicile for income tax purposes on the date the Section 409A Gross-Up Payment is made, net of the maximum reduction in federal income taxes that may be obtained from the deduction of such state and local taxes. The Company and the Employee shall reasonably cooperate with each other in connection with any administrative or judicial proceedings concerning the existence or amount of liability for Section 409A Tax with respect to the Payments, and the Employee shall, if reasonably requested by the Company, contest any obligation to pay a Section 409A Tax for which a Section 409A Gross-Up Payment is owed. If, as a result thereof, the Employee receives a tax refund or credit for any Section 409A Tax previously paid with respect to any Payments for which a Section 409A Gross-Up Payment was paid, the Employee shall return to the Company an amount equal to such refund or credit.

The end of Paragraph 16 is the end of the Incorporated Terms. The remainder of the Agreement is contained in the Base Instrument.

ANNEX

Definition of “Change in Control of the Company” and Related Terms

1 Change in Control of the Company. A “Change in Control of the Company” shall be deemed to have occurred if an event set forth in any one of the following paragraphs shall have occurred:

(i) any Person (other than (A) the Company or any of its subsidiaries, (B) a trustee or other fiduciary holding securities under any employee benefit plan of the Company or any of its subsidiaries, (C) an underwriter temporarily holding securities pursuant to an offering of such securities or (D) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock in the Company (“Excluded Persons”)) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates after January 1, 2011, pursuant to express authorization by the Board of Directors of the Company (the “Board”) that refers to this exception) representing more than 50% of the total fair market value of the stock of the Company or representing more than 50% of the total voting power of the stock of the Company; or

(ii) during any 12 consecutive month period, the following individuals cease for any reason to constitute a majority of the number of directors of the Company then serving: (A) individuals who, on January 1, 2011, constituted the Board and (B) any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Act) whose appointment or election by the Board or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the directors then still in office who either were directors on January 1, 2011, or whose initial appointment, election or nomination for election as a director which occurred after January 1, 2011 was approved by such vote of the directors then still in office at the time of such initial appointment, election or nomination who were themselves either directors on January 1, 2011 or initially appointed, elected or nominated by such majority vote as described above ad infinitum (collectively the “Continuing Directors”); provided, however, that individuals who are appointed to the Board pursuant to or in accordance with the terms of an agreement relating to a merger, consolidation, or share exchange involving the Company (or any direct or indirect subsidiary of the Company) shall not be Continuing Directors for purposes of this Agreement until after such individuals are first nominated for election by a vote of at least a majority of the then Continuing Directors and are thereafter elected as directors by the shareholders of the Company at a meeting of shareholders held following consummation of such merger, consolidation, or share exchange; and, provided further, that in the event the failure of any such persons appointed to the Board to be Continuing Directors results in a Change in Control of the Company, the subsequent qualification of such persons as Continuing Directors shall not alter the fact that a Change in Control of the Company occurred; or

(iii) a merger, consolidation or share exchange of the Company with any other corporation is consummated or voting securities of the Company are issued in connection with a merger, consolidation or share exchange of the Company (or any direct or indirect subsidiary of the Company) pursuant to applicable stock exchange requirements, other than (A) a merger, consolidation or share exchange which would result in the voting securities of the Company entitled to vote generally in the election of directors outstanding immediately prior to such merger, consolidation or share exchange continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof entitled to vote generally in the election of directors of such entity or parent outstanding immediately after such merger, consolidation or share exchange, or (B) a merger, consolidation or share exchange effected to implement a recapitalization of the Company (or similar transaction) in which no Person (other than an Excluded Person) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates after January 1, 2011, pursuant to express authorization by the Board that refers to this exception) representing at least 50% of the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or

(iv) the sale or disposition by the Company of all or substantially all of the Company's assets to a Person (in one transaction or a series of related transactions within any period of 12 consecutive months), other than a sale or disposition by the Company of all or substantially all of the Company's assets to (a) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock; (b) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company; (c) a Person that owns, directly or indirectly, 50% or more of the total value or voting power of all of the outstanding stock of the Company; or (d) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding voting stock of the Company. It is understood that in no event shall a sale or disposition of assets be considered to be a sale of substantially all of the assets unless the assets sold or disposed of have a total gross fair market value of at least 40% of the total gross fair market value of all of the Company's assets immediately prior to such sale or disposition.

