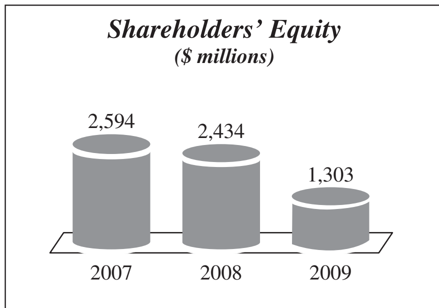
MGIC

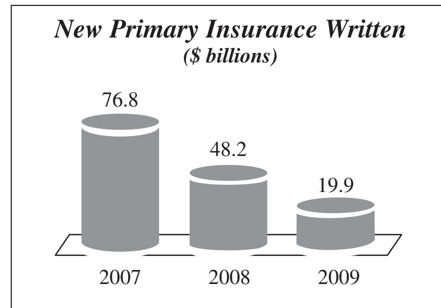
2009 ANNUAL REPORT

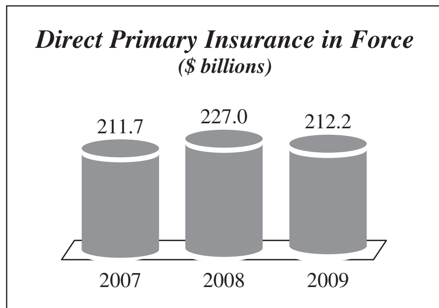
MGIC Investment Corporation

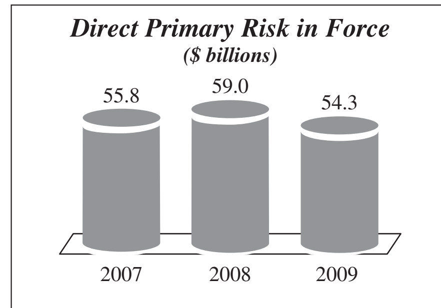
Financial Summary

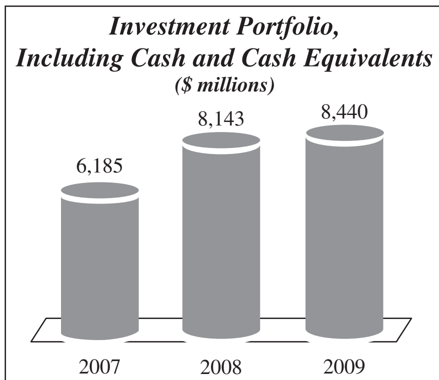
	2007	2008	2009
Net loss ($ millions)	(1,670.0)	(525.4)	**(1,322.3)**
Diluted loss per share ($)	(20.54)	(4.61)	**(10.65)**

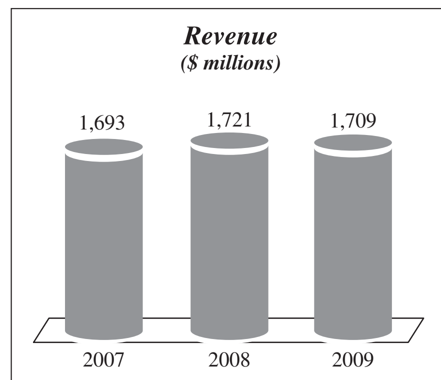






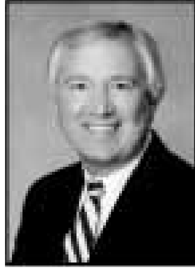






Certain 2008 amounts have been retrospectively adjusted to reflect the adoption of a new accounting standard regarding convertible debt. See Note 2 to our consolidated financial statements included herein.

Fellow Shareholders



The past year saw the continuation of the negative trends regarding employment, home prices and mortgage delinquencies. The unemployment rate increased from approximately 7% at December 2008 to just under 10% as of February 2010. Nationwide, home prices fell another 8% in 2009, according to the FHFA home price index. The Mortgage Bankers Association reported that the percentage of all prime loans, irrespective of loan to value, that are seriously delinquent for the nation increased to 7.0% at December 31, 2009, up from 3.7% a year ago.

These economic conditions impacted our company's financial results as well. In 2009 we recorded a net loss of $1.3 billion. Total revenues were $1.7 billion, including $305 million of investment income that was earned on our cash and investment portfolio (which totaled $8.4 billion as of December 31, 2009). Despite a significant increase in staffing for our loss mitigation efforts, we continued to maintain an industry low expense ratio, and operating expenses were down 12% to $240 million. Losses incurred were $3.4 billion, an increase of 10% from 2008. Risk in force was $56 billion and loss reserves totaled $6.7 billion as of December 31, 2009. New insurance writings were $19.9 billion, reflecting the increased presence of the FHA, a lower overall origination market and more restrictive underwriting guidelines.

As I write this letter, we expect that new insurance writings will be even lower than in 2009 and claims paid will increase from the 2009 level of $1.7 billion. I also expect rescissions to remain at elevated levels and the number of delinquent loans to be lower at the end of 2010 when compared to December 31, 2009. The federal government has initiated a loan modification program that is designed to help stabilize the housing market by providing borrowers that have suffered financial hardships the ability to reduce their mortgage payments to a sustainable level. The program was slow to start, as mortgage servicers had to change their systems and procedures; however, we are now beginning to see the number of delinquent loans that either received a trial or permanent modification increase. As loans become current as a result of modifications, those cures will positively impact our financial statements.

The increased delinquencies, higher paid losses, and the slower run-off of our insurance in force we experienced in 2009 put pressure on our regulatory capital position. A failure to meet Wisconsin's minimum capital requirements would have prevented MGIC from writing new business anywhere, absent a waiver granted by the Office of the Commissioner of Insurance for the State of Wisconsin ("OCI"). In addition to Wisconsin, there are minimum capital requirements present in 16 jurisdictions, while the remaining jurisdictions in which MGIC does business do not have specific capital requirements applicable to mortgage insurers. As a result, starting in the fourth quarter of 2008, driven by our belief that if delinquencies and paid losses continue to increase and persistency of policies remains at high levels, MGIC may not meet minimum regulatory capital requirements, we initiated a plan to write mortgage insurance in MGIC Indemnity Corporation (MIC), a wholly owned subsidiary of MGIC. Today I am pleased to report that all the necessary approvals are in place from Fannie Mae, Freddie Mac, the OCI, and various other state insurance departments that allow MGIC and its subsidiaries to continue to support the U.S. housing market by providing private sector mortgage insurance on an uninterrupted basis in all states.

Like all companies, MGIC faced extraordinary challenges over the last two and one-half years. Given our poor financial results during that period, it is easy to lose sight of what we have accomplished. However, the actions we have taken, including our 2008 capital raise, the sale of a non-core asset, the implementation of significant underwriting guideline changes, premium rate changes, the formation of MIC, as well as the staffing changes necessary to meet our business demands, have all enabled MGIC to continue writing business in all states with no monetary assistance from government funds.

In 2010 our company and our industry will continue to deal with a difficult housing market and a fragile economic environment. Since we cannot predict or control the future relative to the economy, we are focusing on those areas we can control, namely expenses, underwriting criteria, and loss mitigation. We strongly believe

that there is a role for private capital to continue to provide credit protection to the residential housing market, and given the significant business issues at our largest competitor, the FHA, we believe this view is shared by a number of policy makers. As a result, despite the uncertain environment, we continue to believe that the capital and operating strategy that we have put in place position our company well for a better future.

Thank you for your support through another difficult year.

Respectfully,

Curt S. Culver
Chairman and Chief Executive Officer

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

Five-Year Summary of Financial Information

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands of dollars, except per share data)				
Summary of Operations					
Revenues:					
Net premiums written	$ 1,243,027	1,466,047	$ 1,345,794	$1,217,236	$1,252,310
Net premiums earned	$ 1,302,341	1,393,180	$ 1,262,390	$1,187,409	$1,238,692
Investment income, net	304,678	308,517	259,828	240,621	228,854
Realized investment gains (losses), net, including net impairment losses	51,934	(12,486)	142,195	(4,264)	14,857
Other revenue	49,573	32,315	28,793	45,403	44,127
Total revenues	1,708,526	1,721,526	1,693,206	1,469,169	1,526,530
Losses and expenses:					
Losses incurred, net	3,379,444	3,071,501	2,365,423	613,635	553,530
Change in premium deficiency reserves	(261,150)	(756,505)	1,210,841	—	—
Underwriting and other expenses	239,612	271,314	309,610	290,858	275,416
Reinsurance fee	26,407	1,781	—	—	—
Interest expense	89,266	81,074	41,986	39,348	41,091
Total losses and expenses	3,473,579	2,669,165	3,927,860	943,841	870,037
(Loss) income before tax and joint ventures	(1,765,053)	(947,639)	(2,234,654)	525,328	656,493
(Benefit) provision for income tax	(442,776)	(397,798)	(833,977)	130,097	176,932
Income (loss) from joint ventures, net of tax	—	24,486	(269,341)	169,508	147,312
Net (loss) income	$(1,322,277)	(525,355)	$(1,670,018)	$ 564,739	$ 626,873
Weighted average common shares outstanding (in thousands)	124,209	113,962	81,294	84,950	92,443
Diluted (loss) earnings per share	$ (10.65)	(4.61)	$ (20.54)	$ 6.65	$ 6.78
Dividends per share	$ —	0.075	$ 0.775	$ 1.00	$ 0.525
Balance sheet data					
Total investments	$ 7,254,465	7,045,536	$ 5,896,233	$5,252,422	$5,295,430
Cash and cash equivalents	1,185,739	1,097,334	288,933	293,738	195,256
Total assets	9,404,419	9,146,734	7,716,361	6,621,671	6,357,569
Loss reserves	6,704,990	4,775,552	2,642,479	1,125,715	1,124,454
Premium deficiency reserves	193,186	454,336	1,210,841	—	—
Short- and long-term debt	377,098	698,446	798,250	781,277	685,163
Convertible debentures	291,785	272,465	—	—	—
Shareholders' equity	1,302,581	2,434,233	2,594,343	4,295,877	4,165,055
Book value per share	10.41	19.46	31.72	51.88	47.31

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

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

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

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

(1) Represents contractual aggregate loss limits and, for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, for $2.0 billion, $2.5 billion, $4.1 billion, $4.4 billion and $5.0 billion, respectively, of risk without such limits, risk is calculated at $0 million, $1 million, $2 million, $4 million and $51 million, respectively, for new risk written and $190 million, $150 million, $475 million, $473 million and $469 million, respectively, for risk in force, the estimated amount that would credit enhance these loans to a "AA" level based on a rating agency model.

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

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

We have reproduced below the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" that appeared in our Annual Report on Form 10-K for the year ended December 31, 2009 which was filed with the SEC on March 1, 2010. We have not changed what appears below from what was in our Form 10-K. As a result, the Management's Discussion and Analysis and Risk Factors are not updated to reflect any events or changes in circumstances that have occurred since our Annual Report on Form 10-K was filed with the SEC. Our Risk Factors are an integral portion of Management's Discussion and Analysis and appear immediately after it.

Overview

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

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

Forward Looking Statements

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

Outlook

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

- Whether we will have access to sufficient capital to continue to write new business beyond 2011. This challenge is discussed under "Capital" below.
- Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. This challenge is discussed under "Fannie Mae and Freddie Mac" below.

Capital

At December 31, 2009, MGIC's policyholders position exceeded the required regulatory minimum by approximately $213 million, and we exceeded the required minimum by approximately $300 million on a combined statutory basis. (The combined figures give effect to reinsurance with subsidiaries of our holding company.) At December 31, 2009 MGIC's risk-to-capital was 19.4:1 and was 22.1:1 on a combined statutory basis. Beginning with our June 30, 2009 risk-to-capital calculations we have deducted risk in force on policies currently in default and for which loss reserves have been established. For additional information about how we calculate risk-to-capital, see "Liquidity and Capital Resources — Risk to Capital" below.

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

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

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

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

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

Depending on the level of losses that MGIC experiences in the future, however, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific regulatory capital requirements applicable to mortgage insurers, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC is not eligible to write business.

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

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

Fannie Mae and Freddie Mac

In September 2008, the Federal Housing Finance Agency ("FHFA") was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The appointment of FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry's inability, due to capital constraints, to write sufficient business to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. Such changes may allow the GSEs to reduce or eliminate the level of private mortgage insurance coverage that they use as credit enhancement. The Obama administration and certain members of Congress have publicly stated that they are considering proposing significant changes to domestic housing policies and regulations including those applicable to the GSEs.

For a number of years, the GSEs have had programs under which on certain loans lenders could choose a mortgage insurance coverage percentage that was only the minimum required by their charters, with the GSEs paying a lower price for these loans ("charter coverage"). The GSEs have also had programs under which on certain loans they would accept a level of mortgage insurance above the requirements of their charters but below their standard coverage without any decrease in the purchase price they would pay for these loans ("reduced coverage"). Effective January 1, 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage. Fannie Mae has also announced that it would eliminate its reduced coverage program in the second quarter of 2010. In recent years, a majority of our volume was on loans with GSE standard coverage, a substantial portion of our volume has been on loans with reduced coverage, and a minor portion of our volume has been on loans with charter coverage. We charge higher premium rates for higher coverages. To the extent lenders selling loans to Fannie Mae choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

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

Debt at our Holding Company and Holding Company Capital Resources

At December 31, 2009, we had approximately $84 million in short-term investments at our holding company. These investments are virtually all of our holding company's liquid assets. As of December 31, 2009, our holding company's obligations included $78.4 million of debt which is scheduled to mature in September 2011 and $300 million of Senior Notes due in November 2015, both of which must be serviced pending scheduled maturity. On an annual basis, as of December 31, 2009 our use of funds at the holding company for interest payments on our Senior Notes approximated $21 million. See Note 7 to our consolidated financial statements included below for a discussion of our election to defer payment of interest on our $389.5 million in junior convertible debentures due in 2063. The annual interest payments on these debentures approximate $35 million, excluding interest on the interest payments that have been deferred. See Notes 6 and 7 to our consolidated financial statements contained in Item 8 for additional information about this indebtedness. Historically, dividends from MGIC have been the principal source of our holding company's cash inflow. The last such dividend was paid in the third quarter of 2008. In 2010 and 2011, MGIC cannot pay any dividends to our holding company without approval from the OCI. There can be no assurances that such approvals can be obtained in order to service the debt at our holding company. In addition, under the terms of the Fannie Mae Agreement and Freddie Mac Notification, MGIC may not pay dividends to our holding company without each GSE's consent; however each GSE has consented to dividends of not more than $100 million in the aggregate to purchase existing debt obligations of our holding company or to pay such obligations at maturity.

Loan Modification and Other Similar Programs

Beginning in the fourth quarter of 2008, the federal government, including through the FDIC and the GSEs, and several lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. For the year ended December 31, 2009, we were notified of modifications involving loans with risk in force of approximately $931 million.

One such program is the Home Affordable Modification Program ("HAMP"), which was announced by the US Treasury in early 2009. Some of HAMP's eligibility criteria require current information about borrowers, such as his or her current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency. We are aware of approximately 29,700 loans in our delinquent inventory at December 31, 2009 for which the HAMP trial period had begun and approximately 2,400 delinquent loans had cured their delinquency after entering HAMP. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP.

Under HAMP, a net present value test (the "NPV Test") is used to determine if loan modifications will be offered. For loans owned or guaranteed by the GSEs, servicers may, depending on the results of the NPV Test and other factors, be required to offer loan modifications, as defined by HAMP, to borrowers. Effective December 1, 2009, the GSEs changed how the NPV Test is used. These changes made it more difficult for some loans to be modified under HAMP. While, for the reasons noted above, we lack sufficient data to determine the impact of these changes, we believe that they may materially decrease the number of our loans that will participate in HAMP. In January 2010 the United States Treasury department has further modified the HAMP eligibility requirements. Effective June 1, 2010 a servicer may evaluate and initiate a HAMP trial modification for a borrower only after the servicer receives certain documents that allow the servicer to verify the borrower's income and the cause of the borrower's financial hardship. Previously, these documents were

not required to be submitted until after the successful completion of HAMP's trial modification period. We believe that this will decrease the number of new HAMP trial modifications.

Even if a loan is modified, the effect on us of loan modifications depends on how many modified loans subsequently re-default, which in turn can be affected by changes in housing values. Re-defaults can result in losses for us that could be greater than we would have paid had the loan not been modified. At this point, we cannot predict with a high degree of confidence what the ultimate re-default rate will be, and therefore we cannot ascertain with confidence whether these programs will provide material benefits to us. In addition, because we do not have current information in our database for all of the parameters used to determine which loans are eligible for modification programs, our estimates of the number of loans qualifying for modification programs are inherently uncertain. If legislation is enacted to permit a mortgage balance to be reduced in bankruptcy, we would still be responsible to pay the original balance if the borrower re-defaulted on that mortgage after its balance had been reduced. Various government entities and private parties have enacted foreclosure moratoriums. A moratorium does not affect the accrual of interest and other expenses on a loan. Unless a loan is modified during a moratorium to cure the default, at the expiration of the moratorium additional interest and expenses would be due which could result in our losses on loans subject to the moratorium being higher than if there had been no moratorium.

Factors Affecting Our Results

Our results of operations are affected by:

- Premiums written and earned

  Premiums written and earned in a year are influenced by:

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

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

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

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

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

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

- Investment income

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

- Losses incurred

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

- The state of the economy, including unemployment, and housing values, each of which affects the likelihood that loans will become delinquent and whether loans that are delinquent cure their delinquency. The level of new delinquencies has historically followed a seasonal pattern, with new delinquencies in the first part of the year lower than new delinquencies in the latter part of the year, though this pattern can be affected by the state of the economy and the strength of local housing markets.
- The product mix of the in force book, with loans having higher risk characteristics generally resulting in higher delinquencies and claims.
- The size of loans insured, with higher average loan amounts tending to increase losses incurred.
- The percentage of coverage on insured loans, with deeper average coverage tending to increase incurred losses.
- Changes in housing values, which affect our ability to mitigate our losses through sales of properties with delinquent mortgages as well as borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance.
- The rates at which we rescind policies. Our estimated loss reserves reflect mitigation from rescissions of policies and denials of claims, using the rate at which we have rescinded claims during recent periods. We collectively refer to such rescissions and denials as "rescissions" and variations of this term.
- The distribution of claims over the life of a book. Historically, the first two years after loans are originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency, the condition of the economy, including unemployment and housing prices, and other factors can affect this pattern. For example, a weak economy or housing price declines can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. We are currently seeing such performance as it relates to delinquencies from our older books. See "— Mortgage Insurance Earnings and Cash Flow Cycle" and "— Losses Incurred" below.

• Changes in premium deficiency reserves

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

• Underwriting and other expenses

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

• Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. The principal amount of our long-term debt obligations at December 31, 2009 is comprised of approximately $78.4 million of 5.625% Senior Notes due in September 2011, $300 million of 5.375% Senior Notes due in November 2015, and $389.5 million in convertible debentures due in 2063 (interest on these debentures accrues and compounds even if we defer the payment of interest), as discussed in Notes 6 and 7 to our consolidated financial statements included below and under "Liquidity and Capital Resources" below. Also as discussed in Note 2 to our consolidated financial statements included below, we adopted, on a retrospective basis, new guidance regarding the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement), on a retrospective basis, and our interest expense now reflects our non-convertible debt borrowing rate on the convertible debentures of approximately 19% at the time of issuance. At December 31, 2009, the convertible debentures are reflected as a liability on our consolidated balance sheet at the current amortized value of $291.8 million, with the unamortized discount reflected in equity.

• Income from joint ventures

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

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

Mortgage Insurance Earnings and Cash Flow Cycle

In our industry, a "book" is the group of loans insured in a particular calendar year. In general, the majority of any underwriting profit (premium revenue minus losses) that a book generates occurs in the early years of the book, with the largest portion of any underwriting profit realized in the first year. Subsequent years of a book generally result in modest underwriting profit or underwriting losses. This pattern of results typically occurs because relatively few of the claims that a book will ultimately experience typically occur in

the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as the number of insured loans decreases (primarily due to loan prepayments), and increasing losses.

Australia

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

Summary of 2009 Results

Our results of operations for 2009 were principally affected by:

- Net premiums written and earned

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

- Investment income

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

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

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

- Losses incurred

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

- Premium deficiency

During 2009 the premium deficiency reserve on Wall Street bulk transactions declined by $261 million from $454 million, as of December 31, 2008, to $193 million as of December 31, 2009. The decrease in the premium deficiency represents the net result of actual premiums, losses and expenses as well as a net change in assumptions primarily related to lower estimated premiums. The $193 million premium deficiency reserve

as of December 31, 2009 reflects the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves.

• Underwriting and other expenses

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

• Interest expense

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

• Income from joint ventures

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

• Benefit from income taxes

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

Results of Consolidated Operations

New insurance written

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

	2009	2008	2007
		($ billions)	
NIW — Flow Channel	$19.9	$46.6	$69.0
NIW — Bulk Channel	—	1.6	7.8
Total Primary NIW	$19.9	$48.2	$76.8
Refinance volume as a% of primary flow NIW	40%	26%	24%

The decrease in new insurance written on a flow basis in 2009, compared to 2008 and 2007, was primarily due to changes in our underwriting guidelines as well as premium rate increases discussed below. We believe our changes in guidelines, as well as changes in guidelines made by other private mortgage insurers, and premium rate changes have led to greater usage of FHA insurance programs as an alternative to private mortgage insurance. Additionally, both GSEs have implemented adverse market charges on all loans and credit risk-based loan level price adjustments on loans with certain risk characteristics which include loans

that qualify for private mortgage insurance. The application of these loan level price adjustments results in a materially higher monthly payment for the borrower, which we also believe has lead to greater usage of FHA insurance programs as an alternative to private mortgage insurance. For a discussion of new insurance written through the bulk channel, see "— Bulk transactions" below.