2 Related Definitions. For purposes of this Annex, the following terms, when capitalized, shall have the following meanings:

- (i) Act. The term “Act” means the Securities Exchange Act of 1934, as amended.
- (ii) Affiliate and Associate. The terms “Affiliate” and “Associate” shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Act.
- (iii) Beneficial Owner. A Person shall be deemed to be the “Beneficial Owner” of any securities:
 - (a) which such Person or any of such Person’s Affiliates or Associates has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; *provided, however,* that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, (A) securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person’s Affiliates or Associates until such tendered securities are accepted for purchase, or (B) securities issuable upon exercise of Rights issued pursuant to the terms of the Company’s Amended and Restated Rights Agreement, dated as of July 7, 2009, between the Company and Wells Fargo Bank Minnesota, National Association (as successor Rights Agent), as amended from time to time (or any successor to such Rights Agreement), at any time before the issuance of such securities;
 - (b) which such Person or any of such Person’s Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has “beneficial ownership” of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Act), including pursuant to any agreement, arrangement or understanding; *provided, however,* that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, any security under this Subsection 2(iii)(b) as a result of an agreement, arrangement or understanding to vote such security if the agreement, arrangement or understanding: (A) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations under the Act and (B) is not also then reportable on a Schedule 13D under the Act (or any comparable or successor report); or

(c) which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in Subsection 2(iii)(b) above) or disposing of any voting securities of the Company.

(iv) Person. The term "Person" shall mean any individual, firm, partnership, corporation or other entity, including any successor (by merger or otherwise) of such entity, or a group of any of the foregoing acting in concert.

(v) Stock. The term "stock" shall have the meaning contemplated by Treasury Regulation 1.409A-1 et seq.

At the 2011 Annual Meeting of Shareholders held on May 5, 2011, the Company's shareholders approved the MGIC Investment Corporation 2011 Omnibus Incentive Plan (the "2011 Plan"), including a structure and list of performance goals (the "listed goals") for an annual bonus plan for the Company's named executive officers (these officers are the Chief Executive Officer, Chief Financial Officer and the next three highest paid executive officers) which conditions bonuses on satisfaction of one or more of the performance goals on that list (a bonus plan of this type is "a 162(m) Bonus Plan"). A copy of the 2011 Plan is included as Appendix B to our Proxy Statement filed on March 31, 2011.

The performance goal for our 162(m) Bonus Plan adopted by the Management Development, Nominating and Governance Committee of the Company's Board of Directors (the "Committee") for 2013 requires the sum of the loss ratio and the expense ratio for MGIC's primary new insurance written for that year to be less than 50%. The loss ratio is incurred losses in 2013 for the Company's 2013 primary new insurance written, divided by premiums earned in 2013 on that business, and the expense ratio is the expenses of the Company's insurance operations in 2013 divided by the Company's net premiums written in 2013. If this goal is met, then the Committee will have discretion to make a subjective determination of bonuses, within the bonus maximums provided in the 2011 Plan, based on an assessment of shareholder value, return on investment, primary business drivers (loss ratio, expense ratio and market share), loss mitigation, management organization, capital position, effective dealings with federal and state regulatory agencies and the profitability of our mix of new business. With the exception of targeted levels for the loss ratio, expense ratio and market share, no specific targets were established for any of these bonus criteria for 2013.

AGREEMENT NOT TO COMPETE

As a condition to and in consideration of the award by MGIC Investment Corporation (the “Company”) of Restricted Stock Units (“RSUs”) pursuant to the 2011 Omnibus Incentive Plan, to the individual signing this Agreement Not to Compete (“Employee”), Employee agrees that he will not render services to any competitor of the Company (a) during the term of his employment and (b) for a period of one year after the termination of such employment, with respect to customers of the Company called on by the Employee or in the geographic area in which he performed services for the Company, or a present or future parent, subsidiary or affiliate of the Company (collectively, “Subsidiary”), during the three years prior to the termination of his employment. It is understood that “geographic area” means in the case of an Employee whose principal business function was (a) sales or marketing directly to customers of the Company, the area(s) in which the employee called on the accounts assigned to the Employee, which area for each such account shall be a circle with a diameter of 50 miles in which the principal office of such account shall be the center, (b) supervising employees described in clause (a), the geographic areas in which such employees called on such accounts, or (c) a function not described in clause (a) or (b), a circle with a diameter of 300 miles in which the center is the headquarters of each competitor.

For the purposes of this Agreement: (a) the term “competitor” means any company (regardless of the form of its organization), including a proprietorship (i) engaged in the business of guaranteeing or insuring mortgages in any geographic area in which the Company or any Subsidiary is engaged in guaranteeing or insuring mortgages or (ii) engaged in any other business in which the Company or any Subsidiary is engaged, in any geographic area in which the Company or any Subsidiary is so engaged, but only if such business accounted for at least 10% of the revenues of the Company and its subsidiaries, on a consolidated basis, during the twelve months preceding the month in which the Employee’s employment terminated; and (b) the term “services” means services of the same or similar nature to any services Employee rendered to the Company or Subsidiaries during the three-year period prior to Employee’s termination of employment.

The provisions of this Agreement shall bind the Employee and inure to the benefit of the Company, notwithstanding: (a) any termination of the Restricted Stock Unit Agreement associated with this Agreement, or any forfeiture of the related RSUs, or (b) any issuance of cash or shares to the Employee in settlement of any RSU.

The Employee acknowledges that the Company and each Subsidiary are third party beneficiaries of this Agreement and each one is entitled to enforce the provisions of this Agreement by an action for injunction, damages or both, and such other relief as may be proper.

All terms capitalized in this Agreement shall have the respective meanings set forth in the associated Restricted Stock Unit Agreement, unless otherwise defined herein. The validity and construction of this Agreement shall be governed by the internal laws of the State of Wisconsin (excluding the conflict of laws provisions of such laws). This Agreement does not supersede or modify any other agreement regarding non-competition of which the Company has the benefit.

Dated: As of the ___ day of _____, ____.

Name: _____

AGREEMENT OF SETTLEMENT, COMPROMISE AND RELEASE

This Settlement Agreement is entered into among the Federal Home Loan Mortgage Corporation (“Freddie Mac”), the Federal Housing Finance Agency (“FHFA” or “the Conservator”) in its capacity as conservator thereof, and Mortgage Guaranty Insurance Corporation (“MGIC” as defined herein) and their successors and assigns (collectively “the Parties” as defined herein).

Recitals

1. MGIC has issued certain insurance POLICIES (as defined herein) in which Freddie Mac is the named insured.
 2. Freddie Mac has suffered and will continue to suffer certain losses resulting from defaults on mortgage loans insured under the POLICIES for which it has submitted and, but for this Agreement, would continue to submit claims to MGIC for coverage under the POLICIES.
 3. A dispute has arisen between Freddie Mac and MGIC concerning the calculation of the Aggregate Loss Limit in the POLICIES and the amount of remaining coverage available under the POLICIES. Freddie Mac’s position is that the POLICIES currently are not exhausted, and that the POLICIES provide approximately \$540,000,000 or more in coverage for any losses that Freddie Mac suffers. MGIC’s position is that the available coverage under the POLICIES has been exhausted by MGIC’s payments to date, and that no additional amounts are available under the POLICIES to cover losses suffered by Freddie Mac. This coverage dispute is the subject of the following litigation: *Mortgage Guaranty Insurance Corp. v. Federal Housing Finance Administration [sic] & Federal Home Loan Mortgage Corp.*, No. 2:12-cv-00487 (E.D. Wis.) (the “EDWI Litigation”); and *Federal Home Loan Mortgage Corp. & Federal Housing Finance Agency v. Mortgage Guaranty Insurance Corp.*, No. 1:12-cv-00539 (E.D. Va.) (the “EDVA Litigation”) (collectively, the “Disputes”).
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4. Freddie Mac, FHFA, and MGIC find it to be in their best interests to enter into this Agreement as a compromise in settlement of the Disputes.

Section 1. Purpose and Scope.

The purpose of this Agreement is to resolve the Disputes and to address all coverage potentially available under the POLICIES.

Section 2. Definitions.

For the purpose of this Agreement, the following terms have the following meanings:

2.1 “POLICIES”, when appearing in block letters, means the following “Mortgage Trust Supplemental Policy” insurance policies issued by MGIC naming Freddie Mac as an Insured:

- (a) Policy 3151;
- (b) Policy 3152;
- (c) Policy 3157;
- (d) Policy 3164;
- (e) Policy 3169;
- (f) Policy 3170;
- (g) Policy 3172;
- (h) Policy 3173;
- (i) Policy 3188;
- (j) Policy 3193; and
- (k) Policy 3206.