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

Beginning in late 2007, we implemented a series of changes to our underwriting guidelines that are designed to improve the credit risk profile of our new insurance written. The changes primarily affect borrowers who have multiple risk factors such as a high loan-to-value ratio, a lower FICO score and limited documentation or are financing a home in a market we categorize as higher risk and include the creation of two tiers of "restricted markets." Our underwriting criteria for restricted markets do not allow insurance to be written on certain loans that could be insured if the property were located in an unrestricted market. Beginning in September 2009, we removed several markets from our restricted markets list and moved several other markets from our Tier Two restricted market list (for which our underwriting guidelines are most limiting) to our Tier One restricted market list. We also implemented premium rate increases during 2008.

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

	Year Ended December 31,		
	2009	2008	2007
Product mix as a % of flow NIW			
> 95% LTVs	1%	18%	42%
ARMs(1)	1%	1%	3%
FICO < 620	0%	2%	8%
Reduced documentation(2)	0%	2%	10%

(1) Consists of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing ("ARMs").

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

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

- lower rates for borrowers with credit scores of 720 and greater,
- higher rates for borrowers with credit scores between 620 — 679, and
- no change in rates for borrowers with credit scores between 680 — 719.

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

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

Cancellations and insurance in force

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

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

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

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

Bulk transactions

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

Pool insurance

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

Our direct pool risk in force was $1.7 billion, $1.9 billion and $2.8 billion at December 31, 2009, 2008 and 2007, respectively. These risk amounts represent pools of loans with contractual aggregate loss limits and

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

Net premiums written and earned

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

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

These were offset by the following:

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

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

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

Risk sharing arrangements

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

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

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

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

In June 2008 we entered into a reinsurance agreement that was effective on the risk associated with up to $50 billion of qualifying new insurance written each calendar year. The term of the reinsurance agreement

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

Investment income

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

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

Realized gains and other-than-temporary impairments

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

Net impairment losses recognized in earnings were $40.9 million in 2009 compared to $65.4 million in 2008. The impairment losses in 2009 related to our fixed income investments, including credit losses related to collateralized debt obligations, debt instruments issued by health facilities, and mortgage backed bonds. The impairment losses in 2008 related to fixed income investments including debt instruments issued by Fannie Mae, Freddie Mac, Lehman Brothers and AIG.

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

Other revenue

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

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

Losses

As discussed in "— Critical Accounting Policies", and consistent with industry practices, we establish loss reserves for future claims only for loans that are currently delinquent. The terms "delinquent" and

"default" are used interchangeably by us and are defined as an insured loan with a mortgage payment that is 45 days or more past due. Loss reserves are established based on our estimate of the number of loans in our default inventory that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. Historically, a substantial majority of borrowers have eventually cured their delinquent loans by making their overdue payments, but this percentage has decreased significantly in recent years.

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

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

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

Losses incurred

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

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

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

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

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

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Most of our rescissions involve material misrepresentations made, or fraud committed, in connection with the origination of a loan regarding information we received and relied upon when the loan was insured. Because we review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, rescissions were not a material portion of our claims resolved during a year. However, beginning in 2008 rescissions have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in rescissions, we can give no assurance that rescissions will continue to mitigate paid and incurred losses at the same level we have recently experienced. Rescissions mitigated our paid losses by approximately $1.2 billion in 2009, compared to $0.2 billion in 2008. These figures include amounts that would have resulted in either a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer. In 2009, $256 million, of the $1.2 billion mitigated, would have been applied to a deductible had the policy not been rescinded.

In addition, our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. We do not utilize an explicit rescission rate in our reserving methodology, but rather our reserving methodology incorporates the effects rescission activity has

had on our historical claim rate and claim severities. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. Our estimation process does not include a direct correlation between claim rates and severities to projected rescission activity or other economic conditions such as changes in unemployment rates, interest rates or housing values. Our experience is that analysis of that nature would not produce reliable results, as the change in one condition cannot be isolated to determine its sole effect on our ultimate paid losses as our ultimate paid losses are also influenced at the same time by other economic conditions. Based upon the increase in rescission activity during 2008 and 2009, the effects rescissions have on our losses incurred have become material. While we do not incorporate an explicit rescission rate into our reserving methodology, we have estimated the effects rescissions have had on our incurred losses based upon recent rescission history, as shown in the table that follows labeled "Ever to Date Rescission Rates on Claims Received". We estimate that rescissions mitigated our incurred losses by approximately $2.5 billion in 2009, compared to $0.4 billion in 2008; both of these figures include the benefit of claims not paid as well as the impact on our loss reserves. The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At December 31, 2009 the estimate of this liability totaled $88.3 million. Separate components of this liability are included in "Other liabilities" and "Premium deficiency reserves" on our consolidated balance sheet. At December 31, 2008 this liability was not material to our financial statements. Changes in the liability affect premiums written and earned.

If the insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by legal proceedings. Objections to rescission may be made several years after we have rescinded an insurance policy. Countrywide and an affiliate ("Countrywide") has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. We have filed an arbitration case against Countrywide. During 2008 and 2009, rescissions of Countrywide's flow loans mitigated our paid losses by approximately $100 million. In addition, we have a substantial pipeline of claims investigations involving loans related to Countrywide that we expect will eventually result in future rescissions. For more information about this lawsuit and arbitration case, see Note 15 to our consolidated financial statements included below and the risk factor titled, "We are subject to the risk of private litigation and regulatory proceedings" included below. In addition, we continue to have discussions with other lenders regarding their objections to rescissions that in the aggregate are material and are involved in other arbitration proceedings with respect to an amount of rescissions that are not material.

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

As of December 31, 2009
Ever-to-Date Rescission Rates on Claims Received
(based on count)

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

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

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

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

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

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

In 2009 the captive arrangements reduced our losses incurred by approximately $234 million, compared to a $476 million captive reduction in 2008. We anticipate that the reduction in losses incurred will be lower in 2010, compared to 2009, as some of our captive arrangements were terminated in 2009.

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

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

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

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

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

(2) We define prime loans as those having FICO credit scores of 620 or greater, A-minus loans as those having FICO credit scores of 575-619, and subprime credit loans as those having FICO credit scores of less than 575, all as reported to us at the time a commitment to insure is issued. Most A-minus and subprime credit loans were written through the bulk channel. However, we classify all loans without complete documentation as "reduced documentation" loans regardless of FICO score rather than as a prime, "A-minus" or "subprime" loan.

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

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

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

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

Average Claim Paid	2009	2008	2007
California	$105,552	$115,409	$96,196
Florida	66,059	69,061	56,846
Michigan	38,341	37,020	35,607
Arizona	61,929	67,058	58,211
Nevada	74,601	82,528	73,905
All other states	43,682	40,571	32,994
All states	$ 52,627	$ 52,239	$37,165

The average loan size of our insurance in force at December 31, 2009, 2008 and 2007 appears in the table below.

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

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

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

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

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

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

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

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

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

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

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

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

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

Beginning in 2008, the rate at which claims are received and paid slowed for a combination of reasons, including foreclosure moratoriums, servicing delays, court delays, loan modifications and our claims investigations. Although these factors continue to affect our paid claims, we believe that paid claims in 2010 will exceed the $1.7 billion paid in 2009.

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

Premium deficiency

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

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

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

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

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

		($ millions)
Premium Deficiency Reserve at December 31, 2008		$(454)
Paid claims and LAE	584	
Increase (decrease) in loss reserves	(360)	
Premium earned	(156)	
Effects of present valuing on future premiums, losses and expenses	21	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		89
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses and expenses and discount rate(1)		172
Premium Deficiency Reserve at December 31, 2009		$(193)

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

		($ millions)
Premium Deficiency Reserve at December 31, 2007		$(1,211)
Paid claims and LAE	770	
Increase (decrease) in loss reserves	448	
Premium earned	(234)	
Effects of present valuing on future premiums, losses and expenses	(93)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		891
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses and expenses and discount rate(2)		(134)
Premium Deficiency Reserve at December 31, 2008		$ (454)

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

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

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

losses. Assumptions used in calculating the deficiency reserves can also be affected by volatility in the current housing and mortgage lending industries. To the extent premium patterns and actual loss experience differ from the assumptions used in calculating the premium deficiency reserves, the differences between the actual results and our estimates will affect future period earnings and could be material.

Underwriting and other expenses

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

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

Ratios

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

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

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

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

Interest expense

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

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

Income taxes

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

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

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

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

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

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

Joint ventures

Our equity in the earnings from Sherman and C-BASS and certain other joint ventures and investments, accounted for in accordance with the equity method of accounting, is shown separately, net of tax, on our consolidated statement of operations. Income from joint ventures, net of tax, was $24.5 million in 2008 compared to a loss from joint ventures, net of tax, of $269.3 million for 2007. The loss from joint venture in 2007 was due primarily to the impairment of our investment in C-BASS, which is discussed below. In the

third quarter of 2008, we sold our remaining interest in Sherman to Sherman. As a result, beginning in the fourth quarter of 2008, we no longer have income or loss from joint ventures.

C-BASS

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

Sherman

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

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

Sherman Summary Income Statement:

	Year Ended December 31,	
	2008*	2007
	(Unaudited)	(Audited)
	(In millions of dollars)	
Revenues from receivable portfolios	$660.3	$ 994.3
Portfolio amortization	264.8	488.1
Revenues, net of amortization	395.5	506.2
Credit card interest income and fees	475.6	692.9
Other revenue	35.3	60.8
Total revenues	906.4	1,259.9
Total expenses	740.1	991.5
Income before tax	$166.3	$ 268.4
Company's income from Sherman	$ 35.6	$ 81.6

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

The "Company's income from Sherman" line item in the table above includes $3.6 million and $15.6 million of additional amortization expense in 2008 and 2007, respectively, above Sherman's actual amortization expense, related to additional interests in Sherman that we purchased during the third quarter of 2006 at a price in excess of book value.

In September 2007, we sold a portion of our interest in Sherman to an entity owned by Sherman's senior management. The interest sold by us represented approximately 16% of Sherman's equity. We received a cash payment of $240.8 million in the sale. We recorded a $162.9 million pre-tax gain on this sale, which is reflected in our results of operations for the year ended December 31, 2007 as a realized gain.

Financial Condition

At December 31, 2009, based on fair value, approximately 94% of our fixed income securities were invested in 'A' rated and above, readily marketable securities, concentrated in maturities of less than 15 years. The composition of ratings at December 31, 2009 and 2008 are shown in the table below. While the percentage of our investment portfolio rated 'A' or better has not changed materially since December 31, 2008, the percentage of our investment portfolio rated 'AAA' has declined and the percentage rated 'AA' and 'A' has increased. Contributing to the changes in ratings is an increase in corporate bond investments (we expect such increases to continue and to lead to the percentage of the investment portfolio rated 'AAA' to decline), and downgrades of municipal investments. The municipal downgrades can be attributed to downgrades of the financial guaranty insurers and downgrades to the underlying credit.

Investment Portfolio Ratings

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

Approximately 21% of our investment portfolio is guaranteed by the financial guaranty industry. We evaluate the credit risk of securities through analysis of the underlying fundamentals. The extent of our analysis depends on a variety of factors, including the issuer's sector, scale, profitability, debt cover, ratings and the tenor of the investment. A breakdown of the portion of our investment portfolio covered by the financial guaranty industry by credit rating, including the rating without the guarantee is shown below. The ratings are provided by one or more of the following major rating agencies: Moody's, Standard & Poor's and Fitch Ratings.

December 31, 2009

Underlying Rating	Guarantor Rating						
	AA	AA-	Baa1	CC	R	NR	All
				($ millions)			
AAA	$ 2	$—	$ —	$ 19	$—	$—	$ 21
AA	192	12	360	180	2	—	746
A	105	28	341	185	15	—	674
BBB	9	—	34	29	—	15	87
BB	—	—	6	—	—	—	6
	$308	$40	$741	$413	$17	$15	$1,534

At December 31, 2009, based on fair value, $9 million of fixed income securities are relying on financial guaranty insurance to elevate their rating to 'A' and above. Any future downgrades of these financial guarantor ratings would leave the percentage of fixed income securities 'A' and above effectively unchanged.

We primarily place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines. The policy guidelines also limit the amount of our credit exposure to any one issue, issuer and type of instrument. At December 31, 2009, the modified duration of our fixed income investment portfolio was 3.7 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.7% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase.

We held approximately $490 million in auction rate securities ("ARS") backed by student loans at December 31, 2009. ARS are intended to behave like short-term debt instruments because their interest rates are reset periodically through an auction process, most commonly at intervals of 7, 28 and 35 days. The same auction process has historically provided a means by which we may rollover the investment or sell these securities at par in order to provide us with liquidity as needed. In mid-February 2008, auctions began to fail due to insufficient buyers, as the amount of securities submitted for sale in auctions exceeded the aggregate amount of the bids. For each failed auction, the interest rate on the security moves to a maximum rate specified for each security, and generally resets at a level higher than specified short-term interest rate benchmarks. At December 31, 2009, our entire ARS portfolio, consisting of 47 investments, was subject to failed auctions; however, we received calls at par for $26.4 million in ARS from the period when the auctions began to fail through the end of 2009. To date, we have collected all interest due on our ARS and expect to continue to do so in the future.

The ARS we hold are collateralized by portfolios of student loans, all of which are ultimately 97% guaranteed by the United States Department of Education. At December 31, 2009, approximately 90% of our ARS portfolio was AAA/Aaa-rated by one or more of the following major rating agencies: Moody's, Standard & Poor's and Fitch Ratings. See additional discussion of auction rate securities backed by student loans in Notes 4 and 5 to our consolidated financial statements included below.

At December 31, 2009, our total assets included $1.2 billion of cash and cash equivalents as shown on our consolidated balance sheet. In addition, included in "Other assets" is $78.1 million of principal and interest receivable related to the sale of our remaining interest in Sherman.

At December 31, 2009, we had $78.4 million, 5.625% Senior Notes due in September 2011 and $300 million, 5.375% Senior Notes due in November 2015, with a combined fair value of $293.2 million, outstanding. At December 31, 2009, we also had $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, which at December 31, 2009 are reflected as a liability on our consolidated balance sheet at the current amortized value of $291.8 million, with the unamortized discount

reflected in equity. The fair value of the convertible debentures was approximately $254.3 million at December 31, 2009. At December 31, 2009 we also had $35.8 million of deferred interest outstanding on the convertible debentures which is included in other liabilities on the consolidated balance sheet.

The Internal Revenue Service ("IRS") has completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and has issued assessments for unpaid taxes, interest and penalties. The primary adjustment in both examinations relates to our treatment of the flow through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICS"). The IRS has indicated that it does not believe that, for various reasons, we have established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We disagree with this conclusion and believe that the flow through income and loss from these investments was properly reported on our federal income tax returns in accordance with applicable tax laws and regulations in effect during the periods involved and have appealed these adjustments. The appeals process is ongoing and may last for an extended period of time, although it is possible that a final resolution may be reached during 2010. The assessment for unpaid taxes related to the REMIC issue for these years is $197.1 million in taxes and accuracy-related penalties, plus applicable interest. Other adjustments during taxable years 2000 through 2007 are not material, and have been agreed to with the IRS. On July 2, 2007, we made a payment of $65.2 million with the United States Department of the Treasury to eliminate the further accrual of interest. Although the resolution of this issue is uncertain, we believe that sufficient provisions for income taxes have been made for potential liabilities that may result. If the resolution of this matter differs materially from our estimates, it could have a material impact on our effective tax rate, results of operations and cash flows.

The total amount of unrecognized tax benefits as of December 31, 2009 is $91.1 million. All of the unrecognized tax benefits would affect our effective tax rate. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. We have accrued $22.6 million for the payment of interest as of December 31, 2009. The establishment of this liability required estimates of potential outcomes of various issues and required significant judgment. Although the resolutions of these issues are uncertain, we believe that sufficient provisions for income taxes have been made for potential liabilities that may result. If the resolutions of these matters differ materially from these estimates, it could have a material impact on our effective tax rate, results of operations and cash flows.

Our principal exposure to loss is our obligation to pay claims under MGIC's mortgage guaranty insurance policies. At December 31, 2009, 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 $57.8 billion. In addition, as part of our contract underwriting activities, we are responsible for the quality of our underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. We may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such obligations. Through December 31, 2009, the cost of remedies provided by us to customers for failing to meet the standards of the contracts has not been material. However, a generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs, and claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel, including for 2006 and 2007, has involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans on which we also provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. In the second half of 2009, we experienced an increase in claims for contract underwriting remedies, which may continue. Hence, there can be no assurance that contract underwriting remedies will not be material in the future.

Liquidity and Capital Resources

Overview

Our sources of funds consist primarily of:

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

Our obligations at December 31, 2009 consist primarily of:

- claim payments under MGIC's mortgage guaranty insurance policies,
- $78.4 million of 5.625% Senior Notes due in September 2011,
- $300 million of 5.375% Senior Notes due in November 2015,
- $389.5 million of convertible debentures due in 2063,
- interest on the foregoing debt instruments, including $35.8 million of deferred interest on our convertible debentures and
- the other costs and operating expenses of our business.

For the first time in many years, in 2009, claim payments exceeded premiums received. We expect that this trend will continue. As discussed under "Results of Consolidated Operations — Losses — Losses incurred" above, due to the uncertainty regarding how certain factors, such as foreclosure moratoriums, servicing and court delays, loan modifications, 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. Substantially all of the investment portfolio securities are held by our insurance subsidiaries.

During the first quarter of 2009, we redeemed in exchange for cash from the US Treasury approximately $432 million of tax and loss bonds. We no longer hold any tax and loss bonds. Tax and loss bonds that we purchased were not assets on our balance sheet but were recorded as payments of current federal taxes. For further information about tax and loss bonds, see Note 12, "Income taxes," to our consolidated financial statements included below.

We anticipate that any taxes recovered due to the change in the net operating loss carryback period, as discussed under "Income Taxes" above, will primarily be credited to our operating subsidiaries.

Debt at Our Holding Company and Holding Company Capital Resources

For information about debt at our holding company, see Notes 6 and 7 to our consolidated financial statements included below.

The senior notes and convertible debentures are obligations of MGIC Investment Corporation and not of its subsidiaries. We are a holding company and the payment of dividends from our insurance subsidiaries, which historically has been the principal source of our holding company cash inflow, is restricted by insurance

regulation. MGIC is the principal source of dividend-paying capacity. During 2008, MGIC paid dividends of $45 million to our holding company, which increased its cash resources. In 2009, MGIC did not pay any dividends to our holding company which had this effect. In 2008, other dividends that were immediately contributed to other insurance company subsidiaries were also paid by MGIC to our holding company. In 2010 and 2011, MGIC cannot pay any dividends to our holding company without approval from the OCI. In addition, under the terms of the Fannie Mae Agreement and Freddie Mac Notification, discussed under "Overview", MGIC may not pay dividends to our holding company without the GSE's consent; however each GSE has consented to dividends of not more than $100 million in the aggregate to purchase existing debt obligations of our holding company or to pay such obligations at maturity.

As of December 31, 2009, we had a total of approximately $84 million in short-term investments at our holding company. These investments are virtually all of our holding company's liquid assets. As of December 31, 2009, our holding company's obligations included $78.4 million of debt which is scheduled to mature before the end of 2011 and must be serviced pending scheduled maturity and $300 million of Senior Notes due in November 2015. On an annual basis, as of December 31, 2009 our use of funds at the holding company for interest payments on our Senior Notes approximated $21 million. See Note 7 to our consolidated financial statements included below for a discussion of our election to defer payment of interest on our junior convertible debentures. The annual interest payments on these debentures approximate $35 million, excluding interest on the interest payments that have been deferred.

In 2009, we repurchased for cash approximately $121.6 million in par value of our 5.625% Senior Notes due in September 2011. We recognized a gain on the repurchases of approximately $27.2 million, which is included in other revenue on our consolidated statement of operations for the year ended December 31, 2009. 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

Our risk-to-capital ratio is computed on a statutory basis for our combined insurance operations and is our net risk in force divided by our policyholders' position. Our net risk in force includes both primary and pool risk in force, and excludes risk on policies that are currently in default and for which loss reserves have been established. The risk amount represents pools of loans or bulk deals with contractual aggregate loss limits and in some cases without these limits. For pools of loans without such limits, risk is estimated based on the amount that would credit enhance the loans in the pool to a "AA" level based on a rating agency model. Policyholders' position consists primarily of statutory policyholders' surplus (which increases as a result of statutory net income and decreases as a result of statutory net loss and dividends paid), plus the statutory contingency reserve. The statutory contingency reserve is reported as a liability on the statutory balance sheet. A mortgage insurance company is required to make annual contributions to the contingency reserve of approximately 50% of net earned premiums. These contributions must generally be maintained for a period of ten years. However, with regulatory approval a mortgage insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net earned premium in a calendar year.

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

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

	December 31, 2009	December 31, 2008
	($ in millions)	
Risk in force — net(1)	$41,136	$54,496
Statutory policyholders' surplus	$ 1,443	$ 1,613
Statutory contingency reserve	417	2,086
Statutory policyholders' position	$ 1,860	$ 3,699
Risk-to-capital:	22.1:1	14.7:1

(1) Risk in force — net, as shown in the table above, for December 31, 2009 is net of reinsurance and exposure on policies currently in default ($13.3 billion) and for which loss reserves have been established. Risk in force — net for December 31, 2008 is net of reinsurance and established loss reserves.