2.2 “Business Day” means a day on which banks are open both in the State of Wisconsin and the Commonwealth of Virginia.

2.3 “Difference” means the amount derived from subtracting all amounts paid by MGIC to Freddie Mac pursuant to paragraph 3.1 that Freddie Mac has been and shall be permitted to retain against any claim by any regulator, creditor, or any party associated with MGIC from

- (a) \$400,000,000 if MGIC fails to make a payment as required under Section 3.3 during the first twenty-four (24) months following the Agreement Date,
- (b) \$350,000,000 if MGIC fails to make a payment as required under Section 3.3 during the twenty-fifth (25th) through thirty-sixth (36th) months following the Agreement Date, or
- (c) \$325,000,000 if MGIC fails to make a payment as required under Section 3.3 during the thirty-seventh (37th) through forty-eighth (48th) months following the Agreement Date.

2.4 “Difference Election” is defined in Section 3.3.

2.5 “Freddie Mac” means the Federal Home Loan Mortgage Corporation and its predecessors, and past, present, and future successors, assigns, parents, affiliates, and subsidiaries.

2.6 “FHFA” means the Federal Housing Finance Agency, and its successors and assigns which is the regulator and conservator of Freddie Mac. FHFA in its capacity as Conservator has succeeded to all rights, titles, powers and privileges of Freddie Mac and of any stockholder, officer or director of Freddie Mac.

2.7 "Grace Period" means seven (7) calendar days after Freddie Mac gives notice to MGIC that MGIC has failed to make a payment, in whole or in part, required by Section 3.

2.8 "Reinitiated Litigation" is defined in Section 12.

2.9 "MGIC" means Mortgage Guaranty Insurance Corporation and its successors and assigns.

2.10 "Parties" means Freddie Mac, FHFA, and MGIC.

2.11 "Agreement Date" means the latest of:

(1) the date on which Freddie Mac signs this Agreement;

(2) the date on which MGIC signs this Agreement; or

(3) the date on which FHFA signs this Agreement.

Section 3. Settlement/Payment.

3.1 MGIC shall make indefeasible payments totaling \$267,500,000 (the "Settlement Amount") to Freddie Mac. Payment of the Settlement Amount shall be made in immediately available funds to such account as MGIC has paid claims under the Policies in 2012. Full and final payment will constitute full settlement and satisfaction of all sums payable by MGIC under the POLICIES. The Settlement Amount shall be paid according to the following schedule:

<u>Payment</u>	<u>Date of Payment Due</u>
1. \$100,000,000	Within ten (10) days after the Agreement Date
2. \$167,500,000	By installments of \$3,489,583.34 payable at least once a month, no later than the first Business Day of each month following the Agreement Date, for a period of forty-eight (48) months or until such time as MGIC has paid the balance of the Settlement Amount in excess of the initial \$100,000,000 payment referenced above

3.2 Until the POLICIES are exhausted under the terms of this Agreement as set forth in Section 4, the POLICIES remain in effect. However, except as specified in Section 3 of this Agreement, MGIC shall have no further obligations under the POLICIES. Freddie Mac shall have no further obligations under the POLICIES, including, but not limited to, any obligation to pay premiums to MGIC under any of the POLICIES or to comply with any other terms or conditions of the POLICIES including, but not limited to, terms, conditions, or approvals governing the submission of claims, short sales, or Freddie Mac real estate owned (REO) sales.