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

	December 31, 2009	December 31, 2008
	($ in millions)	
Risk in force — net(1)	$35,663	$46,378
Statutory policyholders' surplus	$ 1,429	$ 1,529
Statutory contingency reserve	406	2,060
Statutory policyholders' position	$ 1,835	$ 3,589
Risk-to-capital:	19.4:1	12.9:1

(1) Risk in force — net, as shown in the table above, for December 31, 2009 is net of reinsurance and exposure on policies currently in default and for which loss reserves have been established. Risk in force — net for December 31, 2008 is net of reinsurance and established loss reserves.

State insurance regulators have clarified that a mortgage insurer's risk outstanding does not include the company's risk on policies that are currently in default and for which loss reserves have been established. Beginning with our June 30, 2009 risk-to-capital calculations we have deducted risk in force on policies currently in default and for which loss reserves have been established. The risk-to-capital calculation for December 31, 2008 includes a reduction to risk in force for established reserves only and not the full exposure of loans in default.

Statutory policyholders' position decreased in 2009, primarily due to losses incurred. If our statutory policyholders' position decreases at a greater rate than our risk in force, then our risk-to-capital ratio will continue to increase.

For additional information regarding regulatory capital see "Overview-Capital" above as well as our Risk Factor titled "While our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received Wisconsin OCI and GSE approval, we cannot guarantee that its implementation will allow us to continue to write new insurance on an uninterrupted basis throughout the United States in the future."

Financial Strength Ratings

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

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

Contractual Obligations

At December 31, 2009, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

	Payments Due by Period				
Contractual Obligations ($ millions):	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt obligations	$2,797	$ 56	$ 183	$ 102	$2,456
Operating lease obligations	11	5	5	1	—
Purchase obligations	1	1	—	—	—
Pension, SERP and other post-retirement benefit plans	154	9	22	29	94
Other long-term liabilities	6,705	2,413	3,353	939	—
Total	$9,668	$2,484	$3,563	$1,071	$2,550

Our long-term debt obligations at December 31, 2009 include our approximately $78.4 million of 5.625% Senior Notes due in September 2011, $300 million of 5.375% Senior Notes due in November 2015 and $389.5 million in convertible debentures due in 2063, including related interest, as discussed in Notes 6 and 7 to our consolidated financial statements included below and under "Liquidity and Capital Resources" above. Interest on our convertible debentures that would have been payable on the scheduled interest payment dates, but which we elected to defer for 10 years as discussed in Note 7 to our consolidated financial statements, 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 14 to our consolidated financial statements included below. Purchase obligations consist primarily of agreements to purchase data processing hardware or services made in the normal course of business. See Note 11 to our consolidated financial statements included below for discussion of expected benefit payments under our benefit plans.

Our other long-term liabilities represent the loss reserves established to recognize the liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The timing of the future claim payments associated with the established loss reserves was determined primarily based on two key assumptions: the length of time it takes for a notice of default to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge significantly different than this estimate. As discussed under "— Losses incurred" above, due to the uncertainty regarding how certain factors, such as foreclosure moratoriums, servicing and court delays, 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 8 to our consolidated financial statements included below and "-Critical Accounting Policies". 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.

The table above does not reflect the liability for unrecognized tax benefits due to uncertainties in the timing of the effective settlement of tax positions. We cannot make a reasonably reliable estimate of the

timing of payment for the liability for unrecognized tax benefits, net of payments on account, of $22.9 million. See Note 12 to our consolidated financial statements included below for additional discussion on unrecognized tax benefits and open IRS examinations.

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. In accordance with GAAP for the mortgage insurance industry, we do not establish loss reserves for future claims on insured loans which are not currently in default.

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

The incurred but not reported, or IBNR, reserves referred to above result from defaults occurring prior to the close of an accounting period, but which have not been reported to us. Consistent with reserves for reported defaults, IBNR reserves are established using estimated claims rates and claims amounts for the estimated number of defaults not reported. As of December 31, 2009 and 2008, we had IBNR reserves of $472 million and $480 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 claims rates and claims amounts represent what we believe best reflect the estimate of what will actually be paid on the loans in default as of the reserve date. The estimate of claims rates and claims amounts are based on our review of recent trends in the default inventory. We review recent trends in the rate at which defaults resulted in a claim, or the claim rate, the amount of the claim, or 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 claims rate 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 claims rate and claims 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 $282 million as of December 31, 2009. 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
	(dollars in thousands)	
2009	$(466,765)	$4,775,552
2008	(387,104)	2,642,479
2007	(518,950)	1,125,715
2006	90,079	1,124,454
2005	126,167	1,185,594

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

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

In addition, our loss reserving methodology incorporates the effects rescission activity is expected to have on the losses we will pay on our delinquent inventory. We do not utilize an explicit rescission rate in our reserving methodology, but rather our reserving methodology incorporates the effects rescission activity has had on our historical claim rate and claim severities. A variance between ultimate actual rescission rates and these estimates could materially affect our losses. Based upon the increase in rescission activity during 2008 and 2009, the effects rescissions have on our losses incurred have become material. While we do not incorporate an explicit rescission rate into our reserving methodology, we have estimated the effects rescissions have had on our incurred losses based upon recent rescission history. We estimate that rescissions mitigated our incurred losses by approximately $2.5 billion in 2009, compared to $0.4 million in 2008; both of these figures include the benefit of claims not paid as well as the impact on our loss reserves.

If the insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by legal proceedings. Objections to rescission may be made several years after we have rescinded an insurance policy. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. We have filed an arbitration case against Countrywide regarding rescissions. For more information about this lawsuit and arbitration case, see Note 15 to our consolidated financial statements included below and the risk factor titled, "We are subject to the risk of private litigation and regulatory proceedings" included below. In addition, we continue to have discussions with other lenders regarding their objections to rescissions that in the aggregate are material and are involved in arbitration proceedings with respect to an amount of rescissions that are not material.

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

As of December 31, 2009
Ever-to-Date Rescission Rates on Claims Received
(based on count)

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

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

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

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

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.

One such program is the Home Affordable Modification Program ("HAMP"), which was announced by the US Treasury in early 2009. Some of HAMP's eligibility criteria require current information about borrowers, such as his or her current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency. We are aware of approximately 29,700 loans in our delinquent inventory at December 31, 2009 for which the HAMP trial period has begun and approximately 2,400 delinquent loans have cured their delinquency after entering HAMP. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP.

In addition, private company efforts may have a positive impact on our loss development. All of the programs, including HAMP, are in their early stages and therefore we are unsure of their magnitude or the benefit to us or our industry, and as a result are not factored into our current reserving.

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

Premium deficiency reserve

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

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

As is the case with our loss reserves, as discussed above, the severity of claims and claim rates, as well as persistency for the premium deficiency calculation, are likely to be affected by external events, including actual economic conditions, as well as future rescission activity. However, our estimation process does not include a correlation between these economic conditions and our assumptions because it is our experience that an analysis of that nature would not produce reliable results. In considering the potential sensitivity of the factors underlying management's best estimate of premium deficiency reserves, it is possible that even a relatively small change in estimated claim rate or a relatively small percentage change in estimated claim amount could have a significant impact on the premium deficiency reserve and, correspondingly, on our results of operations. For example, a $1,000 change in the average severity combined with a 1% change in the average claim rate could change the Wall Street bulk premium deficiency reserve amount by approximately $97 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 and will have no effect on earned premium. 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. When a policy is rescinded, all previously collected premium is returned to the lender. The liability

associated with our estimate of premium to be returned on expected future rescissions 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 this liability effect premiums written and earned.

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

Deferred insurance policy acquisition costs

Costs associated with the acquisition of mortgage insurance policies, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs. Deferred insurance policy acquisition costs arising from each book of business is 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, 2009, the persistency rate of our primary mortgage insurance was 84.7%, compared to 84.4% at December 31, 2008. This change did not significantly affect the amortization of deferred insurance policy acquisition costs for the period ended December 31, 2009. A 10% change in persistency would not have a material effect on the amortization of deferred insurance policy acquisition costs in the subsequent year.

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

Fair Value Measurements

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

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

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

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and inputs, other than quoted prices, that are observable in the marketplace for the financial instrument. The observable inputs are used in valuation models to calculate the fair value of the financial instruments. Financial assets utilizing Level 2 inputs 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, corporate, auction rate (backed by student loans) and mortgage-backed securities. Non-financial assets which utilize Level 3 inputs include real estate acquired through claim settlement. Additionally, financial liabilities utilizing Level 3 inputs consisted of derivative financial instruments.

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 4. 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, 2009 and 2008. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, the probability of full repayment of the principal considering the credit quality and guarantees in place, and the rate of return required by investors to own such securities given the current liquidity risk associated with them. The DCF model is based on the following key assumptions.
  - Nominal credit risk as securities are ultimately guaranteed by the United States Department of Education;
  - Liquidity by December 31, 2011 through December 31, 2014;
  - Continued receipt of contractual interest; and
  - Discount rates ranging from 2.23% to 3.23%, which include a spread for liquidity risk.

A 1.00% change in the discount rate would change the value of our ARS by approximately $13.7 million. A two year change to the years to liquidity assumption would change the value of our ARS by approximately $18.5 million.

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

Investment Portfolio

We categorize our investment portfolio according to our ability and intent to hold the investments to maturity. Investments which we do not have the ability and intent to hold to maturity are considered to be available-for-sale and are reported at fair value and 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. Our entire investment portfolio is classified as available-for-sale. Realized investment gains and losses are reported in income based upon specific identification of securities sold. (See note 4.)

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

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

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

Under the current guidance a debt security impairment is deemed other than temporary if we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery or we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security. During 2009 we recognized OTTI in earnings of $40.9 million and an additional $1.8 million of OTTI in other comprehensive income. During 2008 we recognized OTTI in earnings of approximately $65.4 million. There were no OTTI impairment charges on our investment portfolio during 2007.

Risk Factors

Forward-Looking Statements and Risk Factors

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

These factors may also cause actual results to differ materially from the results contemplated by forward looking statements that we may make. Forward looking statements consist of statements which relate to matters other than historical fact, including matters that inherently refer to future events. Among others, statements that include words such as we "believe", "anticipate", or "expect", or words of similar import, are forward looking statements. We are not undertaking any obligation to update any forward looking statements or other statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. No reader of this annual report should rely on the fact that such statements are current at any time other than the time at which our Annual Report on Form 10-K for the year ended December 31, 2009 was filed with the Securities and Exchange Commission.

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

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

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

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

In December 2009, the OCI issued an order waiving, until December 31, 2011, the requirement that MGIC maintain a specific level of minimum policyholders position to write new business. The waiver may be modified, terminated or extended by the OCI in its sole discretion. In December 2009, the OCI also approved a transaction under which MIC will be eligible to write new mortgage guaranty insurance policies only in jurisdictions where MGIC does not meet minimum capital requirements similar to those waived by the OCI and does not obtain a waiver of those requirements from that jurisdiction's regulatory authority. MGIC has

applied for waivers in all jurisdictions that have the regulatory capital requirements. MGIC has received similar waivers from some of these states. These waivers expire at various times, with the earliest expiration being December 31, 2010. Some jurisdictions have denied the request because a waiver is not authorized under the jurisdictions' statutes or regulations and others may deny the request on other grounds. There can be no assurances that MIC will receive the necessary approvals from any or all of the jurisdictions in which MGIC would be prohibited from continuing to write new business due to MGIC's failure to meet applicable regulatory capital requirements or obtain waivers of those requirements.

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

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

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

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

In addition, if the insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by legal proceedings. Objections to rescission may be made several years after we have rescinded an insurance policy. Countrywide and an affiliate ("Countrywide") have filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. We have filed an arbitration case against Countrywide regarding rescissions. For more information about this lawsuit and arbitration case, see the risk factor titled, "We are subject to the risk of private litigation and regulatory proceedings" as well as Item 3 in our Annual Report on Form 10-K, "Legal Proceedings." In addition, we continue to have discussions with other lenders regarding their objections to rescissions that in the aggregate are material and are involved in other arbitration proceedings with respect to an amount of rescissions that are not material.

In addition, our loss reserving methodology incorporates the effects rescission activity is expected to have on the losses we will pay on our delinquent inventory. A variance between ultimate actual rescission rates and these estimates could materially affect our losses. See the risk factor titled, "Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves."

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

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

- the level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters (which may be changed by federal legislation) when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,
- the amount of loan level delivery fees (which result in higher costs to borrowers) that the GSEs assess on loans that require mortgage insurance,
- whether the GSEs influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,
- the underwriting standards that determine what loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,
- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law, and
- the programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs.

In September 2008, the Federal Housing Finance Agency ("FHFA") was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The appointment of FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry's inability, due to capital constraints, to write sufficient business to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. Such changes may allow the GSEs to reduce or eliminate the level of private mortgage insurance coverage that they use as credit enhancement. The Obama administration and certain members of Congress have publicly stated that that they are considering proposing significant changes to the GSEs. As a result, it is uncertain what role that the GSEs will play in the domestic residential housing finance system in the future.

For a number of years, the GSEs have had programs under which on certain loans lenders could choose a mortgage insurance coverage percentage that was only the minimum required by their charters, with the GSEs paying a lower price for these loans ("charter coverage"). The GSEs have also had programs under which on certain loans they would accept a level of mortgage insurance above the requirements of their charters but below their standard coverage without any decrease in the purchase price they would pay for these loans ("reduced coverage"). Effective January 1, 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage. Fannie Mae has also announced that it would eliminate its reduced coverage program in the second quarter of 2010. In recent years, a majority of our volume was on loans with GSE standard coverage, a substantial portion of our volume has been on loans with reduced coverage, and a minor portion of our volume has been on loans with charter coverage. We charge higher premium rates for higher coverages. To the extent lenders selling loans to Fannie Mae choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

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

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

Losses result from events that reduce a borrower's ability to continue to make mortgage payments, such as unemployment, and whether the home of a borrower who defaults on his mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. In general, favorable economic conditions reduce the likelihood that borrowers will lack sufficient income to pay their mortgages and also favorably affect the value of homes, thereby reducing and in some cases even eliminating a loss from a mortgage default. A deterioration in economic conditions, including unemployment, generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values, which in turn can influence the willingness of borrowers with sufficient resources to make mortgage payments to do so when the mortgage balance exceeds the value of the home. Housing values may decline even absent a deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers' perceptions of the potential for future appreciation, restrictions on mortgage credit due to more stringent underwriting standards, liquidity issues affecting lenders or other factors. The residential mortgage market in the United States has for some time experienced a variety of worsening economic conditions, including a material decline in housing values that has been nationwide, with declines continuing in a number of areas. The recession that began in December 2007 may result in further deterioration in home values and employment. In addition, even were this recession to end formally, home values may continue to deteriorate and unemployment levels may continue to increase or remain elevated.

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

Even when housing values are stable or rising, certain types of mortgages have higher probabilities of claims. These segments include loans with loan-to-value ratios over 95% (including loans with 100% loan-to-value ratios or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or total debt-to-income ratios of 38% or higher, as well as loans having combinations of higher risk factors. As of December 31, 2009, approximately 60% of our primary risk in force consisted of loans with loan-to-value ratios equal to or greater than 95%, 8.6% had FICO credit scores below 620, and 10.8% had limited underwriting, including limited borrower documentation. A material portion of these loans were written in 2005 — 2007 and through the first quarter of 2008. (In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." For additional information about such loans, see footnote (4) to the table titled "Default Statistics for the MGIC Book" in Item 1 of our Annual Report on Form 10-K.

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

The changes to our underwriting guidelines since the fourth quarter of 2007 include the creation of two tiers of "restricted markets." Our underwriting criteria for restricted markets do not allow insurance to be

written on certain loans that could be insured if the property were located in an unrestricted market. Beginning in September 2009, we removed several markets from our restricted markets list and moved several other markets from our Tier Two restricted market list (for which our underwriting guidelines are most limiting) to our Tier One restricted market list.

As of December 31, 2009, approximately 3.6% of our primary risk in force written through the flow channel, and 42.2% of our primary risk in force written through the bulk channel, consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing ("ARMs"). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. We believe that when the reset interest rate significantly exceeds the interest rate at loan origination, claims on ARMs would be substantially higher than for fixed rate loans. Moreover, even if interest rates remain unchanged, claims on ARMs with a "teaser rate" (an initial interest rate that does not fully reflect the index which determines subsequent rates) may also be substantially higher because of the increase in the mortgage payment that will occur when the fully indexed rate becomes effective. In addition, we have insured "interest-only" loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

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

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

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

We establish reserves using estimated claim rates and claim amounts in estimating the ultimate loss on delinquent loans. The estimated claim rates and claim amounts represent what we believe best reflect the estimate of what will actually be paid on the loans in default as of the reserve date and incorporates anticipated mitigation from rescissions.

The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. Current conditions in the housing and mortgage industries make the assumptions that we use to establish loss reserves more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment,

leading to a reduction in borrowers' income and thus their ability to make mortgage payments, a drop in housing values that could materially reduce our ability to mitigate potential loss through property acquisition and resale or expose us to greater loss on resale of properties obtained through the claim settlement process and mitigation from rescissions being materially less than assumed. Changes to our estimates could result in material impact to our results of operations, even in a stable economic environment, and there can be no assurance that actual claims paid by us will not be substantially different than our loss reserves.

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

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

In January 2008, we announced that we had decided to stop writing the portion of our bulk business that insures loans which are included in Wall Street securitizations because the performance of loans included in such securitizations deteriorated materially in the fourth quarter of 2007 and this deterioration was materially worse than we experienced for loans insured through the flow channel or loans insured through the remainder of our bulk channel. As of December 31, 2007 we established a premium deficiency reserve of approximately $1.2 billion. As of December 31, 2009, the premium deficiency reserve was $193 million. At each date, the premium deficiency reserve is the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves on these bulk transactions.

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

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

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

While under the Fannie Mae Agreement and the Freddie Mac Notification (see the risk factor titled "While our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received Wisconsin OCI and GSE approval, we cannot guarantee that its implementation will allow us to continue to write new insurance on an uninterrupted basis throughout the United States in the future") MGIC may not pay dividends to our holding company without the GSEs' consent, the GSEs have consented to dividends of not more than

$100 million in the aggregate to purchase existing debt obligations of our holding company or to pay such obligations at maturity. Any dividends from MGIC to our holding company would require the approval of the OCI, and may require other approvals.

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

See Notes 6 and 7 to our consolidated financial statements included below for more information regarding our holding company's assets and liabilities as of that date, including information about its junior convertible debentures and its election to defer payment of interest on them.

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

The majority of our insurance written is for loans sold to Fannie Mae and Freddie Mac, each of which has mortgage insurer eligibility requirements. As a result of MGIC's financial strength rating being below Aa3/AA-, it is operating with each GSE as an eligible insurer under a remediation plan. We believe that the GSEs view remediation plans as a continuing process of interaction between a mortgage insurer and the GSE that continues until the mortgage insurer under the remediation plan once again has a rating of at least Aa3/AA-. There can be no assurance that MGIC will be able to continue to operate as an eligible mortgage insurer under a remediation plan. If MGIC ceases being eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

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

Beginning in the fourth quarter of 2008, the federal government, including through the FDIC and the GSEs, and several lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. For the quarter ending December 31, 2009, we were notified of modifications involving loans with risk in force of approximately $263 million.

One such program is the Home Affordable Modification Program ("HAMP"), which was announced by the US Treasury in early 2009. Some of HAMP's eligibility criteria require current information about borrowers, such as his or her current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency. We are aware of approximately 29,700 loans in our delinquent inventory at December 31, 2009 for which the HAMP trial period has begun and approximately 2,400 delinquent loans have cured their delinquency after entering HAMP. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP.

Under HAMP, a net present value test (the "NPV Test") is used to determine if loan modifications will be offered. For loans owned or guaranteed by the GSEs, servicers may, depending on the results of the NPV Test and other factors, be required to offer loan modifications, as defined by HAMP, to borrowers. As of December 1, 2009, the GSEs changed how the NPV Test is used. These changes made it more difficult for some loans to be modified under HAMP. While we lack sufficient data to determine the impact of these changes, we believe that they may materially decrease the number of our loans that will participate in HAMP.

In January 2010 the United States Treasury department has further modified the HAMP eligibility requirements. Effective June 1, 2010 a servicer may evaluate and initiate a HAMP trial modification for a borrower only after the servicer receives certain documents that allow the servicer to verify the borrower's income and the cause of the borrower's financial hardship. Previously, these documents were not required to be submitted until after the successful completion of HAMP's trial modification period. We believe that this will decrease the number of new HAMP trial modifications.

Even if a loan is modified, the effect on us of loan modifications depends on how many modified loans subsequently re-default, which in turn can be affected by changes in housing values. Re-defaults can result in losses for us that could be greater than we would have paid had the loan not been modified. At this point, we cannot predict with a high degree of confidence what the ultimate re-default rate will be, and therefore we cannot ascertain with confidence whether these programs will provide material benefits to us. In addition, because we do not have information in our database for all of the parameters used to determine which loans are eligible for modification programs, our estimates of the number of loans qualifying for modification programs are inherently uncertain. If legislation is enacted to permit a mortgage balance to be reduced in bankruptcy, we would still be responsible to pay the original balance if the borrower re-defaulted on that mortgage after its balance had been reduced. Various government entities and private parties have enacted foreclosure moratoriums. A moratorium does not affect the accrual of interest and other expenses on a loan. Unless a loan is modified during a moratorium to cure the default, at the expiration of the moratorium additional interest and expenses would be due which could result in our losses on loans subject to the moratorium being higher than if there had been no moratorium.