3.3 If MGIC fails to make any payment as required under Section 3 of this Agreement by the end of the Grace Period (except that if any such failure occurs on account of the failure or delay of the Federal Reserve's wire system, or on account of business interruption experienced by MGIC's commercial banks or, if not caused by regulatory action, experienced by MGIC that materially affects MGIC's ability to initiate payments to Freddie Mac by wire, the date of such payment shall be postponed until three (3) Business Days after the applicable condition(s) is no longer extant), or if any such payment or obligation to make such payment is set aside, voided, or otherwise rendered unenforceable, either in whole or in part, the Parties agree that Freddie Mac will have suffered damages, including damages associated with respect to the loss of economic certainty, which is of exceptionally high value to an entity under conservatorship, with respect to sums unpaid under this Agreement, and with respect to sums to which Freddie Mac would have been entitled had it not compromised its claim with MGIC. The Parties further agree that, if MGIC fails to make any timely payment by the end of the Grace Period as required under Section 3, either in whole or in part, or if any such payment or obligation to make such payment is set aside, voided, or otherwise rendered unenforceable, either in whole or in part, MGIC immediately shall become, at Freddie Mac's sole discretion, obligated to pay losses suffered by Freddie Mac under the POLICIES in an amount equal to the Difference (an election by Freddie Mac to seek the Difference is herein referred to as a "Difference Election"). In the alternative, if MGIC fails to make any timely payment by the end of the Grace Period as required under Section 3, either in whole or in part, or if any such payment or obligation to make such payment is set aside, voided, or otherwise rendered unenforceable, and Freddie Mac has not made the Difference Election as provided below prior to the initiation of the Reinitiated Litigation, Freddie Mac may, in its sole discretion, either initiate the Reinitiated Litigation as contemplated by Section 12 below or sue for specific performance under this Agreement. The Difference Election shall be exercisable by notice to MGIC given within twenty (20) Business Days after the event entitling exercise occurs, but must be exercised earlier than initiation of the Reinitiated Litigation. Exercise of the Difference Election shall be irrevocable unless and to the extent, consistent with Section 16, that any court determines the Difference Election is unenforceable.

3.4 Within fifteen (15) calendar days following the Agreement Date, and conditioned upon MGIC's indefeasible payment of \$100,000,000 in accordance with paragraph 3.1 above, the Parties shall cooperate in filing motions requesting that the EDVA Litigation and the EDWI Litigation be dismissed without prejudice. The dismissals shall make clear that Freddie Mac reserves the right to re-file its claims if MGIC breaches this agreement, including if its payment obligations are set aside, voided, or otherwise rendered unenforceable, either in whole or in part, and the Difference Election is not made. The dismissals shall also make clear that the statutes of limitations for Freddie Mac's claims are tolled, consistent with Section 13 below. Each party will bear its own attorneys' fees, expenses, and other costs incurred in connection with the conduct and dismissal of the two actions.

Section 4. Exhaustion of the POLICIES' Aggregate Loss Limits.

All limits of liability under the POLICIES shall be deemed exhausted with respect to coverage for Freddie Mac's losses only upon: (1) final indefeasible payment by MGIC of all sums payable as set forth in satisfaction of Section 3.1 of this Agreement; (2) final indefeasible payment by MGIC to Freddie Mac of a total of the Difference in accordance with paragraph 3.3 of this Agreement; or (3) final indefeasible payment by MGIC of the amounts recoverable by Freddie Mac in accordance with Section 12 of this Agreement, whichever occurs earliest.

Section 5. Releases and Discharges by Freddie Mac and FHFA.

Effective automatically, upon MGIC's final indefeasible payment of all amounts owed under Sections 3 and/or 12, and conditioned on Freddie Mac retaining any and all payments made under Sections 3 and/or 12 against any claim by any regulator, creditor, or any party associated with MGIC, Freddie Mac, and FHFA, including their past, present, and future officers, directors, principals, agents, or representatives, hereby automatically releases and discharges MGIC and its past, present, and future officers, directors, principals, agents, or representatives from any and all claims that Freddie Mac and FHFA have ever had or could have under the POLICIES. For the avoidance of possible doubt, it is understood that such release shall not be effective until the last indefeasible payment by MGIC under Sections 3 and/or 12 of this Agreement is made, and conditioned on Freddie Mac retaining any and all payments made under Sections 3 and/or 12 against any claim by any regulator, creditor, or any party associated with MGIC. Freddie Mac agrees that it will take no action inconsistent with this release so long as MGIC continues to make the payments set forth in Section 3 as provided therein, and so long as any such payment or obligation to make such payment is not set aside, voided, or otherwise rendered unenforceable.

Section 6. Release by MGIC.

Conditioned upon Freddie Mac's compliance with the obligations set forth in Section 3 of this Agreement, and effective simultaneously and automatically with the effectiveness of the release in Section 5 hereof, MGIC, including its past, present, and future officers, directors, principals, agents, or representatives, hereby releases and discharges Freddie Mac, and FHFA, and their past, present, and future officers, directors, principals, agents, or representatives from any and all claims under the POLICIES. For the avoidance of possible doubt, it is understood that this release and the releases under Section 5 shall be effective simultaneously, and that if one such release is not effective, including by reason of the failure of a condition, the other releases likewise shall not be effective and vice versa, the intention being that at all times all releases are either effective or not effective.

Section 7. Scope of Agreement.