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

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

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

During the 1990s, our year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

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

These alternatives to private mortgage insurance include:

- lenders using government mortgage insurance programs, including those of the Federal Housing Administration, or FHA, and the Veterans Administration,
- lenders and other investors holding mortgages in portfolio and self-insuring,
- investors using credit enhancements other than private mortgage insurance, using other credit enhancements in conjunction with reduced levels of private mortgage insurance coverage, or accepting credit risk without credit enhancement, and
- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10%, 15% or 20% loan-to-value ratio (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% loan-to-value ratio that has private mortgage insurance.

The FHA, which until 2008 was not viewed by us as a significant competitor, substantially increased its market share beginning in 2008. We believe that the FHA's market share increased, in part, because mortgage insurers have tightened their underwriting guidelines (which has led to increased utilization of the FHA's programs) and because of increases in the amount of loan level delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). Recent federal legislation and programs have also provided the FHA with greater flexibility in establishing new products and have increased the FHA's competitive position against private mortgage insurers.

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

In recent years, the level of competition within the private mortgage insurance industry has been intense as many large mortgage lenders reduced the number of private mortgage insurers with whom they do business. At the same time, consolidation among mortgage lenders has increased the share of the mortgage lending market held by large lenders. Our private mortgage insurance competitors include:

- PMI Mortgage Insurance Company,
- Genworth Mortgage Insurance Corporation,
- United Guaranty Residential Insurance Company,
- Radian Guaranty Inc.,
- Republic Mortgage Insurance Company, whose parent, based on information filed with the SEC through January 14, 2010, is our largest shareholder, and
- CMG Mortgage Insurance Company.

Our relationships with our customers could be adversely affected by a variety of factors, including continued tightening of and adherence to our underwriting guidelines, which have resulted in our declining to insure some of the loans originated by our customers, rescission of loans that affect the customer and our decision to discontinue ceding new business under excess of loss captive reinsurance programs. In the fourth quarter of 2009, Countrywide commenced litigation against us as a result of its dissatisfaction with our rescissions practices shortly after Countrywide ceased doing business with us. See the risk factor titled "We are subject to the risk of private litigation and regulatory proceedings" included below as well as Item 3 of our Annual Report on Form 10-K, "Legal Proceedings," for more information about this litigation and the arbitration case we filed against Countrywide regarding rescissions. Countrywide and its Bank of America affiliates accounted for 12.0% of our flow new insurance written in 2008 and 8.3% of our new insurance written in the first three quarters of 2009. The FHA, which in recent years was not viewed by us as a significant competitor, substantially increased its market share beginning in 2008.

Until recently, the mortgage insurance industry had not had new entrants in many years. Recently, Essent Guaranty, Inc. announced that it would begin writing new mortgage insurance. Essent has publicly reported that one of its investors is JPMorgan Chase which is one of our customers. The perceived increase in credit quality of loans that are being insured today combined with the deterioration of the financial strength ratings of the existing mortgage insurance companies could encourage new entrants. We understand that one potential new entrant has advertised for employees.

We believe some lenders assess a mortgage insurer's financial strength rating as an important element of the process through which they select mortgage insurers. As a result of MGIC's less than investment grade financial strength rating, MGIC may be competitively disadvantaged with these lenders.

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

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

We have approximately $390 million principal amount of 9% Convertible Junior Subordinated Debentures outstanding. The principal amount of the debentures is currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per $1,000 principal amount of debentures. This represents an initial conversion price of approximately $13.50 per share. We have elected to defer the payment of a total of approximately $35 million of interest on these debentures. We may also defer additional interest in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also converted into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures.

Our common stock could be delisted from the NYSE.

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

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

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

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

A decline in the volume of low down payment home mortgage originations could decrease demand for mortgage insurance, decrease our new insurance written and reduce our revenues.

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

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. Seven mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in late December 2004 following denial of class certification in June 2004. Since December 2006, class action litigation was separately brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. While we are not a defendant in any of these cases, there can be no assurance that we will not be subject to future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on us.

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us.

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

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

In October 2007, the Division of Enforcement of the Securities and Exchange Commission requested that we voluntarily furnish documents and information primarily relating to C-BASS, the now-terminated merger

with Radian and the subprime mortgage assets "in the Company's various lines of business." We have provided responsive documents and/or other information to the Securities and Exchange Commission and understand this matter is ongoing.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees' Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the "Complaint") on June 22, 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS, including its liquidity. The Complaint also names two officers of C-BASS with respect to the Complaint's allegations regarding C-BASS. The purported class period covered by the Complaint begins on October 12, 2006 and ends on February 12, 2008. The Complaint seeks damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported misstatements and omissions. With limited exceptions, our bylaws provide that our officers are entitled to indemnification from us for claims against them of the type alleged in the Complaint. Our motion to dismiss the Complaint was granted on February 18, 2010. Under the Court's order, the plaintiff may, on or before March 18, 2010, move for leave to file an amended complaint. We are unable to predict the outcome of these consolidated cases or estimate our associated expenses or possible losses. Other lawsuits alleging violations of the securities laws could be brought against us.

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

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

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

The Internal Revenue Service ("IRS") has completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and has issued assessments for unpaid taxes, interest and penalties. The primary adjustment in both examinations relates to our treatment of the flow through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICS"). This portfolio has been managed and maintained during years prior to,

during and subsequent to the examination period. The IRS has indicated that it does not believe that, for various reasons, we have established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We disagree with this conclusion and believe that the flow through income and loss from these investments was properly reported on our federal income tax returns in accordance with applicable tax laws and regulations in effect during the periods involved and have appealed these adjustments.

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

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

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

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

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

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

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

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

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

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

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 of 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, 2009.

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, 2009 as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
MGIC Investment Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and of cash flows present fairly, in all material respects, the financial position of MGIC Investment Corporation and its subsidiaries (the "Company") at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009 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 and financial statement schedules, 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, on the financial statement schedules, 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.

As discussed in Note 2 to the consolidated financial statements, the Company retrospectively adjusted its December 31, 2008 consolidated financial statements to reflect the adoption of a new accounting standard effective January 1, 2009 regarding the accounting for convertible debt instruments that may be settled for cash upon conversion (including partial cash settlement).

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

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

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
March 1, 2010

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2009, 2008 and 2007
(Audited)

Consolidated Statements of Operations

	2009	As Adjusted (Note 2) 2008	2007
	(In thousands of dollars, except per share data)		
Revenues:			
Premiums written:			
Direct	$ 1,346,191	$1,661,544	$ 1,513,395
Assumed	3,947	12,221	3,288
Ceded (note 9)	(107,111)	(207,718)	(170,889)
Net premiums written	1,243,027	1,466,047	1,345,794
Decrease (increase) in unearned premiums	59,314	(72,867)	(83,404)
Net premiums earned (note 9)	1,302,341	1,393,180	1,262,390
Investment income, net of expenses (note 4)	304,678	308,517	259,828
Realized investment gains, net (note 4)	92,874	52,889	142,195
Total other-than-temporary impairment losses	(42,704)	(65,375)	—
Portion of losses recognized in other comprehensive income (loss), before taxes (note 2)	1,764	—	—
Net impairment losses recognized in earnings	(40,940)	(65,375)	—
Other revenue	49,573	32,315	28,793
Total revenues	1,708,526	1,721,526	1,693,206
Losses and expenses:			
Losses incurred, net (notes 8 and 9)	3,379,444	3,071,501	2,365,423
Change in premium deficiency reserves (note 8)	(261,150)	(756,505)	1,210,841
Underwriting and other expenses	239,612	271,314	309,610
Reinsurance fee (note 9)	26,407	1,781	—
Interest expense (notes 6 and 7)	89,266	81,074	41,986
Total losses and expenses	3,473,579	2,669,165	3,927,860
Loss before tax and joint ventures	(1,765,053)	(947,639)	(2,234,654)
Benefit from income taxes (note 12)	(442,776)	(397,798)	(833,977)
Income (loss) from joint ventures, net of tax (note 10)	—	24,486	(269,341)
Net loss	$(1,322,277)	$ (525,355)	$(1,670,018)
Loss per share (note 13):			
Basic	$ (10.65)	$ (4.61)	$ (20.54)
Diluted	$ (10.65)	$ (4.61)	$ (20.54)
Weighted average common shares outstanding — basic (shares in thousands, note 2)	124,209	113,962	81,294
Weighted average common shares outstanding — diluted (shares in thousands, note 2)	124,209	113,962	81,294
Dividends per share	$ —	$ 0.075	$ 0.775

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
December 31, 2009 and 2008
(Audited)

Consolidated Balance Sheets

	2009	As adjusted (Note 2) 2008
	(In thousands of dollars)	
ASSETS		
Investment portfolio (note 4):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2009-$7,091,840; 2008-$7,120,690)	$7,251,574	$7,042,903
Equity securities (cost, 2009-$2,892; 2008-$2,778)	2,891	2,633
Total investment portfolio	7,254,465	7,045,536
Cash and cash equivalents	1,185,739	1,097,334
Accrued investment income	79,828	90,856
Reinsurance recoverable on loss reserves (note 9)	332,227	232,988
Prepaid reinsurance premiums (note 9)	3,554	4,416
Premiums receivable	90,139	97,601
Home office and equipment, net	29,556	32,255
Deferred insurance policy acquisition costs	9,022	11,504
Income taxes recoverable (note 12)	275,187	370,473
Other assets	144,702	163,771
Total assets	$9,404,419	$9,146,734
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (notes 8 and 9)	$6,704,990	$4,775,552
Premium deficiency reserves (note 8)	193,186	454,336
Unearned premiums (note 9)	280,738	336,098
Short- and long-term debt (note 6)	377,098	698,446
Convertible debentures (note 7)	291,785	272,465
Other liabilities	254,041	175,604
Total liabilities	8,101,838	6,712,501
Contingencies (note 15)		
Shareholders' equity (note 13):		
Common stock, $1 par value, shares authorized 460,000,000; shares issued 2009 — 130,163,060; 2008 — 130,118,744; outstanding 2009 - 125,101,057; 2008 — 125,068,350	130,163	130,119
Paid-in capital	443,294	440,542
Treasury stock (shares at cost 2009 — 5,062,003; 2008 — 5,050,394)	(269,738)	(276,873)
Accumulated other comprehensive income (loss), net of tax (note 2)	74,155	(106,789)
Retained earnings	924,707	2,247,234
Total shareholders' equity	1,302,581	2,434,233
Total liabilities and shareholders' equity	$9,404,419	$9,146,734

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2007, 2008 and 2009
(Audited)

Consolidated Statements of Shareholders' Equity

	Common Stock	Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss) (Note 2)	Retained Earnings	Comprehensive Loss
				(In thousands of dollars)		
Balance, December 31, 2006	$123,029	$310,394	$(2,201,966)	$ 65,789	$ 5,998,631	
Net loss	—	—	—	—	(1,670,018)	$(1,670,018)
Change in unrealized investment gains and losses, net	—	—	—	(17,767)	—	(17,767)
Dividends declared	—	—	—	—	(63,819)	
Common stock shares issued	38	2,205	—	—	—	
Repurchase of outstanding common shares	—	—	(75,659)	—	—	
Reissuance of treasury stock	—	(14,187)	11,261	—	—	
Equity compensation	—	18,237	—	—	—	
Defined benefit plan adjustments, net	—	—	—	14,561	—	14,561
Change in the liability for unrecognized tax benefits	—	—	—	—	85,522	
Unrealized foreign currency translation adjustment				8,456		8,456
Other	—	—	—	(364)	—	(364)
Comprehensive loss	—	—	—	—	—	$(1,665,132)
Balance, December 31, 2007	$123,067	$316,649	$(2,266,364)	$ 70,675	$ 4,350,316	
Net loss					(518,914)	(518,914)
Change in unrealized investment gains and losses, net	—	—	—	(116,939)	—	(116,939)
Dividends declared (note 13)	—	—	—	—	(8,159)	
Common stock shares issued (note 13)	7,052	68,706	—	—	—	
Reissuance of treasury stock	—	(41,686)	1,989,491	—	(1,569,567)	
Equity compensation	—	20,562	—	—	—	
Defined benefit plan adjustments, net	—	—	—	(44,649)	—	(44,649)
Unrealized foreign currency translation adjustment	—	—	—	(16,354)	—	(16,354)
Other	—	2,836	—	478	—	478
Comprehensive loss	—	—	—	—	—	$ (696,378)
Balance, December 31, 2008 (as originally reported)	$130,119	$367,067	$ (276,873)	$(106,789)	$ 2,253,676	
Cumulative effect of accounting change (convertible debt)	—	73,475	—	—	(6,442)	
Balance, December 31, 2008 (as adjusted)	$130,119	$440,542	$ (276,873)	$(106,789)	$ 2,247,234	
Net loss					(1,322,277)	(1,322,277)
Change in unrealized investment gains and losses, net (note 4)	—	—	—	154,358	—	154,358
Noncredit component of impairment losses, net (note 4)	—	—	—	(1,764)	—	(1,764)
Common stock shares issued upon debt conversion (note 7)	44	263	—	—	—	
Reissuance of treasury stock(13)	—	(11,613)	7,135	—	(545)	
Equity compensation (note 13)	—	14,102	—	—	—	
Defined benefit plan adjustments, net (note 11)	—	—	—	10,704	—	10,704
Unrealized foreign currency translation adjustment	—	—	—	17,646	—	17,646
Other	—	—	—	—	295	—
Comprehensive loss	—	—	—	—	—	$(1,141,333)
Balance, December 31, 2009	$130,163	$443,294	$ (269,738)	$ 74,155	$ 924,707	

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2009, 2008 and 2007
(Audited)

Consolidated Statements of Cash Flows

	2009	2008	2007
	(In thousands of dollars)		
Cash flows from operating activities:			
Net loss	$(1,322,277)	$ (525,355)	$(1,670,018)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of deferred insurance policy acquisition costs	8,204	10,024	12,922
Capitalized deferred insurance policy acquisition costs	(5,722)	(10,360)	(11,321)
Depreciation and other amortization	60,349	33,688	24,695
Decrease (increase) in accrued investment income	11,028	(18,027)	(8,183)
Increase in reinsurance recoverable on loss reserves	(99,239)	(197,744)	(21,827)
Decrease in prepaid reinsurance premiums	862	4,299	905
Decrease (increase) in premium receivable	7,462	9,732	(19,262)
Decrease (increase) in real estate acquired	29,028	112,340	(25,992)
Increase in loss reserves	1,929,438	2,133,073	1,516,764
(Decrease) increase in premium deficiency reserve	(261,150)	(756,505)	1,210,841
(Decrease) increase in unearned premiums	(55,360)	63,865	82,572
Deferred tax provision (benefit)	176,279	411,683	(515,291)
(Increase) decrease in income taxes recoverable (current)	(179,006)	140,460	(302,099)
Equity (earnings) losses from joint ventures	—	(33,794)	424,346
Distributions from joint ventures	—	22,195	51,512
Realized investment gains, excluding other-than-temporary impairments	(92,874)	(52,889)	(142,195)
Net investment impairment losses	40,940	65,375	—
Other	81,992	(47,152)	23,602
Net cash provided by operating activities	329,954	1,364,908	631,971
Cash flows from investing activities:			
Purchase of equity securities	(1,387)	(89)	(95)
Purchase of fixed maturities	(4,147,412)	(3,592,600)	(2,721,294)
Additional investment in joint ventures	—	(546)	(3,903)
Proceeds from sale of investment in joint ventures	—	150,316	240,800
Proceeds from sale of equity securities	1,273	—	—
Note receivable from joint ventures	—	—	(50,000)
Proceeds from sale of fixed maturities	3,663,239	1,724,780	1,690,557
Proceeds from maturity of fixed maturities	554,980	413,328	331,427
Net (decrease) increase in payable for securities	(17,890)	19,547	(1,262)
Net cash provided by (used in) investing activities	52,803	(1,285,264)	(513,770)
Cash flows from financing activities:			
Dividends paid to shareholders	—	(8,159)	(63,819)
(Repayment of) proceeds from note payable	(200,000)	(100,000)	300,000
Repayment of long-term debt	(94,352)	—	(200,000)
Repayment of short-term debt	—	—	(87,110)
Net proceeds from convertible debentures	—	377,199	—
Proceeds from reissuance of treasury stock	—	383,959	1,484
Payments for repurchase of common stock	—	—	(75,659)
Common stock shares issued	—	75,758	2,098
Net cash (used in) provided by financing activities	(294,352)	728,757	(123,006)
Net increase (decrease) in cash and cash equivalents	88,405	808,401	(4,805)
Cash and cash equivalents at beginning of year	1,097,334	288,933	293,738
Cash and cash equivalents at end of year	$ 1,185,739	$ 1,097,334	$ 288,933

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of business

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC") and several other subsidiaries, is principally engaged in the mortgage insurance business. We provide mortgage insurance to lenders throughout the United States and to government sponsored entities ("GSEs") to protect against loss from defaults on low down payment residential mortgage loans. In 2007, we began providing mortgage insurance to lenders in Australia. In view of our need to dedicate capital to our domestic mortgage insurance operations, we have reduced our Australian headcount and are no longer writing new business in Australia. Our Australian operations are included in our consolidated financial statements; however they are not material to our consolidated results. 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. Our principal product is primary mortgage insurance. Primary mortgage insurance may be written through the flow market channel, in which loans are insured in individual, loan-by-loan transactions. Primary mortgage insurance may also be written through the bulk market channel, in which portfolios of loans are individually insured in single, bulk transactions. Prior to 2008, we wrote significant volume through the bulk channel, substantially all of which was Wall Street bulk business, which we discontinued writing in 2007. We did not write any business through the bulk channel during 2009. Prior to 2009, we also wrote pool mortgage insurance. We wrote an insignificant amount of pool business during 2009.

At December 31, 2009, our direct domestic primary insurance in force (representing the principal balance in our records of all mortgage loans that we insure) and direct domestic primary risk in force (representing the insurance in force multiplied by the insurance coverage percentage) was approximately $212.2 billion and $54.3 billion, respectively. Our direct pool risk in force at December 31, 2009 was approximately $1.7 billion. Our risk in force in Australia at December 31, 2009 was approximately $1.1 billion which represents the risk associated with 100% coverage on the insurance in force. However the mortgage insurance we provided in Australia only covers the unpaid loan balance after the sale of the underlying property.

Capital

At December 31, 2009, MGIC's policyholders position exceeded the required regulatory minimum by approximately $213 million, and we exceeded the required minimum by approximately $300 million on a combined statutory basis. (The combined figures give effect to reinsurance with subsidiaries of our holding company.) At December 31, 2009 MGIC's risk-to-capital was 19.4:1 and was 22.1:1 on a combined statutory basis.

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

In October 2009, we, MGIC and MIC entered into an agreement with Fannie Mae (the "Fannie Mae Agreement") under which MGIC agreed to contribute $200 million to MIC (which MGIC has done) and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011 subject to the terms of the Fannie Mae Agreement. Under the Fannie Mae Agreement, MIC will be eligible to write mortgage insurance only in those 16 other jurisdictions in which MGIC cannot write new insurance due to MGIC's failure to meet regulatory capital requirements applicable to mortgage insurers and if MGIC fails to obtain relief from those requirements or a specified waiver of them.

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

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

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

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

Historically, claims submitted to us on policies we rescinded were not a material portion of our claims resolved during a year. However, beginning in 2008 rescissions have materially mitigated our paid and incurred losses. In 2009, rescissions mitigated our paid losses by $1.2 billion, which includes amounts that would have resulted in either a claim payment or been charged to a deductible under a bulk or pool policy,

and may have been charged to a captive reinsurer. 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. In addition, if the insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by legal proceedings. Objections to rescission may be made several years after we have rescinded an insurance policy. Countrywide and an affiliate (“Countrywide”) has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. We have filed an arbitration case against Countrywide regarding rescissions. For more information about this lawsuit and arbitration case, see Note 15. In addition, we continue to have discussions with other lenders regarding their objections to rescissions that in the aggregate are material and are involved in arbitration proceedings with respect to an amount of rescissions that is not material.

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

See additional disclosure regarding statutory capital in Note 13 — “Shareholders’ equity, dividend restrictions and statutory capital”.

Holding company liquidity

At December 31, 2009, we had approximately $84 million in short-term investments at our holding company. These investments are virtually all of our holding company’s liquid assets. As of December 31, 2009, our holding company’s obligations included $78.4 million of debt which is scheduled to mature in September 2011 and $300 million of Senior Notes due in November 2015, both of which must be serviced pending scheduled maturity. On an annual basis, as of December 31, 2009 our use of funds at the holding company for interest payments on our Senior Notes approximated $21 million. See Note 7 for a discussion of our election to defer payment of interest on our $389.5 million in junior convertible debentures due in 2063.

The senior notes and convertible debentures, discussed in Notes 6 and 7, are obligations of our holding company, and not of its subsidiaries. Payment of dividends from our insurance subsidiaries, which historically has been the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. During the first three quarters of 2008, MGIC paid three quarterly dividends of $15 million each to our holding company, which increased the cash resources of our holding company. MGIC paid no such dividends in 2009. In 2010 and 2011, MGIC cannot pay any dividends to our holding company without approval from the OCI. There can be no assurances that such approvals can be obtained in order to service the debt at our holding company. In addition, under the terms of the Fannie Mae Agreement and the Freddie Mac Notification, MGIC may not pay dividends to our holding company without the GSE’s approval, however the GSEs have consented to dividends of not more than $100 million in the aggregate to purchase existing debt obligations of our holding company or to pay such obligations at maturity.