This Agreement shall not affect Freddie Mac's claims for coverage under any insurance policies not specifically included in the definition of POLICIES set forth in Section 2 or any position any Party may take in connection with such insurance policies.

Section 8. Indemnification and Defense of Claims Against Freddie Mac and FHFA.

8.1 MGIC shall indemnify, save, and hold Freddie Mac and FHFA harmless from and against any and all claims or liabilities made against Freddie Mac and/or FHFA by MGIC, its past, present, and future parent or affiliate companies, successors, assigns, officers, directors, principals, agents, or representatives, or any regulator, creditor, or any party associated with MGIC, premised upon the negotiation, execution, or performance of this Agreement, and from all costs or expenses, including reasonable attorneys' fees, incurred from and after the execution of this Agreement in defending against any such claims.

8.2 The Parties shall consult and act in good faith with respect to the others' legitimate rights and interests in responding to and defending against any matters as described in paragraph 8.1 above. Freddie Mac and/or FHFA shall notify MGIC of any claim for which they seek indemnification under this Section. If any such claim is made against Freddie Mac or FHFA, MGIC shall pay all of Freddie Mac's and FHFA's reasonable attorneys' fees and costs in such matters, and shall assist in all ways in obtaining dismissal of Freddie Mac and FHFA, and the substitution of MGIC, on the basis that, among other reasons, the Parties' rights with respect to the POLICIES were finally resolved by a reasonable, good faith settlement of Freddie Mac's claims for coverage and MGIC's defenses to coverage.

8.3 Should the claimant refuse to dismiss Freddie Mac or FHFA as described in paragraph 8.2 above, Freddie Mac and FHFA shall have the right to select, retain, and direct counsel, at MGIC's expense, to defend Freddie Mac and FHFA with respect to a claim falling within paragraph 8.1 above, and MGIC shall indemnify Freddie Mac and FHFA against any judgment or any good faith settlement of such claim.

Section 9. Preservation of the Parties' Rights Against Third Parties.

This Agreement shall not limit or affect any rights that the Parties may have against anyone other than another Party hereto.

Section 10. No Admissions.

Except as otherwise stated herein, the Parties reserve all positions and all other rights, defenses and privileges concerning all matters outside the scope of the Agreement. Conditioned upon the Parties' compliance with the obligations set forth herein and, in particular, in Section 3 above, the Parties may offer this Agreement as evidence of the exhaustion of MGIC's obligations under the POLICIES or as evidence in any action to enforce the Agreement's provisions. This Agreement does not confer, nor is it intended to confer, any right, benefit or obligation upon anyone other than the Parties.

Section 11. Warranties.

The Parties represent, warrant and agree to execute all documents and to do all things necessary to effectuate the terms of this Agreement. The representations and warranties made by each Party to this Agreement and contained herein shall survive the execution of this Agreement. Freddie Mac, FHFA, and MGIC each represents and warrants that the person or persons signing this Agreement on its behalf is or are authorized to execute this Agreement and that this Agreement constitutes a valid and binding obligation. This Agreement shall be fully executed on the date the last party signs the Agreement. MGIC further warrants that it is not insolvent, that it has the ability and resources to satisfy the payment obligations established under Section 3 as they become due, and that after disclosure of this Agreement to the Wisconsin Office of the Commissioner of Insurance such Office, following inquiry by MGIC, has not indicated to MGIC that it disapproves this Agreement.

Section 12. Indefeasible Payment and Revival.

Freddie Mac's right to the payments required by Section 3 shall be indefeasible. If MGIC fails to make any payment required under Section 3, either in whole or in part, or if any such payment or obligation to make such payment is set aside, voided, or otherwise rendered unenforceable, either whole or in part, the Parties agree that MGIC will be in material breach of this Agreement. The Parties further agree that if MGIC breaches this Agreement, and if Freddie Mac does not make the Difference Election pursuant to paragraph 3.3, Freddie Mac shall be entitled to retain any indefeasible payments already made by MGIC pursuant to Section 3, and the releases set forth in Section 5 above, which were to become effective upon final payment of \$267,500,000 due from MGIC under Section 3, would automatically be voided and not become effective. Freddie Mac may in that circumstance reinstitute litigation seeking the full amount of coverage (such litigation being the "Reinitiated Litigation") that Freddie Mac contends remains under the POLICIES, i.e., approximately \$540,000,000 less any amounts paid by MGIC under Section 3 and retained by Freddie Mac against any claim by any regulator, creditor, or any party associated with MGIC. Alternatively, at its sole discretion, Freddie Mac may choose to seek specific performance under this Agreement. Further, in the event MGIC fails to make any payment required under Section 3, either in whole or in part, or if any such payment or obligation to make such payment is set aside, voided, or otherwise rendered unenforceable, either whole or in part, Freddie Mac and FHFA are entitled to recover all costs and expenses (including reasonable attorneys' fees, costs, and expenses) incurred in connection with MGIC's failure to make payment under Section 3 or the set aside or avoidance of any such payment or the obligation to make such payment.

Section 13. Tolling.

The Parties agree that all statutes of limitation, contractual limitations periods, laches, waiver, estoppel, or other defenses or causes of action with respect to the Parties' disputes at issue in the Disputes are tolled and suspended for the period from May 16, 2012 through:

(1) ten (10) business days after there is a material breach of this Agreement, as described in Section 12, resulting from MGIC's failure to make any payment required under Section 3, either in whole or in part, or the setting aside, voiding, or otherwise rendering unenforceable, either whole or in part, a payment required by Section 3 or an obligation to make such payment (any such failure, setting aside, or rendering is herein referred to as an "Event") or

(2) the date on which MGIC pays the indefeasible Settlement Amount required by the terms of Section 3 of this Agreement (the "Tolling Period"), whichever occurs first in time,

provided, however, that if Freddie Mac or FHFA is (or has been) a party to litigation regarding whether an Event is legally permissible, the Tolling Period shall be deemed to have continued uninterrupted and in effect from the Event and shall not expire any earlier than 180 days after a final judgment or dismissal of such litigation even if the Tolling Period would have otherwise expired in the absence of this proviso.

All claims, defenses, contentions, arguments, privileges, or any other legal rights that existed prior to May 16, 2012 shall be preserved, completely and without limitation, through the Tolling Period. No such claims, defenses, contentions, privileges, or legal rights shall be enhanced or diminished due to the passage of time during the Tolling Period.

Section 14. Miscellaneous.

14.1 This Agreement may be executed in counterpart originals, each of which shall be an original, with the same effect as if the signatures thereto were on the same instrument. This Agreement contains the entire understanding of the Parties in connection with the subject matter hereof and it supersedes and replaces all prior negotiations, statements, and representations. This Agreement may not be amended, altered or modified, except by a written amendment executed by the Parties or their successors or assigns.

14.2 Documents forwarded or notice given to any party pursuant to this Agreement shall be sent by registered or certified mail, returned receipt requested, addressed as follows or as the Parties may subsequently direct in writing:

If to Freddie Mac:

General Counsel
Freddie Mac
Legal Division
8200 Jones Branch Drive
McLean, VA 22102-3110

and to

FHFA

General Counsel
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

If to MGIC:

General Counsel
Mortgage Guaranty Insurance Corporation
250 E. Kilbourn Avenue
Milwaukee, WI 53202

and to

Chief Financial Officer

Mortgage Guaranty Insurance Corporation

250 E. Kilbourn Avenue

Milwaukee, WI 53202

Notice shall be deemed given on the third (3rd) Business Day after sent by registered or certified mail from a post office in the city set forth above of the Party giving notice.

14.3 This Agreement was negotiated at arm's-length with all Parties receiving advice from independent legal counsel. No part of this Agreement shall be construed against any of the Parties based on the identity of the drafter.

14.4 No party shall assign this Agreement without first obtaining the written consent of the other Parties, such approval not to be unreasonably withheld, provided, however, that this sentence shall not prohibit any assignment by a party by merger, consolidation, operation of the law or to a party who succeeds to all or substantially all of such party's assets. Subject to the foregoing, this Agreement shall extend to and be binding upon the successors and assigns of the Parties.

14.5 The Parties agree that any dispute related to this Agreement, or any suit filed pursuant to Section 12 above, shall be filed in the United States District Court for the Eastern District of Virginia or the Eastern District of Wisconsin.

14.6 This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia.

Section 15. Confidentiality.