2. Basis of presentation and summary of significant accounting policies

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

Principles of consolidation

The consolidated financial statements include the accounts of MGIC Investment Corporation and its majority-owned subsidiaries. All intercompany transactions have been eliminated. Historically, our investments in joint ventures and related loss or income from joint ventures principally consisted of our investment and related earnings in two less than majority owned joint ventures, Credit-Based Asset Servicing and Securitization LLC (C-BASS), and Sherman Financial Group LLC (Sherman). In 2007, joint venture losses included an impairment charge equal to our entire equity interest in C-BASS, as well as equity losses incurred by C-BASS in the fourth quarter that reduced the carrying value of our $50 million note from C-BASS to zero. As a result, beginning in 2008, our joint venture income principally consisted of income from Sherman. In August of 2008, we sold our entire interest in Sherman to Sherman. Our equity in the earnings of joint ventures is shown separately, net of tax, on the statement of operations. (See note 10.)

Fair Value Measurements

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

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

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

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and inputs, other than quoted prices, that are observable in the marketplace for the financial instrument. The observable inputs are used in valuation models to calculate the fair value of the financial instruments. Financial assets utilizing Level 2 inputs 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, corporate, auction rate (backed by student loans) and mortgage-backed securities. Non-financial assets which utilize Level 3 inputs include real estate acquired through claim settlement. Additionally, financial liabilities utilizing Level 3 inputs consisted of derivative financial instruments.

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

which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. This model combines all inputs to arrive at a value assigned to each security. In addition, on a quarterly basis, we perform quality controls over values received from the pricing sources which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. We have not made any adjustments to the prices obtained from the independent pricing sources.

Assets 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 4 — "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, 2009 and 2008. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, the probability of full repayment of the principal considering the credit quality and guarantees in place, and the rate of return required by investors to own such securities given the current liquidity risk associated with them. The DCF model is based on the following key assumptions.
  - Nominal credit risk as securities are ultimately guaranteed by the United States Department of Education;
  - Liquidity by December 31, 2011 through December 31, 2014;
  - Continued receipt of contractual interest; and
  - Discount rates ranging from 2.23% to 3.23%, which include a spread for liquidity risk.
- Real estate acquired through claim settlement is fair valued at the lower of our acquisition cost or a percentage of appraised value. The percentage applied to appraised value is based upon our historical sales experience adjusted for current trends.

Investments

We categorize our investment portfolio according to our ability and intent to hold the investments to maturity. Investments which we do not have the ability and intent to hold to maturity are considered to be available-for-sale and are reported at fair value and 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. Our entire investment portfolio is classified as available-for-sale. Realized investment gains and losses are reported in income based upon specific identification of securities sold. (See note 4.)

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

recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted into net investment income. Each quarter we perform reviews of our investments in order to determine whether declines in fair value below amortized cost were considered other-than-temporary in accordance with applicable guidance. In evaluating whether a decline in fair value is other-than-temporary, we consider several factors including, but not limited to:

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

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

Home office and equipment

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

Home office and equipment is shown net of accumulated depreciation of $60.1 million, $56.3 million and $51.7 million at December 31, 2009, 2008 and 2007, respectively. Depreciation expense for the years ended December 31, 2009, 2008 and 2007 was $4.3 million, $4.5 million and $4.4 million, respectively.

Deferred insurance policy acquisition costs

Costs associated with the acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs (“DAC”). For each underwriting year book 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.

During 2009, 2008 and 2007, we amortized $8.2 million, $10.0 million and $12.9 million, respectively, of deferred insurance policy acquisition costs.

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. 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 to us. In accordance with GAAP for the mortgage insurance industry, we do not establish loss reserves for future claims on insured loans which are not currently in default. Loss reserves

are established by our estimate of 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 activity. Amounts for salvage recoverable are considered in the determination of the reserve estimates. Adjustments to reserve estimates are reflected in the financial statements in the years in which the adjustments are made. The liability for reinsurance assumed is based on information provided by the ceding companies.

The incurred but not reported ("IBNR") reserves result from defaults occurring prior to the close of an accounting period, but which have not been reported to us. Consistent with reserves for reported defaults, IBNR reserves are established using estimated claims rate 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 8.)

Premium deficiency reserves

After our loss reserves are initially established, we perform premium deficiency tests using our best estimate assumptions as of the testing date. Premium deficiency reserves are established, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premium and already established reserves. The discount rate used in the calculation of the premium deficiency reserve was based upon our pre-tax investment yield at December 31, 2009 and 2008, respectively. 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 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 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 affects 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 8.)

Revenue recognition

Our insurance subsidiaries write policies which are guaranteed renewable contracts at the insured's option on a single, annual or monthly premium basis. The insurance subsidiaries 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 and will have no effect on earned premium. Policy cancellations also lower the persistency rate which is a variable used in calculating the rate of amortization of deferred insurance policy acquisition costs. When a policy is rescinded, all previously collected premium is returned to the lender. The liability associated with our estimate of premium to be returned on expected future rescissions 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 this liability affect premiums written and earned.

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

We file a consolidated federal income tax return with our domestic subsidiaries. Our foreign subsidiaries file separate tax returns in their respective jurisdictions. A formal tax sharing agreement exists between us and our domestic subsidiaries. Each subsidiary determines income taxes based upon the utilization of all tax deferral elections available. This assumes tax and loss bonds are purchased and held to the extent they would have been purchased and held on a separate company basis since the tax sharing agreement provides that the redemption or non-purchase of such bonds shall not increase such member's separate taxable income and tax liability on a separate company basis.

Federal tax law permits mortgage guaranty insurance companies to deduct from taxable income, subject to certain limitations, the amounts added to contingency loss reserves, which are recorded for regulatory purposes. Generally, the amounts so deducted must be included in taxable income in the tenth subsequent year. However, to the extent incurred losses exceed 35% of net premiums earned in a calendar year, early withdrawals may be made from the contingency reserves with regulatory approval, which would lead to amounts being included in taxable income earlier than the tenth year. The deduction is allowed only to the extent that U.S. government non-interest bearing tax and loss bonds are purchased and held in an amount equal to the tax benefit attributable to such deduction. We account for these purchases as a payment of current federal income taxes.

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 include an analysis of several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the expected occurrence of future income or loss and available tax planning alternatives. As discussed in Note 12 — "Income Taxes", we have reduced our benefit from income tax by establishing a valuation allowance during 2009.

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. (See note 12.)

Benefit plans

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

We offer both medical and dental benefits for retired domestic employees, their spouses and eligible dependents. Under the plan retirees pay a premium for these benefits. In October 2008 we amended our postretirement benefit plan. The amendment, which was effective January 1, 2009, terminates the benefits provided to retirees once they reach the age of 65. This amendment reduced our accumulated postretirement benefit obligation as of December 31, 2008. The amendment also reduced our net periodic benefit cost in 2009 and will reduce our net periodic benefit costs in future periods. We accrue the estimated costs of retiree medical and life benefits over the period during which employees render the service that qualifies them for benefits. Historically benefits were generally funded as they were due. The cost to us has not been significant.

In 2009, approximately $0.5 million in benefits were paid from the fund, and approximately $0.7 million were funded by us. (See note 11.)

Reinsurance

Loss reserves and unearned premiums are reported before taking credit for amounts ceded under reinsurance treaties. Ceded loss reserves are reflected as "Reinsurance recoverable on loss reserves". Ceded unearned premiums are reflected as "Prepaid reinsurance premiums". We remain liable for all reinsurance ceded. (See note 9.)

Foreign Currency Translation

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

Share-Based Compensation

We have certain share-based compensation plans. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period which generally corresponds to the vesting period. Awards under our plans generally vest over periods ranging from one to five years. (See note 13.)

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 1.9 million, 1.5 million and 1.2 million, respectively, for the years ended December 31, 2009, 2008 and 2007 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 debentures (issued in March 2008). 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. The following is a reconciliation of the weighted average number of shares; however for the years ended December 31, 2009, 2008 and 2007, common stock equivalents of 37.6 million, 22.8 million and 34 thousand, respectively, were not included because they were anti-dilutive. (See note 13.)

	Years Ended December 31,		
	2009	2008	2007
	(Shares in thousands)		
Weighted-average shares — Basic	124,209	113,962	81,294
Common stock equivalents	—	—	—
Weighted-average shares — Diluted	124,209	113,962	81,294

Other comprehensive income

Our total other comprehensive income was as follows:

	Years Ended December 31,		
	2009	2008	2007
	(In thousands of dollars)		
Net loss	$(1,322,277)	$(525,355)	$(1,670,018)
Other comprehensive income (loss)	180,944	(177,464)	4,886
Total other comprehensive loss	$(1,141,333)	$(702,819)	$(1,665,132)
Other comprehensive income (loss) (net of tax):			
Change in unrealized gains and losses on investments	$ 154,358	$(116,939)	$ (17,767)
Noncredit component of impairment loss	(1,764)	—	—
Amortization related to benefit plans	10,704	(44,649)	14,561
Unrealized foreign currency translation adjustment	17,646	(16,354)	8,456
Other	—	478	(364)
Other comprehensive income (loss)	$ 180,944	$(177,464)	$ 4,886

At December 31, 2009, accumulated other comprehensive income of $74.2 million included $101.6 million of net unrealized gains on investments, ($37.2) million relating to defined benefit plans and $9.8 million related to foreign currency translation adjustment. At December 31, 2008, accumulated other comprehensive loss of ($106.8) million included ($51.0) million of net unrealized losses on investments, ($47.9) million relating to defined benefit plans and ($7.9) million related to foreign currency translation adjustment. (See notes 4 and 11.)

New accounting guidance

Our financial statement disclosures have been modified to eliminate references to legacy accounting pronouncements in accordance with the Codification of accounting standards issued by the Financial Accounting Standards Board (FASB). The Codification, which is effective for financial statements issued for interim and annual periods ending after September 15, 2009, is now the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants.

In January 2010 new accounting guidance was issued that expands the current disclosures on fair value measurements. The guidance will require the disclosure of transfers in and out of levels 1 and 2 of the fair value hierarchy and the reasons for those transfers and separate presentation of purchases, sales, issuances and settlements for level 3 securities, on a gross basis rather than as one net number. The new guidance also clarifies the level of disaggregation required to be disclosed for each class of assets and liabilities and provides clarification on the appropriate disclosures of inputs and valuation techniques used to measure fair value for both recurring and non recurring measurements in levels 2 and 3. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements for the level 3 securities. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We are currently evaluating the provisions of this guidance and the impact on our financial statements disclosures.

In June 2009 new accounting guidance intended to improve financial reporting by companies involved with variable interest entities was issued. The guidance is effective for annual reporting periods beginning after November 15, 2009. We are currently evaluating the provisions of this guidance and the impact, if any, on our financial statements and disclosures.

In May 2009 new accounting guidance regarding subsequent events was issued. The objective of the guidance is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. We have applied these requirements beginning with the quarter ended June 30, 2009.

Effective January 1, 2009 we adopted new accounting guidance regarding accounting for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. The guidance requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. The guidance requires retrospective application. As such, amounts relating to 2008 have been retrospectively adjusted to reflect our adoption of this guidance.

The following tables show the impact of our adoption of this guidance on our 2008 financial results:

CONSOLIDATED BALANCE SHEET

	As Adjusted December 31, 2008	As Originally Reported December 31, 2008
	(In thousand of dollars)	
Income taxes recoverable	$ 370,473	$ 406,568
Convertible debentures	272,465	375,593
Shareholders' equity	2,434,233	2,367,200

CONSOLIDATED STATEMENT OF OPERATIONS

	For the Year Ended December 31,	
	As Adjusted 2008	As Originally Reported 2008
	(In thousands of dollars, except per share)	
Interest expense	$ 81,074	$ 71,164
Benefit from income taxes	(397,798)	(394,329)
Net loss	(525,355)	(518,914)
Diluted loss per share	(4.61)	(4.55)

In addition the adoption of this guidance has resulted in an increase to interest expense of $16.3 million in 2009 and will result in an increase to interest expense of $20.4 million for 2010, $25.5 million for 2011, $31.7 million for 2012 and $9.0 million for 2013. These increases, and those shown in the tables above, result from our Convertible Junior Subordinated Debentures issued in 2008 and discussed in Note 7 — "Convertible debentures and related derivatives".

Effective January 1, 2009 we adopted new accounting guidance regarding participating securities. The standard clarifies that share-based payment awards that entitle holders to receive nonforfeitable dividends before vesting should be considered participating securities. As participating securities, these instruments should be included in the calculation of basic earnings per share. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, interim periods within those years, and on a retrospective basis for all historical periods presented. The adoption of this guidance did not have an impact on our calculations of basic and diluted earnings per share due to our current net loss position.

During the second quarter of 2009, we adopted new accounting guidance regarding the recognition and presentation of other-than-temporary impairments. The new guidance revises the recognition and reporting

requirements for other-than-temporary impairments on our fixed income securities. In the second quarter of 2009, we also adopted additional application guidance on measuring fair value in less active markets. The adoption of this guidance did not have a material impact on our financial condition or results of operations. (See Note 4.)

In December 2008, new guidance that provided additional information on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan was issued. The guidance is effective for fiscal years ending after December 15, 2009. We have adopted these disclosures beginning with this annual filing. (See note 11.)

Cash and cash equivalents

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

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2008 and 2007 amounts to allow for consistent financial reporting.

3. Related party transactions

We provided certain services to C-BASS and Sherman in 2007 in exchange for fees. In addition, C-BASS provided certain services to us during 2009, 2008 and 2007 in exchange for fees. The net impact of these transactions was not material to us.

4. Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at December 31, 2009 and 2008 are shown below. Debt securities consist of fixed maturities and short-term investments.

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

(1) Gross unrealized losses for residential mortgage-backed securities include $1.8 million in other-than-temporary impairment losses recorded in other comprehensive income, since the adoption of new guidance on other-than-temporary impairments.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands of dollars)		
December 31, 2008:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 168,917	$ 21,297	$ (405)	$ 189,809
Obligations of U.S. states and political subdivisions	6,401,903	141,612	(237,575)	6,305,940
Corporate debt securities	314,648	6,278	(4,253)	316,673
Residential mortgage-backed securities	151,774	3,307	(14,251)	140,830
Debt securities issued by foreign sovereign governments	83,448	6,203	—	89,651
Total debt securities	7,120,690	178,697	(256,484)	7,042,903
Equity securities	2,778	—	(145)	2,633
Total investment portfolio	$7,123,468	$178,697	$(256,629)	$7,045,536

The amortized cost and fair values of debt securities at December 31, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most auction rate and mortgage-backed securities provide for periodic payments throughout their lives, they are listed below in separate categories.

	Amortized Cost	Fair Value
	(In thousands of dollars)	
December 31, 2009		
Due in one year or less	$ 184,474	$ 187,165
Due after one year through five years	2,470,415	2,539,556
Due after five years through ten years	1,441,803	1,483,574
Due after ten years	2,378,886	2,447,177
	6,475,578	6,657,472
Residential mortgage-backed securities	102,062	104,052
Auction rate securities(1)	514,200	490,050
Total at December 31, 2009	$7,091,840	$7,251,574

(1) At December 31, 2009, 98% of auction rate securities had a contractual maturity greater than 10 years.

At December 31, 2009 and 2008, the investment portfolio had gross unrealized losses of $78.4 million and $256.6 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 of dollars)			
December 31, 2009						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 434,362	$ 6,357	$ —	$ —	$ 434,362	$ 6,357
Obligations of U.S. states and political subdivisions	926,860	29,390	398,859	30,485	1,325,719	59,875
Corporate debt securities	453,804	9,158	—		453,804	9,158
Residential mortgage-backed securities	8,743	1,764	870	222	9,613	1,986
Debt issued by foreign sovereign governments	56,122	1,058	—	—	56,122	1,058
Equity securities	2,398	4	—	—	2,398	4
Total investment portfolio	$1,882,289	$47,731	$399,729	$30,707	$2,282,018	$78,438

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands of dollars)			
December 31, 2008						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 13,106	$ 245	$ 1,242	$ 160	$ 14,348	$ 405
Obligations of U.S. states and political subdivisions	1,640,406	102,437	552,191	135,138	2,192,597	237,575
Corporate debt securities	72,711	4,127	1,677	126	74,388	4,253
Residential mortgage-backed securities	41,867	14,251	—	—	41,867	14,251
Debt issued by foreign sovereign governments	—	—	—	—	—	—
Equity securities	227	10	2,062	135	2,289	145
Total investment portfolio	$1,768,317	$121,070	$557,172	$135,559	$2,325,489	$256,629

There were 456 securities in an unrealized loss position at December 31, 2009. The unrealized losses in all categories of our investments were primarily caused by the difference in interest rates at December 31, 2009 and 2008, compared to the interest rates at the time of purchase, offset by improvements in the credit spreads on non-governmental securities. Of those securities in an unrealized loss position greater than 12 months at December, 2009, 89 securities had a fair value greater than 80% of amortized cost and 3 securities had a fair value less than 80% of amortized cost.

Under the current guidance a debt security impairment is deemed other than temporary if we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery or

we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security. During 2009 we recognized OTTI in earnings of $40.9 million and an additional $1.8 million of OTTI in other comprehensive income. During 2008 we recognized OTTI in earnings of approximately $65.4 million. Our OTTI was primarily related to securities for which we had the intent to sell. There were no OTTI impairment charges on our investment portfolio during 2007.

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

	(In thousands of dollars)
Beginning balance at January 1, 2009	$ —
Addition for the amount related to the credit loss for which an OTTI was not previously recognized	1,021
Additional increases to the amount related to the credit loss for which an OTTI was previously recognized	—
Reductions for securities sold during the period (realized)	—
Ending balance at December 31, 2009	$1,021

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

In mid-February 2008, auctions began to fail due to insufficient buyers, as the amount of securities submitted for sale in auctions exceeded the aggregate amount of the bids. For each failed auction, the interest rate on the security moves to a maximum rate specified for each security, and generally resets at a level higher than specified short-term interest rate benchmarks. At December 31, 2009, our entire ARS portfolio, consisting of 47 investments, was subject to failed auctions; however, we received calls at par for $26.4 million in ARS from the period when the auctions began to fail through the end of 2009. To date, we have collected all interest due on our ARS.

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

Net investment income is comprised of the following:

	2009	2008	2007
	(In thousands of dollars)		
Fixed maturities	$291,304	$287,869	$244,126
Equity securities	819	2,162	391
Cash equivalents	3,056	15,487	15,900
Interest on Sherman note	11,323	4,601	—
Other	1,389	1,951	2,675
Investment income	307,891	312,070	263,092
Investment expenses	(3,213)	(3,553)	(3,264)
Net investment income	$304,678	$308,517	$259,828

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

	2009	2008	2007
	(In thousands of dollars)		
Net realized investment gains (losses) on investments:			
Fixed maturities	$ 51,109	$ (76,397)	$ (18,575)
Equity securities	116	107	(820)
Joint ventures	—	61,877	162,860
Other	709	1,927	(1,270)
	$ 51,934	$ (12,486)	$142,195
Change in net unrealized appreciation (depreciation):			
Fixed maturities	$237,521	$(179,816)	$ (26,751)
Equity securities	144	(98)	(21)
Other	(2,263)	(710)	(254)
	$235,402	$(180,624)	$ (27,026)

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

	2009	2008	2007
	(In thousands of dollars)		
Unrealized holding gains (losses) arising during the period, net of tax	$132,083	$ (75,464)	$ (4,633)
Less: reclassification adjustment for net gains included in net income, net of tax	20,511	(41,475)	(13,134)
Change in unrealized investment gains (losses), net of tax	$152,594	$(116,939)	$(17,767)

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

	2009	2008	2007
	(In thousands of dollars)		
Gross realized gains	$112,148	$ 22,537	$ 7,135
Gross realized losses	(19,274)	(31,525)	(27,800)
Impairment losses	(40,940)	(65,375)	—
Net realized gains (losses) on securities	$ 51,934	$(74,363)	$ (20,665)
Gains on sale of interest in joint ventures	—	61,877	162,860
Total net realized gains (losses)	$ 51,934	$(12,486)	$142,195

The tax expense (benefit) related to the changes in net unrealized (depreciation) appreciation was $82.8 million, ($63.7) million and ($9.3) million for 2009, 2008 and 2007, respectively.

We had $21.8 million and $22.9 million of investments on deposit with various states at December 31, 2009 and 2008, respectively, due to regulatory requirements of those state insurance departments.

5. Fair value measurements

Fair value measurements for items measured at fair value included the following as of December 31, 2009 and 2008:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousand of dollars)			
December 31, 2009				
Assets				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 735,188	$735,188	$ —	$ —
Obligations of U.S. states and political subdivisions	4,735,601	—	4,365,260	370,341
Corporate debt securities	1,563,741	2,559	1,431,844	129,338
Residential mortgage-backed securities	104,052	23,613	80,439	—
Debt securities issued by foreign sovereign governments	112,992	101,983	11,009	—
Total debt securities	7,251,574	863,343	5,888,552	499,679
Equity securities	2,891	2,570	—	321
Total investments	$7,254,465	$865,913	$5,888,552	$500,000
Real estate acquired(1)	3,830	—	—	3,830
December 31, 2008				
Assets				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 189,809	$189,809	$ —	$ —
Obligations of U.S. states and political subdivisions	6,305,940	—	5,910,552	395,388
Corporate debt securities	316,673	2,483	163,949	150,241
Residential mortgage-backed securities	140,830	—	140,830	—
Debt securities issued by foreign sovereign governments	89,651	86,644	3,007	—
Total debt securities	7,042,903	278,936	6,218,338	545,629
Equity securities	2,633	2,312	—	321
Total investments	$7,045,536	$281,248	$6,218,338	$545,950
Real estate acquired(1)	32,858	—	—	32,858

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

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, 2009 and 2008 is as follows:

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

	Obligations of U.S States and Political Subdivisions	Corporate Debt Securities	Mortgage-Backed Securities	Equity Securities	Total Investments	Real Estate Acquired	Other Liabilities
	(In thousands of dollars)						
Balance at January 1, 2008	$ 11,316	$ 16,330	$ 9,228	$321	$ 37,195	$145,198	$(12,132)
Total realized/unrealized losses:							
Included in earnings and reported as realized investment losses, net	—	(10,748)	(9,478)	—	(20,226)	—	—
Included in earnings and reported as other revenue	—	—	—	—	—	—	(6,823)
Included in earnings and reported as losses incurred, net	—	—	—	—	—	(19,126)	—
Included in other comprehensive income	—	2,455	—	—	2,455	—	—
Purchases, issuances and settlements	1,322	1,054	250	—	2,626	(93,214)	18,955
Transfers in and/or out of Level 3	382,750	141,150	—	—	523,900	—	—
Balance at December 31, 2008	$395,388	$150,241	$ —	$321	$545,950	$ 32,858	$ —
Amount of total losses included in earnings for the year ended December 31, 2008 attributable to the change in unrealized losses on assets still held at December 31, 2008	$ —	$ (10,748)	$(6,090)	$ —	$ (16,838)	$ (8,011)	$ —

Additional fair value disclosures related to our investment portfolio are included in Note 4. Fair value disclosures related to our debt are included in Notes 6 and 7.

6. Short- and long-term debt, excluding convertible debentures discussed in Note 7.

In June 2009, we repaid the $200 million that was then outstanding under our bank revolving credit facility and terminated the facility. At December 31, 2008 we had $200 million outstanding under that facility, which was scheduled to expire in March 2010.

In 2009, we repurchased approximately $121.6 million in par value of our 5.625% Senior Notes due in September 2011. We recognized a gain on the repurchases of approximately $27.2 million, which is included in other revenue on the Consolidated Statement of Operations for the year ended December 31, 2009. At December 31, 2009 we had approximately $78.4 million, 5.625% Senior Notes due in September 2011 and $300 million, 5.375% Senior Notes due in November 2015 outstanding. At December 31, 2008 we had $200 million, 5.625% Senior Notes due in September 2011 and $300 million, 5.375% Senior Notes due in November 2015 outstanding. Covenants in the Senior Notes include the requirement that there be no liens on the stock of the designated subsidiaries unless the Senior Notes are equally and ratably secured; that there be no disposition of the stock of designated subsidiaries unless all of the stock is disposed of for consideration equal to the fair market value of the stock; and that we and the designated subsidiaries preserve our corporate existence, rights and franchises unless we or such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Senior Notes. A designated subsidiary is any of our consolidated subsidiaries which has shareholder's equity of at least 15% of our consolidated shareholders equity. We were in compliance with all covenants at December 31, 2009.

If we fail to meet any of the covenants of the Senior Notes discussed above or we fail to make a payment of principal of the Senior Notes when due or a payment of interest on the Senior Notes within thirty days after due and we are not successful in obtaining an agreement from holders of a majority of the applicable series of Senior Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of either series of our Senior Notes each would have the right to accelerate the maturity of that debt. In addition, the Trustee of these two issues of Senior Notes could, independent of any action by holders of Senior Notes, accelerate the maturity of the Senior Notes.

At December 31, 2009 and 2008, the fair value of the amount outstanding under our Senior Notes was $293.2 million and $338.3 million, respectively. The fair value of amounts outstanding under our credit facility at December 31, 2008 was $200 million. The fair value of our credit facility was approximated at par and the fair value of our Senior Notes was determined using publicly available trade information.

Interest payments on all long-term and short-term debt, excluding the convertible debentures, were $30.8 million, $40.7 million and $42.6 million for the years ended December 31, 2009, 2008 and 2007, respectively.

7. Convertible debentures and related derivatives

In March and April 2008 we completed the sale of $390 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063. The debentures have an effective interest rate of 19% that reflects our non-convertible debt borrowing rate at the time of issuance. For more information about the effective interest rate and related effect on interest expense, see the discussion of convertible debt instruments in Note 2 — New Accounting Guidance. At December 31, 2009 and 2008 we had $389.5 million and $390.0 million, respectively, of principal amount outstanding on the convertible debentures with the amortized value reflected as a liability on our consolidated balance sheet of $291.8 million and $272.5 million, respectively, with the unamortized discount reflected in equity. At December 31, 2009 we also had $35.8 million of deferred interest outstanding on the convertible debentures which is included in other liabilities on the consolidated balance sheet.

The debentures were sold in private placements to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. 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. 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 in Note 6 — "Short- and long-term debt, excluding convertible debentures discussed in Note 7" would not allow the acceleration of amounts that we owe under the debentures. However, violations of the events of default under the Indenture, including a failure to pay principal when due under the debentures and certain events of bankruptcy, insolvency or receivership involving our holding company would allow acceleration of amounts that we owe under the debentures.

Interest on the debentures that would have been payable on the scheduled interest payment dates has been deferred for 10 years past the scheduled payment date. 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%. We also have the right to defer interest that is payable on subsequent scheduled interest payment dates if we give notice as required by the debentures. Any deferral of such interest would be on terms equivalent to those described above.

When interest on the debentures is deferred, we are required, not later than a specified time, to use reasonable commercial efforts to begin selling qualifying securities to persons who are not our affiliates. The specified time is one business day after we pay interest on the debentures that was not deferred, or if earlier, the fifth anniversary of the scheduled interest payment date on which the deferral started. Qualifying securities are common stock, certain warrants and certain non- cumulative perpetual preferred stock. The requirement to use such efforts to sell such securities is called the Alternative Payment Mechanism.

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

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

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

The provisions of the Alternative Payment Mechanism are complex. The description above is not intended to be complete in all respects. Moreover, that description is qualified in its entirety by the terms of the debentures, which are contained in the Indenture, dated as of March 28, 2008, between us and U.S. Bank National Association. The Indenture is filed as Exhibit 4.6 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.

The debentures rank junior to all of our existing and future senior indebtedness. The net proceeds of the debentures were approximately $377 million. A portion of the net proceeds of the debentures and a concurrent offering of common stock was used to increase the capital of MGIC and a portion was used for our general corporate purposes. Debt issuance costs are being amortized over the expected life of five years to interest expense.

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 the deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert. In 2009, we issued 44,316 shares of our common stock on conversion of $478,000 principal amount of our convertible debentures and related deferred interest.

In lieu of issuing shares of common stock upon conversion of the debentures occurring after April 6, 2013, we may, at our option, make a cash payment to converting holders equal to the value of all or some of the shares of our common stock otherwise issuable upon conversion.

The fair value of the convertible debentures was approximately $254.3 million and $145.7 million, respectively, at December 31, 2009 and 2008, as determined using available pricing for these debentures or similar instruments.

8. Loss reserves and premium deficiency reserves

Loss reserves

As described in Note 2, 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 our estimate of the number of loans in our inventory of delinquent loans that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity.

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

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.

One such program is the Home Affordable Modification Program ("HAMP"), which was announced by the US Treasury in early 2009. Some of HAMP's eligibility criteria require current information about borrowers, such as his or her current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency. We are aware of approximately 29,700 loans in our delinquent inventory at December 31, 2009 for which the HAMP trial period has begun and approximately 2,400 delinquent loans have cured their delinquency after entering HAMP. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP.

In addition, private company efforts may have a positive impact on our loss development. All of the programs, including HAMP, are in their early stages and therefore we are unsure of their magnitude or the benefit to us or our industry, and as a result are not factored into our current loss reserves.

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

	2009	2008	2007
	(In thousands of dollars)		
Reserve at beginning of year	$4,775,552	$2,642,479	$1,125,715
Less reinsurance recoverable	232,988	35,244	13,417
Net reserve at beginning of year	4,542,564	2,607,235	1,112,298
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	2,912,679	2,684,397	1,846,473
Prior years(1)	466,765	387,104	518,950
Subtotal	3,379,444	3,071,501	2,365,423
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	62,491	68,397	51,535
Prior years	1,605,668	1,332,579	818,951
Reinsurance terminations(2)	(118,914)	(264,804)	—
Subtotal	1,549,245	1,136,172	870,486
Net reserve at end of year	6,372,763	4,542,564	2,607,235
Plus reinsurance recoverables	332,227	232,988	35,244
Reserve at end of year	$6,704,990	$4,775,552	$2,642,479

(1) 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.

(2) 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 there is a corresponding decrease in reinsurance recoverable on loss reserves, which is offset by a decrease in net losses paid. (See note 9.)

The top portion of the table above shows losses incurred on default notices received in the current year and in prior years, respectively. The amount of losses incurred relating to default notices received in the current year represents the estimated amount to be ultimately paid on such default notices. The amount of losses incurred relating to default notices received in prior years represents actual claim payments that were higher or lower than what we estimated at the end of the prior year, 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 is the result of our review of current trends in default inventory, such as percentages of defaults that have resulted in a claim, the amount of the claims, changes in the relative level of defaults by geography and changes in average loan exposure.

Current year losses incurred increased in 2009 compared to 2008 primarily due to an increase in claim rates and a smaller benefit from captive arrangements, offset by a decrease in severity. The increase in claim rates experienced during 2009 is likely due to general economic conditions, including the unemployment rate, as well as further decreases in home values which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. The increase in 2009 claim rates was significantly offset by an increase in expected rescission levels. The smaller benefit from captive arrangements is due to captive terminations in late 2008 and 2009. The decrease in severity, compared to an increase in 2008, is primarily due to an increase in expected rescission levels. The average exposure on policies rescinded in 2009 was higher than the average exposure on claims paid. Current year losses incurred significantly increased in 2008 compared to 2007 primarily due to significant increases in the default inventory, offset by a smaller increase in estimated severity and a slight decrease in the estimated claim rate, when each are compared to the same period in 2007. The primary insurance notice inventory increased by 68,252 in 2009, compared to an increase of 75,068 in 2008 and an increase of 28,492 in 2007. The average primary claim paid for 2009 was $52,627, compared to $52,239 in 2008 and $37,165 in 2007.

The development of the reserves in 2009, 2008 and 2007 is reflected in the prior year line. The $466.8 million increase in losses incurred in 2009 related to prior years was primarily related to more defaults remaining in inventory at December 31, 2009 from a prior year. Historically, approximately 75% of our default inventory was resolved in one year, and therefore at any point in time, approximately 25% of the default inventory was greater than one year old. Of the 182,188 primary defaults in our December 31, 2008 inventory, 91,668 primary defaults, approximately 50%, remained in our default inventory one year later at December 31, 2009. These defaults have a higher estimated claim rate when compared to a year ago because our experience is that as a default ages it become more likely to result in a claim payment. The $387.1 million increase in losses incurred in 2008 related to prior years was primarily related to the significant increase in severity during the year, as compared to our estimates when originally establishing the reserves at December 31, 2007. The increase in losses incurred in 2008 related to prior years is also a result of more defaults remaining in inventory at December 31, 2008 from a year prior. These defaults have a higher estimated claim rate when compared to a year prior. The $518.9 million increase in losses incurred in 2007 related to prior years was due primarily to the significant increases in severity and the significant deterioration in cure rates experienced during the year, as compared to our estimates when originally establishing the reserves at December 31, 2006.

The lower portion of the table above shows the breakdown between claims paid on default notices received in the current year and default notices received in prior years. Since historically it has taken, on average, about twelve months for a default which is not cured to develop into a paid claim, most losses paid relate to default notices received in prior years. Due to a combination of reasons that have slowed the rate at which claims are received and paid, including foreclosure moratoriums, 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 a paid claim. The lower portion of the table also includes a decrease in losses paid related to terminated reinsurance agreements as noted in footnote (2) of the table above.

Before paying a claim, we can review the loan file to determine whether we are required, under the applicable insurance policy, to pay the claim or whether we are entitled to reduce the amount of the claim. For

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

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Most of our rescissions involve material misrepresentations made, or fraud committed, in connection with the origination of a loan regarding information we received and relied upon when the loan was insured. Because we review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, claim rescissions and denials, which we collectively refer to as rescissions, were not a material portion of our claims resolved during a year. However, beginning in 2008 rescissions have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in rescissions, we can give no assurance that rescissions will continue to mitigate paid and incurred losses at the same level we have recently experienced. In addition, if an insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by legal proceedings. Rescissions mitigated our paid losses by approximately $1.2 billion in 2009, compared to $197 million in 2008. These figures include amounts that would have resulted in either a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer. In 2009, $256 million, of the $1.2 billion mitigated, would have been applied to a deductible had the policy not been rescinded.

In addition, our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. We do not utilize an explicit rescission rate in our reserving methodology, but rather our reserving methodology incorporates the effects rescission activity has had on our historical claim rate and claim severities. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. Our estimation process does not include a direct correlation between claim rates and severities to projected rescission activity or other economic conditions such as changes in unemployment rates, interest rates or housing values. Our experience is that analysis of that nature would not produce reliable results, as the change in one condition can not be isolated to determine its sole effect on our ultimate paid losses as our ultimate paid losses are also influenced at the same time by other economic conditions. Based upon the increase in rescission activity during 2008 and 2009, the effects rescissions have on our losses incurred have become material. While we do not incorporate an explicit rescission rate into our reserving methodology, we have estimated the effects rescissions have had on our incurred losses based upon recent rescission history, as shown in the table that follows labeled “Ever to Date Rescission Rates on Claims Received”. We estimate that rescissions mitigated our incurred losses by approximately $2.5 billion in 2009, compared to $0.4 billion in 2008; both of these figures include the benefit of claims not paid as well as the impact on our loss reserves. The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At December 31, 2009 the estimate of this liability totaled $88.3 million. Separate components of this liability are included in “Other liabilities” and “Premium deficiency reserves” on our consolidated balance sheet. At December 31, 2008 this liability was not material to our financial statements. Changes in the liability affect premiums written and earned.

If the insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by legal proceedings. Objections to rescission may be made several years after we have rescinded an insurance policy. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. We have filed an arbitration case against Countrywide regarding rescissions. For more information about this lawsuit and arbitration case, see Note 15. In addition, we continue to have discussions with other lenders regarding their objections to rescissions that in the aggregate are material and are involved in other arbitration proceedings with respect to an amount of rescissions that is not material.

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

As of December 31, 2009
Ever to Date Rescission Rates on Claims Received
(based on count)

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

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

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

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

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

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

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

(1) At December 31, 2009 and 2008 45,907 and 45,482 loans in default, respectively, related to Wall Street bulk transactions and 16,389 and 13,275 loans in default, respectively, were in our claims received inventory.

(2) We define prime loans as those having FICO credit scores of 620 or greater, A-minus loans as those having FICO credit scores of 575-619, and subprime credit loans as those having FICO credit scores of less than 575, all as reported to us at the time a commitment to insure is issued. Most A-minus and subprime credit loans were written through the bulk channel. However, we classify all loans without complete documentation as "reduced documentation" loans regardless of FICO score rather than as a prime, "A-minus" or "subprime" loan.

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

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

Premium deficiency reserves

Historically all of our insurance risks were included in a single grouping and the calculations to determine if a premium deficiency existed were performed on our entire in force book. As of September 30, 2007, based on these calculations there was no premium deficiency on our total in force book. During the fourth quarter of 2007, we experienced significant increases in our default inventory, and severities and claim rates on loans in default. We further examined the performance of our in force book and determined that the performance of loans included in Wall Street bulk transactions was significantly worse than we experienced for loans insured through the flow channel or loans insured through the remainder of our bulk channel. As a result we began separately measuring the performance of Wall Street bulk transactions and decided to stop writing this business. Consequently, as of December 31, 2007, we performed separate premium deficiency calculations on the Wall Street bulk transactions and on the remainder of our in force book to determine if premium deficiencies existed. As a result of those calculations, we recorded premium deficiency reserves of $1,211 million in the fourth quarter of 2007 to reflect the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves on the Wall Street bulk transactions. The discount rate used in the calculation of the premium deficiency reserve, 4.70%, was based upon our pre-tax investment yield at December 31, 2007. As of December 31, 2007 there was no premium deficiency related to the remainder of our in force business.

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

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

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

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

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

		($ millions)
Premium Deficiency Reserve at December 31, 2008		$(454)
Paid claims and LAE	584	
Increase (decrease) in loss reserves	(360)	
Premium earned	(156)	
Effects of present valuing on future premiums, losses and expenses	21	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		89
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses and expenses and discount rate(1)		172
Premium Deficiency Reserve at December 31, 2009		$(193)

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

		($ millions)
Premium Deficiency Reserve at December 31, 2007		$(1,211)
Paid claims and LAE	770	
Increase (decrease) in loss reserves	448	
Premium earned	(234)	
Effects of present valuing on future premiums, losses and expenses	(93)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		891
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses and expenses and discount rate(2)		(134)
Premium Deficiency Reserve at December 31, 2008		$ (454)

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

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, 2009, the analysis concluded that there was no premium deficiency on such portion of our book of business. For the reasons discussed below, our analysis of any potential deficiency reserve is subject to inherent uncertainty and requires significant judgment by management. To the extent, in a future period, expected losses are higher or expected premiums are lower than the assumptions we used in our analysis, we could be required to record a premium deficiency reserve on this portion of our book of business in such period.

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

9. Reinsurance

We cede a portion of our business to reinsurers and record assets for reinsurance recoverable on loss reserves and prepaid reinsurance premiums. We cede primary business to reinsurance subsidiaries of certain mortgage lenders ("captives"). The majority of ceded premiums relates to these agreements. Historically, most of these reinsurance arrangements are aggregate excess of loss reinsurance agreements, and the remainder have been quota share agreements. Under the aggregate excess of loss agreements, we are responsible for the first aggregate layer of loss (typically 4% or 5%), the captives are responsible for the second aggregate layer of loss (typically 5% or 10%) and we are responsible for any remaining loss. The layers are typically expressed as a percentage of the original risk on an annual book of business reinsured by the captive. The premium cessions on these agreements typically range from 25% to 40% of the direct premium. Under a quota share arrangement premiums and losses are shared on a pro-rata basis between us and the captives, with the captive's portion of both premiums and losses typically ranging from 25% to 50%. Effective January 1, 2009,

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

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

The reinsurance recoverable on loss reserves related to captive agreements was approximately $297 million at December 31, 2009. The total fair value of the trust fund assets under our captive agreements at December 31, 2009 was approximately $547 million. During 2009, $119 million 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 there was a corresponding decrease in our reinsurance recoverable on loss reserves, which is offset by a decrease in our net losses paid.

Since 2005, we have entered into three separate aggregate excess of loss reinsurance agreements under which we ceded approximately $130 million of risk in force in the aggregate to three special purpose reinsurance companies. In 2008, we terminated one of these excess of loss reinsurance agreements. The remaining amount of ceded risk in force at December 31, 2009 was approximately $48.1 million. Additionally, certain pool polices written by us have been reinsured with one domestic reinsurer. We receive a ceding commission under certain reinsurance agreements.

Generally, reinsurance recoverables on primary loss reserves 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:

	2009	2008	2007
	(In thousands of dollars)		
Premiums earned:			
Direct	$1,406,977	$1,601,610	$1,430,964
Assumed	3,339	3,588	3,220
Ceded	(107,975)	(212,018)	(171,794)
Net premiums earned	$1,302,341	$1,393,180	$1,262,390
Losses incurred:			
Direct	$3,637,706	$3,553,029	$2,399,233
Assumed	4,290	1,456	517
Ceded	(262,552)	(482,984)	(34,327)
Net losses incurred	$3,379,444	$3,071,501	$2,365,423

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

10. Investments in joint ventures

C-BASS

C-BASS, a limited liability company, is an unconsolidated, less than 50%-owned investment of ours that is not controlled by us. Historically, C-BASS was principally engaged in the business of investing in the credit risk of subprime single-family residential mortgages. In 2007, C-BASS ceased its operations and is managing its portfolio pursuant to a consensual, non-bankruptcy restructuring, under which its assets are to be paid out over time to its secured and unsecured creditors. As discussed below, in the third quarter of 2007, we concluded that our total equity interest in C-BASS was impaired. In addition, during the fourth quarter of 2007 due to additional losses incurred by C-BASS, we reduced the carrying value of our $50 million note from C-BASS to zero under equity method accounting. At December 31, 2009 our current book value of C-BASS, including our note receivable from C-BASS, remains at zero.

2007

Beginning in February 2007 and continuing through approximately the end of March 2007, the subprime mortgage market experienced significant turmoil. After a period of relative stability that persisted during April, May and through approximately late June, market dislocations recurred and then accelerated to unprecedented levels beginning in approximately mid-July 2007. As a result of margin calls from lenders that C-BASS was not able to meet, C-BASS's purchases of mortgages and mortgage securities and its securitization activities ceased.

On July 30, 2007, we announced that we had concluded that the value of our investment in C-BASS had been materially impaired and that the amount of the impairment could be our entire investment. In connection with the determination of our results of operations for the quarter ended September 30, 2007, we wrote down our entire equity investment in C-BASS through an impairment charge of $466 million. This impairment charge is reflected in our results of operations for year ended December 31, 2007.