The terms of this Agreement and related negotiations shall be kept confidential, shall not be used in any other litigation other than litigation to enforce the terms of this Agreement, and shall not be disclosed to a non-party except as a Party determines is required by Court Order, statute, or regulation. In the event a Party determines that an Order from a court or governmental body requests or requires or a statute or regulation requires disclosure of this Agreement, the Party from whom disclosure is requested or required shall give prompt written notice to the other Parties to enable each such Party to take such protective actions as may be necessary. Notwithstanding the foregoing, this Agreement may be disclosed to the Parties' parent, associated, and affiliated companies, regulators, conservators, auditors, and reinsurers as necessary and be disclosed by FHFA at its discretion and without notice to any other Party if FHFA's Director determines disclosure would be appropriate. The Parties (other than FHFA) shall not issue a press release with respect to the settlement reflected in this Agreement without prior written approval of the other Parties, such approval not to be unreasonably withheld.

Section 16. Severability.

If any term or provision of this Agreement, other than Section 3, or the application thereof to any person or circumstance, shall to any extent be held invalid or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Agreement shall be valid and shall be enforceable to the extent permitted by law, and the intent of this Agreement shall nonetheless be fulfilled by all Parties hereto.

This Agreement shall be fully executed on the date the last Party signs the Agreement.

[signature page to follow]

Mortgage Guaranty Insurance Corporation

By: /s/ J. Michael Lauer

Print Name: J. Michael Lauer

Print Title: EVP & CFO

Date: November 30, 2012

Federal Home Loan Mortgage Corporation

By: /s/ Donald H. Layton

Print Name: Donald H. Layton

Print Title: Chief Executive Officer

Date: November 30, 2012

Federal Housing Finance Agency

By: /s/ Asim Varma

Print Name: Asim Varma

Print Title: Arnold & Porter, Counsel

Date: November 30, 2012

**MGIC INVESTMENT CORPORATION
DIRECT AND INDIRECT SUBSIDIARIES⁽¹⁾**

1. MGIC Assurance Corporation
2. MGIC Australia Pty Limited⁽²⁾
3. MGIC Credit Assurance Corporation
4. MGIC Indemnity Corporation
5. MGIC Insurance Services Corporation
6. MGIC Investor Services Corporation
7. MGIC Mortgage and Consumer Asset I, LLC⁽³⁾
8. MGIC Mortgage and Consumer Asset II, LLC⁽³⁾
9. MGIC Mortgage Reinsurance Corporation
10. MGIC Mortgage Services, LLC
11. MGIC Reinsurance Corporation
12. MGIC Reinsurance Corporation of Vermont⁽⁴⁾
13. MGIC Reinsurance Corporation of Wisconsin
14. MGIC Residential Reinsurance Corporation
15. MIC Reinsurance Corporation of Wisconsin
16. MIC Reinsurance Corporation
17. MGICA Pty Limited⁽²⁾
18. Mortgage Guaranty Insurance Corporation
19. eMagic.com LLC

The names of certain entities that would not in the aggregate be a significant subsidiary are omitted.

- (1) Except as otherwise noted in a footnote, all companies listed are 100% directly or indirectly owned by the registrant and all are incorporated in Wisconsin.
 - (2) Organized under Australian law.
 - (3) Organized under Delaware law.
 - (4) Organized under Vermont law.
-

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements listed below of MGIC Investment Corporation of our reports dated March 1, 2013 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appear in this Form 10-K.

1. Registration Statement on Form S-8 (Registration No. 333-101621)
2. Registration Statement on Form S-8 (Registration No. 333-123777)
3. Registration Statement on Form S-3 (Registration No. 333-157691)
4. Registration Statement on Form S-3 (Registration No. 333-166175)
5. Registration Statement on Form S-8 (Registration No. 333-177920)

/s/ PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
March 1, 2013

CERTIFICATIONS

I, Curt S. Culver, certify that:

1. I have reviewed this annual report on Form 10-K of MGIC Investment Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2013

/s/ Curt S. Culver

Curt S. Culver
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, J. Michael Lauer, certify that:

1. I have reviewed this annual report on Form 10-K of MGIC Investment Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2013

/s/ J. Michael Lauer

J. Michael Lauer
Chief Financial Officer
(Principal Financial Officer)

SECTION 1350 CERTIFICATIONS

The undersigned, Curt S. Culver, Chief Executive Officer of MGIC Investment Corporation (the “Company”), and J. Michael Lauer, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S. C. Section 1350, that to our knowledge:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2012 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2013

/s/ Curt S. Culver

Curt S. Culver
Chief Executive Officer

/s/ J. Michael Lauer

J. Michael Lauer
Chief Financial Officer