We measured the value of our investment based upon the potential market for the equity interest in C-BASS and expected future cash flows of C-BASS, including a consensual, non-bankruptcy restructuring, which, subsequently occurred on November 16, 2007 through an override agreement with C-BASS's creditors. The override agreement provides that C-BASS's assets are to be paid out over time to its secured and unsecured creditors. The information used in our valuation was provided by C-BASS. We believe there is a high degree of uncertainty surrounding the amounts and timing of C-BASS's cash flows and our analysis of them involved significant management judgment based upon currently available facts and circumstances, which are subject to change. The market analysis as well as our analysis of the cash flow projections reflected little or no value for our equity interest in C-BASS. Based on these analyses our entire equity interest in C-BASS was written down through an impairment charge.

In mid-July 2007 we lent C-BASS $50 million under an unsecured credit facility. At September 30, 2007 this note was carried at face value on our consolidated balance sheet. During the fourth quarter of 2007 C-BASS incurred additional losses that caused us to reduce the carrying value of the note to zero under equity method accounting. A third party has an option that expires in December 2014 to purchase 22.5% of C-BASS' equity from us for an exercise price of $2.5 million.

A summary C-BASS income statement for the period indicated appears below.

C-BASS Summary Income Statement: (audited)

	For the Year Ended December 31, 2007
	(In millions of dollars)
Total net revenue	$(1,647.8)
Total expense	259.3
Loss before tax	$(1,907.1)
Company's loss from C-BASS	$ (499.6)

Sherman

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

In August 2008 we sold our entire interest in Sherman to Sherman. Our interest sold represented approximately 24.25% of Sherman's equity. The sale price paid was $124.5 million in cash and by delivery of Sherman's unsecured promissory note in the principal amount of $85 million (the "Note"). The scheduled maturity of the Note is February 13, 2011 and it bears interest, payable monthly, at the annual rate equal to three-month LIBOR plus 500 basis points. The Note is issued under a Credit Agreement, dated August 13, 2008, between Sherman and MGIC.

At the time of sale the note had a fair value of $69.5 million (18.25% discount to par). The fair value was determined by comparing the terms of the Note to the discounts and yields on comparable bonds. The fair value was also discounted for illiquidity and lack of ratings. The discount will be amortized to interest income over the life of the Note. The gain recognized on the sale was $62.8 million, and is included in realized investment gains (losses) on the statement of operations for the year ended December 31, 2008. The value of the Sherman Note and related interest receivable at December 31, 2009 and 2008 was $78.1 million and $72.1 million, respectively, and is included in Other Assets on our consolidated balance sheet.

In connection with the sale we waived, effective at the time at which the Note is paid in full, our right to any contingent consideration for the sale of the interests in Sherman that we sold in September 2007 to an entity owned by the management of Sherman. Under that sale, we are entitled to an additional cash payment if the purchaser's after-tax rate of return on the interests purchased exceeds a threshold that equates to an annual return of 16%.

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

Sherman Summary Income Statement:

	Year Ended December 31,	
	2008*	2007
	(Unaudited)	(Audited)
	(In millions of dollars)	
Revenues from receivable portfolios	$660.3	$ 994.3
Portfolio amortization	264.8	488.1
Revenues, net of amortization	395.5	506.2
Credit card interest income and fees	475.6	692.9
Other revenue	35.3	60.8
Total revenues	906.4	1,259.9
Total expenses	740.1	991.5
Income before tax	$166.3	$ 268.4
Company's income from Sherman	$ 35.6	$ 81.6

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

The "Company's income from Sherman" line item in the table above includes $3.6 million and $15.6 million of additional amortization expense in 2008 and 2007, respectively, above Sherman's actual amortization expense, related to additional interests in Sherman that we purchased during the third quarter of 2006 at a price in excess of book value.

2007

In September 2007, we sold a portion of our interest in Sherman to an entity owned by Sherman's senior management. The interest sold by us represented approximately 16% of Sherman's equity. We received a cash payment of $240.8 million in the sale. We recorded a $162.9 million pre-tax gain on this sale, which is reflected in our results of operations for the year ended December 31, 2007 as a realized gain.

11. Benefit plans

We have a non-contributory defined benefit pension plan covering substantially all domestic employees, as well as a supplemental executive retirement plan. We also offer both medical and dental benefits for retired domestic employees and their spouses under a postretirement benefit plan. In October 2008 we amended our postretirement benefit plan. The amendment, which was effective January 1, 2009, terminated the benefits provided to retirees once they reach the age of 65. This amendment reduced our accumulated postretirement benefit obligation as of December 31, 2008 as shown in the charts below. The benefit from this amendment

was amortized to net periodic benefit cost in 2009 and future periods. The following tables provide the components of aggregate annual net periodic benefit cost, the amounts recognized in the consolidated balance sheet, changes in the benefit obligation and the funded status of the pension, supplemental executive retirement and other postretirement benefit plans:

	Pension and Supplemental Executive Retirement Plans			Other Postretirement Benefits		
	12/31/2009	12/31/2008	12/31/2007	12/31/2009	12/31/2008	12/31/2007
	(In thousands of dollars)					
Components of Net Periodic Benefit Cost for fiscal year ending						
1. Company Service Cost	$ 8,154	$ 8,677	$ 10,047	$ 1,280	$ 3,886	$ 3,377
2. Interest Cost	14,300	13,950	12,225	1,463	4,966	3,874
3. Expected Return on Assets	(15,340)	(19,348)	(17,625)	(2,229)	(3,766)	(3,269)
4. Other Adjustments	—	—	—	—	—	—
Subtotal	7,114	3,279	4,647	514	5,086	3,982
5. Amortization of :						
a. Net Transition Obligation/(Asset)	—	—	—	—	283	283
b. Net Prior Service Cost/(Credit)	716	684	564	(6,059)	—	—
c. Net Losses/(Gains)	6,330	510	552	1,704	—	—
Total Amortization	7,046	1,194	1,116	(4,355)	283	283
6. Net Periodic Benefit Cost	14,160	4,473	5,763	(3,841)	5,369	4,265
7. Cost of SFAS 88 Events	—	—	—	—	—	—
8. Total Expense for Year	$ 14,160	$ 4,473	$ 5,763	$(3,841)	$ 5,369	$ 4,265

	12/31/2009	12/31/2008	12/31/2009	12/31/2008
	(In thousands of dollars)			
Reconciliation of Net Balance Sheet (Liability)/Asset				
1. Net Balance Sheet (Liability)/Asset at End of Prior Year	(22,310)	51,106	4,908	(23,143)
2. Amount Recognized in AOCI at End of Prior Year	104,420	2,247	(30,726)	2,737
3. (Accrued)/Prepaid Benefit Cost (before Adjustment) at End of Prior Year	82,110	53,353	(25,818)	(20,406)
4. Net Periodic Benefit (Cost)/Income for Fiscal Year	(14,160)	(4,473)	3,841	(5,369)
5. (Cost)/Income of SFAS 88 Events	—	—	—	—
6. Employer Contributions	10,000	33,000	—	—
7. Plan participants' contributions	—	—	(281)	(539)
8. Benefits Paid Directly by Company	231	230	738	496
9. Other Adjustment	—	—	105	—
10. (Accrued)/Prepaid Benefit Cost (before Adjustment) at End of Prior Year	78,181	82,110	(21,415)	(25,818)
11. Amount Recognized in AOCI at End of Year	(93,403)	(104,420)	36,190	30,726
12. Net Balance Sheet (Liability)/Asset at End of Year	(15,222)	(22,310)	14,775	4,908

Development of Funded Status

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
	(In thousands of dollars)			
Actuarial Value of Benefit Obligations				
1. Measurement Date	12/31/2009	12/31/2008	12/31/2009	12/31/2008
2. Accumulated Benefit Obligation	237,257	202,475	24,144	25,282
3. Projected Benefit Obligation	258,592	229,039	—	—
Funded Status				
1. Projected Accumulated Benefit Obligation	(258,592)	(229,039)	(24,144)	(25,282)
2. Plan Assets at Fair Value	243,369	206,729	38,920	30,190
3. Funded Status — Overfunded	N/A	N/A	14,776	4,909
4. Funded Status — Underfunded	(15,223)	(22,310)	N/A	N/A
Accumulated Other Comprehensive Income				
1. Net Actuarial (Gain)/Loss	$ 90,655	$ 101,646	$ 16,517	$ 27,319
2. Net Prior Service Cost/(Credit)	2,748	2,774	(52,707)	(58,045)
3. Net Transition Obligation/(Asset)	—	—	—	—
4. Total at Year End	93,403	104,420	(36,190)	(30,726)
Information for Plans with PBO / APBO in Excess of Plan Assets				
1. Projected Benefit Obligation/ Accumulated Postretirement Benefit Obligation	$ 258,592	$ 229,039	$ —	$ —
2. Accumulated Benefit Obligation/ Accumulated Postretirement Benefit Obligation	237,257	202,475	—	—
3. Fair Value of Plan Assets	243,369	206,729	—	—
Information for Plans with PBO / APBO Less Than Plan Assets				
1. Projected Benefit Obligation/ Accumulated Postretirement Benefit Obligation	$ —	$ —	$ —	$ —
2. Accumulated Benefit Obligation / Accumulated Postretirement Benefit Obligation	—	—	24,144	25,282
3. Fair Value of Plan Assets	—	—	38,920	30,190

The changes in the projected benefit obligation are as follows:

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
	(In thousands of dollars)			
Change in Projected Benefit Obligation				
1. Benefit Obligation at Beginning of Year	$229,039	$207,431	$25,282	$ 73,357
2. Company Service Cost	8,154	8,677	1,280	3,886
3. Interest Cost	14,300	13,950	1,463	4,966
4. Plan Participants' Contributions	—	—	281	539
5. Net Actuarial (Gain)/Loss due to Assumption Changes	17,428	(7,725)	359	3,523
6. Net Actuarial (Gain)/Loss due to Plan Experience	(5,800)	11,317	(2,490)	(49)
7. Benefit Payments from Fund	(4,988)	(4,381)	(467)	(1,265)
8. Benefit Payments Directly by Company	(231)	(230)	(738)	(496)
9. Plan Amendments	690	—	(721)	(59,179)
10. Other Adjustment			(105)	—
11. Benefit Obligation at End of Year	$258,592	$229,039	$24,144	$ 25,282

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

Change in Plan Assets

	12/31/2009	12/31/2008	12/31/2009	12/31/2008
	(In thousands of dollars)			
1. Fair Value of Plan Assets at Beginning of Year	$206,729	$258,536	$30,190	$ 50,215
2. Company Contributions	10,000	33,000	—	—
3. Benefit Payments from Fund	(4,988)	(4,381)	(467)	(1,265)
4. Actual Return on Assets	31,628	(80,426)	9,197	(18,760)
5. Fair Value of Plan Assets at End of Year	243,369	206,729	38,920	30,190

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
	(In thousands of dollars)			
Change in Net Actuarial Loss/(Gain)				
1. Net Actuarial Loss/(Gain) at end of prior year	$101,646	$ (1,211)	$ 27,319	$ 1,320
2. Amortization Credit/(Cost) For Year	(6,330)	(510)	(1,704)	—
3. Liability Loss/(Gain)	11,627	3,593	(2,131)	3,473
4. Asset Loss/(Gain)	(16,288)	99,774	(6,967)	22,526
5. Net Actuarial Loss/(Gain) at year end	$ 90,655	$101,646	$ 16,517	$ 27,319
Change in Accumulated Other Comprehensive Income (AOCI)				
1. AOCI in Prior Year	$104,420	$ 2,247	$(30,726)	$ 2,737
2. Increase/(Decrease) in AOCI				
a. Recognized during year — Net Recognized Transition Transition (Obligation)/Asset	—	—	—	(283)
b. Recognized during year — Prior Service (Cost)/Credit	(716)	(683)	6,059	—
c. Recognized during year — Net Actuarial (Losses)/Gains	(6,330)	(510)	(1,704)	—
d. Occurring during year — Prior Service Cost	690	—	(721)	(59,179)
e. Occurring during year — Net Actuarial Losses/(Gains)	(4,661)	103,366	(9,098)	25,999
f. Increase (decrease) due to adoption of SFAS 158	N/A	N/A	N/A	N/A
g. Other adjustments	—	—	—	—
3. AOCI in Current Year	$ 93,403	$104,420	$(36,190)	$(30,726)
Amortizations Expected to be Recognized During Next Fiscal Year				
1. Amortization of Net Transition Obligation/(Asset)	$ —	$ —	$ —	$ —
2. Amortization of Prior Service Cost/(Credit)	559	632	(6,138)	(6,059)
3. Amortization of Net Losses/(Gains)	5,754	6,876	1,025	1,888

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

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Actuarial Assumptions				
Weighted-Average Assumptions Used to Determine Benefit Obligations at year end				
1. Discount Rate	6.00%	6.50%	5.75%	6.50%
2. Rate of Compensation Increase	3.00%	3.00%	N/A	N/A
3. Social Security Increase	N/A	N/A	N/A	N/A
4. Pension Increases for Participants In-Payment Status	N/A	N/A	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for Year				
1. Discount Rate	6.50%	6.50%	6.50%	6.50%
2. Expected Long-term Return on Plan Assets	7.50%	7.50%	7.50%	7.50%
3. Rate of Compensation Increase	3.00%	4.50%	N/A	N/A
4. Social Security Increase	N/A	N/A	N/A	N/A
5. Pension Increases for Participants In-Payment Status	N/A	N/A	N/A	N/A
Assumed Health Care Cost Trend Rates at year end				
1. Health Care Cost Trend Rate Assumed for Next Year	N/A	N/A	8.50%	8.00%
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	2017	2015

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

During 2009 we moved a significant portion of the pension plan assets from equity securities to fixed income securities. The weighted-average asset allocations of the plans are as follows:

	Pension Plan		Other Postretirement Benefits	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Plan Assets				
Allocation of Assets at year end				
1. Equity Securities	30%	70%	100%	100%
2. Debt Securities	70%	19%	0%	0%
3. Real Estate	0%	2%	0%	0%
4. Other	0%	9%	0%	0%
5. Total	100%	100%	100%	100%
Target Allocation of Assets				
1. Equity Securities	30%	77%	100%	100%
2. Debt Securities	70%	20%	0%	0%
3. Real Estate	0%	3%	0%	0%
4. Other	0%	0%	0%	0%
5. Total	100%	100%	100%	100%

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

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31 2009.

Assets at Fair Value as of December 31, 2009

	Level 1	Level 2	Level 3	Total
		(In thousands of dollars)		
Pension Plan				
Mutual Funds	$46,938	$ —	$—	$ 46,938
Common Stocks	33,171	—	—	33,171
Corporate Bonds	—	129,435	—	129,435
U.S. Government Securities	10,332	—	—	10,332
Municipals	—	5,616	—	5,616
Foreign Bonds	—	15,834	—	15,834
Foreign Stocks	2,043	—	—	2,043
Total Assets at fair value	$92,484	$150,885	$—	$243,369

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

Fixed income allocation

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

Equity allocation

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, the postretirement plan assets at fair value as of December 31 2009.

Assets at Fair Value as of December 31, 2009

	Level 1	Level 2	Level 3	Total
		(In thousands of dollars)		
Postretirement Plan				
Mutual Funds	$38,920	$—	$—	$38,920
Total Assets at fair value	$38,920	$—	$—	$38,920

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

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

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

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

Given the long term nature of this portfolio and the lack of any immediate need for significant cash flow, it is anticipated that the equity investments will consist of growth stocks and will typically be at the higher end of the allocation ranges above. Investment in international oriented funds is limited to a maximum of 18% of the portfolio.

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

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
	(In thousands of dollars)			
Company Contributions				
Company Contributions for the Year Ending:				
1. Current — 1	$33,230	$10,530	$ —	$ 4,383
2. Current	10,231	33,230	—	—
3. Current + 1	10,575	10,284	—	—
Benefits Paid Directly by the Company				
Benefits Paid Directly by the Company for the Year Ending:				
1. Current — 1	$ 230	$ 230	$ 1,761	$ 1,478
2. Current	231	230	1,205	1,761
3. Current + 1	575	284	1,427	1,817
Plan Participants' Contributions				
Plan Participants' Contributions for the Year Ending:				
1. Current — 1	$ —	$ —	$ 539	$ 495
2. Current	—	—	281	539
3. Current + 1	—	—	409	436
Benefit Payments (Total)				
Actual Benefit Payments for the Year Ending:				
1. Current — 1	$ 4,611	$ 5,685	$ 1,222	$ 983
2. Current	5,218	4,611	923	1,222
Expected Benefit Payments for the Year Ending:				
3. Current + 1	7,734	6,169	1,018	1,380
4. Current + 2	8,827	7,256	1,238	1,608
5. Current + 3	10,287	8,444	1,454	1,920
6. Current + 4	11,500	9,655	1,567	2,140
7. Current + 5	13,892	10,895	1,824	2,224
8. Current + 6 — 10	83,034	75,028	11,926	14,354

The following other postretirement benefit payments, which reflect future service, are expected to be paid in the following fiscal years:

	Other Postretirement Benefits		
	Gross Benefits	Medicare Part D Subsidy	Net Benefits
		(In thousands of dollars)	
Fiscal Year			
2010	1,018	—	1,018
2011	1,238	—	1,238
2012	1,454	—	1,454
2013	1,567	—	1,567
2014	1,824	—	1,824
Years 2015 — 2019	11,926	—	11,926

Health care sensitivities

For measurement purposes, an 8.0% health care trend rate was used for pre-65 benefits for 2009. In 2010, the rate is assumed to be 8.5%, decreasing to 5.0% by 2017 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 of dollars)	
Effect on total service and interest cost components	$ 340	$ (294)
Effect on postretirement benefit obligation	2,654	(2,327)

We have a profit sharing and 401(k) savings plan for employees. At the discretion of the Board of Directors, we may make a profit sharing contribution of up to 5% of each participant's eligible compensation. We provide a matching 401(k) savings contribution on employees' before-tax contributions at a rate of 80% of the first $1,000 contributed and 40% of the next $2,000 contributed. We recognized profit sharing expense and 401(k) savings plan expense of $3.1 million, $4.5 million and $2.7 million in 2009, 2008 and 2007, respectively.

12. Income taxes

Net deferred tax assets and liabilities as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In thousands of dollars)	
Total deferred tax assets	$ 558,445	$ 396,024
Total deferred tax liabilities	(323,126)	(124,903)
Net deferred tax asset before valuation allowance	235,319	271,121
Valuation allowance	(238,490)	—
Net deferred tax (liability) asset	$ (3,171)	$ 271,121

The components of the net deferred tax (liability) asset as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In thousands of dollars)	
Unearned premium reserves	$ 18,668	$ 32,769
Convertible debentures	(34,208)	(41,137)
Net operating loss	299,582	—
Loss reserves	101,550	69,875
Unrealized (appreciation) depreciation in investments	(55,840)	27,521
Alternative minimum tax credit carryforward	—	27,719
Mortgage investments	19,073	17,765
Deferred compensation	19,621	18,605
Investments in joint ventures	(208,787)	(74,560)
Premium deficiency reserves	67,615	159,018
Loss due to “other than temporary” impairments	16,858	16,669
Other, net	(8,813)	16,877
Net deferred tax asset before valuation allowance	235,319	271,121
Valuation allowance	(238,490)	—
Net deferred tax (liability) asset	$ (3,171)	$271,121

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

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

In the first quarter of 2009, we redeemed the remaining balance of our tax and loss bonds of $431.5 million. Therefore, the remaining contingency reserves were released for tax purposes and are no longer available to support any net deferred tax assets. Beginning with the first quarter of 2009, any benefit from income taxes, relating to operating losses, has been reduced or eliminated by the establishment of a valuation allowance. The valuation allowance, established during 2009, reduced our benefit from income taxes by $238.5 million.

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

Giving full effect to the carryback of net operating losses for federal income tax purposes, we have approximately $856 million of net operating loss carryforwards on a regular tax basis and $130 million of net

operating loss carryforwards for computing the alternative minimum tax as of December 31, 2009. Any unutilized carryforwards are scheduled to expire at the end of tax year 2029.

The following summarizes the components of the benefit for income taxes:

	2009	2008	2007
	(In thousands of dollars)		
Current	$(621,170)	$(654,245)	$(369,507)
Deferred	175,194	250,940	(465,580)
Other	3,200	5,507	1,110
Benefit for income taxes	$(442,776)	$(397,798)	$(833,977)

We received $437.5 million, $938.1 million and $176.3 million in federal income tax in 2009, 2008 and 2007, respectively. These proceeds were primarily from the redemption of tax and loss bonds. At December 31, 2009, 2008 and 2007, we owned $0, $431.5 million and $1,319.6 million, respectively, of tax and loss bonds.

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

	2009	2008	2007
Federal statutory income tax benefit rate	(35.0)%	(35.0)%	(35.0)%
Valuation allowance	13.5	—	—
Tax exempt municipal bond interest	(3.6)	(7.5)	(2.6)
Other, net	—	0.5	0.3
Effective income tax benefit rate	(25.1)%	(42.0)%	(37.3)%

The Internal Revenue Service ("IRS") has completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and has issued assessments for unpaid taxes, interest and penalties. The primary adjustment in both examinations relates to our treatment of the flow through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICS"). The IRS has indicated that it does not believe that, for various reasons, we have established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We disagree with this conclusion and believe that the flow through income and loss from these investments was properly reported on our federal income tax returns in accordance with applicable tax laws and regulations in effect during the periods involved and have appealed these adjustments. The appeals process is ongoing and may last for an extended period of time, although it is possible that a final resolution may be reached during 2010. The assessment for unpaid taxes related to the REMIC issue for these years is $197.1 million in taxes and accuracy-related penalties, plus applicable interest. Other adjustments during taxable years 2000 through 2007 are not material, and have been agreed to with the IRS. On July 2, 2007, we made a payment of $65.2 million with the United States Department of the Treasury to eliminate the further accrual of interest. Although the resolution of this issue is uncertain, we believe that sufficient provisions for income taxes have been made for potential liabilities that may result. If the resolution of this matter differs materially from our estimates, it could have a material impact on our effective tax rate, results of operations and cash flows.

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		
	2009	2008	2007
	(In millions of dollars)		
Balance at beginning of year	$87.9	$86.1	$81.0
Additions based on tax positions related to the current year	0.3	0.7	1.1
Additions for tax positions of prior years	2.9	1.1	4.0
Reductions for tax positions of prior years	—	—	—
Settlements	—	—	—
Balance at end of year	$91.1	$87.9	$86.1

All of the unrecognized tax benefits would affect our effective tax rate. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. During 2009, we recognized $1.2 million in interest. As of December 31, 2009 and 2008 we had $22.6 million and $21.4 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 tax years prior to 2000.

The establishment of this liability requires estimates of potential outcomes of various issues and requires significant judgment. Although the resolutions of these issues are uncertain, we believe that sufficient provisions for income taxes have been made for potential liabilities that may result. If the resolutions of these matters differ materially from our estimates, it could have a material impact on our effective tax rate, results of operations and cash flows. Although it is reasonably possible that a significant change in the balance of unrecognized tax benefits may occur within the next twelve months, at this time it is not possible to estimate the range due to the uncertainty of the potential outcomes.

13. Shareholders' equity, dividend restrictions and statutory capital

Effective January 1, 2009 we adopted new accounting guidance regarding accounting for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. The guidance requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. The guidance requires retrospective application. As such, amounts relating to 2008 have been retrospectively adjusted to reflect our adoption of this guidance. The effect of this adoption increased our shareholder's equity by $77.3 million in 2008. (See note 2.)

In March 2008 we completed the public offering and sale of 42.9 million shares of our common stock at a price of $11.25 per share. We received net proceeds of approximately $460 million, after deducting underwriting discount and offering expenses. The number of shares and proceeds reflect the exercise in full of the underwriters' option to purchase additional shares of common stock. Of the 42.9 million shares of common stock sold, 7.1 million were newly issued shares and 35.8 million were common shares issued out of treasury. The cost of the treasury shares issued exceeded the proceeds from the sale by approximately $1.6 billion, which resulted in a deficiency. The deficiency was charged to paid-in capital related to previous treasury share transactions, and the remainder was charged to retained earnings.

A portion of the net proceeds of the offering along with the net proceeds of the debentures was used to increase the capital of MGIC, our principal insurance subsidiary, and a portion was also used for our general corporate purposes. (See Note 7.)

In June 2008 our shareholders approved an amendment to our Articles of Incorporation that increased the number of authorized shares of common stock from 300 million to 460 million. We have 28.9 million authorized shares reserved for conversion under our convertible debentures. (See Note 7.)

Dividends

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 and convertible debentures, discussed in Notes 6 and 7, are obligations of MGIC Investment Corporation, our holding company, and not of its subsidiaries. Payment of dividends from our insurance subsidiaries, which historically has been the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. During the first three quarters of 2008, MGIC paid three quarterly dividends of $15 million each to our holding company, which increased the cash resources of our holding company. MGIC paid no such dividends in 2009. In 2010 and 2011, MGIC cannot pay any dividends to our holding company without approval from the OCI. There can be no assurances that such approvals can be obtained in order to service the debt at our holding company In addition, under the terms of the Fannie Mae Agreement and the Freddie Mac Notification, MGIC may not pay dividends to our holding company without the GSE's approval, however the GSEs have consented to dividends of not more than $100 million in the aggregate to purchase existing debt obligations of our holding company or to pay such obligations at maturity. Our other insurance subsidiaries can pay $3.9 million of dividends to our holding company with regulatory notice in 2010.

In 2008 and 2007, we paid dividends of $8.2 million and $63.8 million, respectively, or $0.075 per share in 2008 and $0.775 per share in 2007. In the fourth quarter of 2008, we suspended the payment of dividends.

Accounting Principles

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

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

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

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

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

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

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

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

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

Year Ended December 31,	Net (loss) Income	Surplus	Contingency Reserve
	(In thousands of dollars)		
2009	$ (44,669)	$1,442,407	$ 417,587
2008	$(172,196)	$1,612,953	$2,087,265
2007	$ 467,928	$1,352,455	$3,465,428

Year Ended December 31,	Surplus Contributions Made to MGIC by the Parent Company	Surplus Contributions Made to Other Insurance Subsidiaries by the Parent Company	Dividends Paid by MGIC to the Parent Company
		(In thousands of dollars)	
2009	$ —	$ —	$ —
2008	550,000	175,000	170,000
2007	—	35,000	320,000

Statutory capital

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

Some states that regulate us have provisions that limit the risk-to-capital ratio of a mortgage guaranty insurance company to 25:1. This ratio is computed on a statutory basis for our combined insurance operations and is our net risk in force divided by our policyholders' position. Policyholders' position consists primarily of statutory policyholders' surplus, plus the statutory contingency reserve. The statutory contingency reserve is

reported as a liability on the statutory balance sheet. A mortgage insurance company is required to make annual contributions to the contingency reserve of approximately 50% of net earned premiums. These contributions must generally be maintained for a period of ten years. However, with regulatory approval a mortgage insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net earned premium in a calendar year. If an insurance company's risk-to-capital ratio exceeds the limit applicable in a state, it may be prohibited from writing new business in that state until its risk-to-capital ratio falls below the limit.

At December 31, 2009, MGIC exceeded MPP by $213 million, and we exceeded MPP by $300 million on a combined basis. At December 31, 2009 MGIC's risk-to-capital was 19.4:1 and was 22.1:1 on a combined basis. See Note 1 — "Nature of business — Capital" for a discussion of our capital plans.

Share-based compensation plans

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

The compensation cost that has been charged against income for the share-based plans was $15.2 million, $17.4 million and $19.3 million for the years ended December 31, 2009, 2008 and 2007, respectively. The related income tax benefit recognized for the share-based compensation plans was $5.3 million, $6.1 million and $6.8 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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

A summary of option activity in the stock incentive plans during 2009 is as follows:

	Weighted Average Exercise Price	Shares Subject to Option
Outstanding, December 31, 2008	$56.03	2,514,150
Granted	—	—
Exercised	—	—
Forfeited or expired	47.98	(215,750)
Outstanding, December 31, 2009	$56.78	2,298,400

There were no options granted in 2009, 2008 or 2007. For the year ended December 31, 2007, the total intrinsic value of options exercised (i.e., the difference in the market price at exercise and the price paid by the employee to exercise the option) was $0.7 million. The total amount of value received from exercise of options was $2.9 million and the related net tax benefit realized from the exercise of those stock options was $0.3 million for the year ended December 31, 2007. There were no options exercised in 2009 or 2008.

The following is a summary of stock options outstanding at December 31, 2009:

	Options Outstanding			Options Exercisable		
Exercise Price Range	Shares	Remaining Average Life (years)	Weighted Average Exercise Price	Shares	Remaining Average Life (years)	Weighted Average Exercise Price
$43.70 — 47.31	876,950	1.3	$44.71	876,950	1.3	$44.71
$53.70 — 68.20	1,421,450	2.6	$64.23	1,421,450	2.6	$64.23
Total	2,298,400	2.1	$56.78	2,298,400	2.1	$56.78

The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2009 was zero. The aggregate intrinsic value represents the total pre-tax intrinsic value based on our closing stock price of $5.78 as of December 31, 2009 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, 2009 was below all exercise prices, none of the outstanding options had any intrinsic value.

A summary of restricted stock or restricted stock units during 2009 is as follows:

	Weighted Average Grant Date Fair Market Value	Shares
Restricted stock outstanding at December 31, 2008	$37.89	2,370,930
Granted	3.11	1,675,750
Vested	30.34	(567,990)
Forfeited	43.72	(163,380)
Restricted stock outstanding at December 31, 2009	$21.27	3,315,310

At December 31, 2009, the 3.3 million shares of restricted stock outstanding consisted of 2.3 million shares that are subject to performance conditions (“performance shares”) and 1.0 million shares that are subject only to service conditions (“time vested shares”). The weighted-average grant date fair value of restricted stock granted during 2008 and 2007 was $15.38 and $62.17, respectively. The fair value of restricted stock granted is the closing price of the common stock on the New York Stock Exchange on the date of grant. At December 31, 2009, 1,668,889 shares were available for future grant under the 2002 stock incentive plan. Of the shares available for future grant, 1,544,469 are available for restricted stock awards. The total fair value of restricted stock vested during 2009, 2008 and 2007 was $1.3 million, $3.3 million and $20.7 million, respectively.

As of December 31, 2009, there was $34.6 million of total unrecognized compensation cost related to nonvested share-based compensation agreements granted under the Plan. Of this total, $28.4 million of unrecognized compensation costs relate to performance shares and $6.2 million relates to time vested shares. The unrecognized costs associated with the performance shares may or may not be recognized in future periods, depending upon whether or not the performance conditions are met. The cost associated with the time vested shares is expected to be recognized over a weighted-average period of 0.8 years.

14. Leases

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

Total rental expense under operating leases was $6.8 million, $8.1 million and $7.7 million in 2009, 2008 and 2007, respectively.

At December 31, 2009, minimum future operating lease payments are as follows (in thousands of dollars):

2010	$ 5,112
2011	2,755
2012	1,674
2013	565
2014 and thereafter	464
Total	$10,570

15. Litigation and contingencies

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

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. Seven mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in late December 2004 following denial of class certification in June 2004. Since December 2006, class action litigation was separately brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. While we are not a defendant in any of these cases, there can be no assurance that we will not be subject to future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on us.

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us.

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

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

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

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees' Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the "Complaint") on June 22, 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS, including its liquidity. The Complaint also names two officers of C-BASS with respect to the Complaint's allegations regarding C-BASS. The purported class period covered by the Complaint begins on October 12, 2006 and ends on February 12, 2008. The Complaint seeks damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported misstatements and omissions. With limited exceptions, our bylaws provide that our officers are entitled to indemnification from us for claims against them of the type alleged in the Complaint. Our motion to dismiss the Complaint was granted on February 18, 2010. Under the Court's order, plaintiffs may, on or before March 18, 2010, move for leave to file an amended complaint. We are unable to predict the outcome of these consolidated cases or estimate our associated expenses or possible losses. Other lawsuits alleging violations of the securities laws could be brought against us.

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

As we previously disclosed, for some time we have had discussions with lenders regarding their objections to rescissions that in the aggregate are material. On December 17, 2009, Countrywide filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco against MGIC. Countrywide's complaint alleges that MGIC has denied, and continues to deny, valid mortgage insurance claims submitted by Countrywide and says it seeks declaratory relief regarding the proper interpretation of the flow insurance policies at issue. On January 19, 2010, we removed this case to the United States District Court for the Northern District of California. On February 18, 2010, Countrywide filed a motion to have the case remanded to the Superior Court of the State of California in San Francisco. On February 24, 2010, we commenced an arbitration action against Countrywide seeking a determination that MGIC was entitled to deny and/or rescind coverage on the loans involved in the arbitration demand, which numbered more than 1,400 loans as of the filing of the demand. On February 25, 2010, we filed a motion to stay proceedings in the Northern District of California in view of, among other things, the parties' arbitration agreement and the pending arbitration. We intend to defend MGIC against the allegations in Countrywide's complaint, and to pursue the arbitration, vigorously. However, we are unable to predict the outcome of these proceedings or their effect on us. Also we are unable to make a reasonable estimate of what the potential liability to us would be in the event we would be required to change our current rescission practices. During 2008 and 2009, rescissions of Countrywide-related flow loans mitigated our paid losses by approximately

$100 million. In addition, we have a substantial pipeline of claims investigations involving loans related to Countrywide that we expect will eventually result in future rescissions.

Our mortgage insurance business utilizes its underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. 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, we have an established reserve for such obligations. The cost of remedies provided by us to customers for failing to meet these standards has not been material to our financial position or results of operations for the years ended December 31, 2009, 2008 and 2007. However, a generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs, and claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years, including for 2006 and 2007, involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans on which we also provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. In the second half 2009, we experienced an increase in claims for contract underwriting remedies, which may continue. Hence, there can be no assurance that contract underwriting remedies will not be material in the future.

See note 12 — “Income taxes” for a description of federal income tax contingencies.

16. Unaudited quarterly financial data

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

2008	Quarter				2008
	First	Second	Third	Fourth	Year
	(In thousands of dollars, except share data)				
Net premiums written	$ 368,454	$ 371,797	$ 365,042	$ 360,754	$1,466,047
Net premiums earned	345,488	350,292	342,312	355,088	1,393,180
Investment income, net of expenses	72,482	76,982	78,612	80,441	308,517
Loss incurred, net	691,648	688,143	788,272	903,438	3,071,501
Change in premium deficiency reserves	(263,781)	(158,898)	(204,240)	(129,586)	(756,505)
Underwriting and other expenses	76,986	68,236	62,424	63,668	271,314
Net loss	(34,497)	(99,885)	(115,385)	(275,588)	(525,355)
Loss per share(a):					
Basic	(0.41)	(0.81)	(0.93)	(2.23)	(4.61)
Diluted	(0.41)	(0.81)	(0.93)	(2.23)	(4.61)

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

Directors

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

Karl E. Case
Professor of Economics
Wellesley College
Wellesley, MA

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

David S. Engelman
Private Investor
San Diego, CA

Thomas M. Hagerty
Managing Director
Thomas H. Lee Partners LP
Boston, MA
A private investment firm

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

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

Michael E. Lehman
Former Executive Vice President and Chief Financial Officer
Sun Microsystems, Inc.
Menlo Park, CA
A provider of computer systems and professional support services

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

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

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

Officers

MGIC Investment Corporation

Chairman and Chief Executive Officer
Curt S. Culver

President and Chief Operating Officer
Patrick Sinks

Executive Vice Presidents
Jeffrey H. Lane
General Counsel and Secretary

J. Michael Lauer
Chief Financial Officer

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

Joseph J. Ziino, Jr.
Regulatory Relations, Associate General Counsel and Assistant Secretary

Vice President
Timothy J. Mattke
Controller

Mortgage Guaranty Insurance Corporation

Chairman and Chief Executive Officer
Curt S. Culver

President and Chief Operating Officer
Patrick Sinks

Executive Vice Presidents
Jeffrey H. Lane
General Counsel and Secretary

J. Michael Lauer
Chief Financial Officer

Lawrence J. Pierzchalski
Risk Management

Senior Vice Presidents
Carla A. Gallas
Claims

James A. Karpowicz
Chief Investment Officer and Treasurer

Michael G. Meade
Information Services and Chief Information Officer

Steven T. Snodgrass
Capital Markets

Cheryl L. Webb
Field Operations

Joseph J. Ziino, Jr.
Regulatory Relations, Associate General Counsel and Assistant Secretary

Michael J. Zimmerman
Investor Relations

Vice Presidents
Gary A. Antonovich
Internal Audit

Stephen M. Dempsey
Managing Director

Sandra K. Dunst
Claims Operations

Edward G. Durant
Analytic Services

David A. Greco
Credit Policy

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

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

Steven F. Himebauch
National Accounts

James J. Hughes
Managing Director

W. Thomas Hughes
Managing Director

Malcom T. Hurst
Sales

Eric B. Klopfer
International Strategic Initiatives and Regulatory, Assistant General Counsel Affairs

Mark J. Krauter
National Accounts

Robin D. Mallory
Managing Director

Mark E. Marple
Mortgage Banking Strategies

Timothy J. Mattke
Controller

Salvatore A. Miosi
Marketing

Jeffrey N. Nielsen
Financial Planning/Analysis

Lisa M. Pendergast
Assistant Treasurer

Eric L. Rice
Sales

John R. Schroeder
Risk Management

Julie K. Sperber
Assistant Controller

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

James R. Stirling
Information Services and Chief Technology Oficer

Kurt J. Thomas
Human Resources

Steven M. Thompson
Risk Management

Kathleen E. Valenti
Loss Mitigation

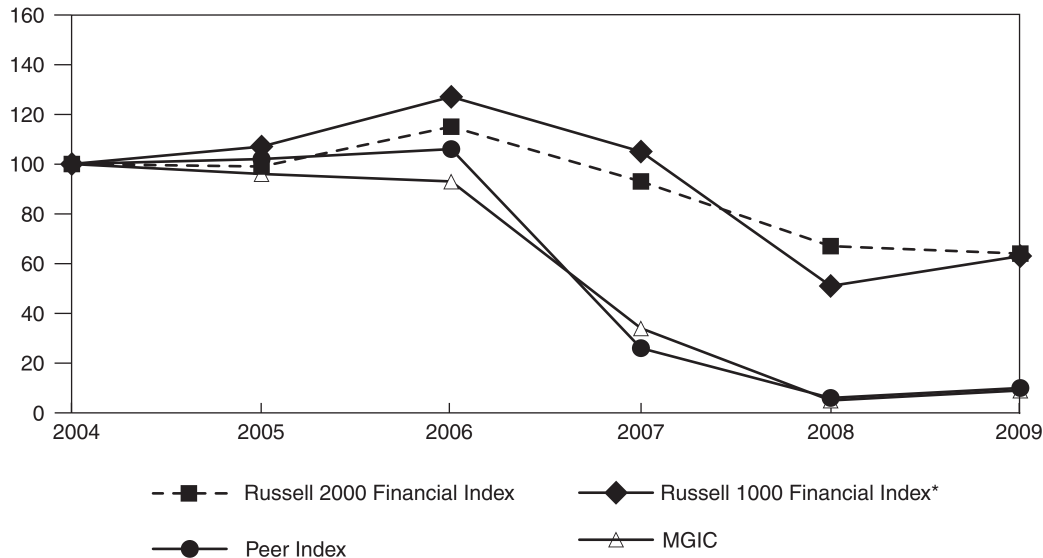
Bernhard W. Verhoeven
Risk Management

John S. Wiseman
Managing Director

Jerry L. Wormmeester
National Accounts

Performance Graph

The graph below compares the cumulative total return on (a) our Common Stock, (b) a composite peer group index selected by us, (c) the Russell 1000 Financial Index and (d) the Russell 2000 Financial Index. Our peer group consists of Radian Group Inc., The PMI Group, Inc. and Triad Guaranty Inc. We selected this peer group because it includes each of the public companies, other than us, for which private mortgage insurance is the primary business. In 2008, Triad Guaranty Inc. ceased writing new private mortgage insurance. We nevertheless include Triad Guaranty Inc. in our peer group because it was writing business during the majority of the period covered by the graph below and because we did not want our peer group to consist of only two companies. As of October 1, 2009, the Russell 1000 Financial Index was discontinued. As a result, we decided to replace it with the Russell 2000 Financial Index, an index that includes our common stock.



	2004	2005	2006	2007	2008	2009
Russell 2000 Financial Index	100	99	115	93	67	64
Russell 1000 Financial Index*	100	107	127	105	51	63*
Peer Index	100	102	106	26	6	10
MGIC	100	96	93	34	5	9

* As of October 1, 2009, the Russell 1000 Financial Index was discontinued. As a result, its performance is through October 1, 2009 rather than December 31, 2009.

Shareholder Information

The Annual Meeting
The Annual Meeting of Shareholders of MGIC Investment Corporation will convene at 9 a.m. Central Time on May 6, 2010 at the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, Wisconsin.

10-K Report
Copies of the Annual Report on Form 10-K, as amended, for the year ended December 31, 2009, filed with the Securities and Exchange Commission, are available without charge to shareholders on request from:

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

The Annual Report on Form 10-K referred to above includes as exhibits certifications from the Company's Chief Executive Officer and Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act. Following the 2009 Annual Meeting of Shareholders, the Company's Chief Executive Officer submitted a Written Affirmation to the New York Stock Exchange that he was not aware of any violation by the Company of the corporate governance listing standards of the Exchange.

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

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

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

Shareholder Services
(414) 347-6596

MGIC Stock
MGIC Investment Corporation Common Stock is listed on the New York Stock Exchange under the symbol MTG. At March 5, 2010, 125,561,696 shares were outstanding. The following table sets forth for 2008 and 2009 by quarter the high and low sales prices of the Common Stock on the New York Stock Exchange.

	2008		2009	
Quarters	High	Low	High	Low
1st	$22.72	$9.66	$4.45	$0.70
2nd	14.14	5.41	5.90	1.32
3rd	12.50	3.51	9.94	3.27
4th	8.91	1.58	7.56	3.72

In 2008, the Company declared and paid the following cash dividends:

	2008
Quarters	
1st	$.025
2nd	.025
3rd	.025
4th	—
	$.075

In October 2008, the Company's Board discontinued payment of our dividend.

The Company is a holding company and the payment of dividends from its insurance subsidiaries is restricted by insurance regulation. For a discussion of these restrictions, see "Management's Discussion and Analysis — Liquidity and Capital Resources" and Note 13 of the Notes to the Consolidated Financial Statements.

As of February 15, 2010, the number of shareholders of record was 138. In addition, we estimate that there are more than 17,000 beneficial owners of shares held by brokers and fiduciaries.

MGIC INVESTMENT CORPORATION

MGIC Investment Corporation
MGIC Plaza, Milwaukee, Wisconsin 53202 • http://mtg.mgic.com