

MGIC INVESTMENT CORP
Form 10-Q
May 10, 2012

FORM 10-Q
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarterly period ended March 31, 2012

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

For the transition period from _____ to _____

Commission file number 1-10816

MGIC INVESTMENT CORPORATION
(Exact name of registrant as specified in its charter)

WISCONSIN 39-1486475
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)
organization)

250 E. KILBOURN AVENUE 53202
MILWAUKEE, WISCONSIN (Zip Code)
(Address of principal executive offices)

(414) 347-6480
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS OF STOCK	PAR VALUE	DATE	NUMBER OF SHARES
Common stock	\$1.00	04/30/12	202,030,282

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 2012 and December 31, 2011

(Unaudited)

	March 31, 2012	December 31, 2011
	(In thousands)	
ASSETS		
Investment portfolio (notes 7 and 8):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2012 - \$5,460,402; 2011 - \$5,700,894)	\$5,533,466	\$ 5,820,900
Equity securities	2,783	2,747
Total investment portfolio	5,536,249	5,823,647
Cash and cash equivalents	902,606	995,799
Accrued investment income	52,014	55,666
Reinsurance recoverable on loss reserves (note 4)	142,289	154,607
Reinsurance recoverable on paid losses	17,490	19,891
Premium receivable	67,734	71,073
Home office and equipment, net	27,590	28,145
Deferred insurance policy acquisition costs (note 2)	8,701	7,505
Other assets	57,441	59,897
Total assets	\$6,812,114	\$ 7,216,230
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (note 12)	\$4,209,170	\$ 4,557,512
Premium deficiency reserve (note 13)	120,634	134,817
Unearned premiums	147,375	154,866
Senior notes (note 3)	170,548	170,515
Convertible senior notes (note 3)	345,000	345,000
Convertible junior debentures (note 3)	352,591	344,422
Other liabilities	335,244	312,283
Total liabilities	5,680,562	6,019,415
Contingencies (note 5)		
Shareholders' equity (note 14):		
Common stock (one dollar par value, shares authorized 460,000; shares issued 2012 and 2011 - 205,047; shares outstanding 2012 - 202,030; 2011 - 201,172)	205,047	205,047
Paid-in capital	1,129,024	1,135,821
Treasury stock (shares at cost 2012 - 3,016; 2011 - 3,875)	(105,049)	(162,542)
Accumulated other comprehensive (loss) income, net of tax (note 9)	(14,711)	30,124
Retained deficit	(82,759)	(11,635)
Total shareholders' equity	1,131,552	1,196,815

Total liabilities and shareholders' equity	\$6,812,114	\$ 7,216,230
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See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2012 and 2011
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(In thousands of dollars, except per share data)	
Revenues:		
Premiums written:		
Direct	\$ 263,795	\$ 287,717
Assumed	641	730
Ceded	(9,450)	(13,984)
Net premiums written	254,986	274,463
Decrease in unearned premiums, net	7,419	14,083
Net premiums earned	262,405	288,546
Investment income, net of expenses	37,408	56,543
Realized investment gains, net	77,561	5,761
Total other-than-temporary impairment losses	-	-
Portion of losses recognized in other comprehensive income, before taxes	-	-
Net impairment losses recognized in earnings	-	-
Other revenue	2,309	2,263
Total revenues	379,683	353,113
Losses and expenses:		
Losses incurred, net (note 12)	337,088	310,431
Change in premium deficiency reserve (note 13)	(14,183)	(9,018)
Amortization of deferred policy acquisition costs (note 2)	1,670	1,725
Other underwriting and operating expenses, net	48,673	55,825
Interest expense	24,627	26,042
Total losses and expenses	397,875	385,005
Loss before tax	(18,192)	(31,892)
Provision for income taxes (note 11)	1,363	1,769
Net loss	\$ (19,555)	\$ (33,661)
Loss per share (note 6):		
Basic	\$ (0.10)	\$ (0.17)
Diluted	\$ (0.10)	\$ (0.17)
Weighted average common shares outstanding - diluted (note 6)	201,528	200,744

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 Three Months Ended March 31, 2012 and 2011
 (Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Net Loss	\$(19,555)	\$(33,661)
Other comprehensive income (loss), net of tax (note 9):		
Unrealized holding gains (losses) for the period included in accumulated other comprehensive income (loss)	16,995	(20,189)
Less: net gains (losses) reclassified out of accumulated other comprehensive income (loss) into earnings for the period	62,913	5,415
Change in unrealized investment gains and losses	(45,918)	(25,604)
Foreign currency translation adjustment	1,083	917
Other comprehensive loss, net of tax	(44,835)	(24,687)
Total comprehensive loss	\$(64,390)	\$(58,348)

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Year Ended December 31, 2011 and Three Months Ended March 21, 2012
(Unaudited)

	Common stock	Paid-in capital	Treasury stock (In thousands)	Accumulated other comprehensive income (loss)	Retained earnings (deficit)
Balance, December 31, 2010	\$205,047	\$1,138,942	\$(222,632)	\$ 22,136	\$525,562
Net loss					(485,892)
Change in unrealized investment gains and losses, net	-	-	-	21,057	-
Reissuance of treasury stock, net	-	(14,577)	60,090	-	(51,305)
Equity compensation	-	11,456	-	-	-
Defined benefit plan adjustments, net	-	-	-	(12,862)	-
Unrealized foreign currency translation adjustment	-	-	-	(207)	-
Balance, December 31, 2011	\$205,047	\$1,135,821	\$(162,542)	\$ 30,124	\$(11,635)
Net loss					(19,555)
Change in unrealized investment gains and losses, net (notes 7 and 8)	-	-	-	(45,918)	-
Reissuance of treasury stock, net	-	(8,656)	57,493	-	(51,569)
Equity compensation	-	1,859	-	-	-
Unrealized foreign currency translation adjustment	-	-	-	1,083	-
Balance, March 31, 2012	\$205,047	\$1,129,024	\$(105,049)	\$ (14,711)	\$(82,759)

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31, 2012 and 2011
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$(19,555)	\$(33,661)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and other amortization	24,696	19,560
Deferred tax provision (benefit)	72	(25)
Realized investment gains, excluding impairment losses	(77,561)	(5,761)
Other	(2,609)	302
Change in certain assets and liabilities:		
Accrued investment income	3,652	(3,382)
Reinsurance recoverable on loss reserves	12,318	37,251
Reinsurance recoverable on paid losses	2,401	(4,288)
Premiums receivable	3,339	3,732
Deferred insurance policy acquisition costs	(1,196)	186
Loss reserves	(348,342)	(412,677)
Premium deficiency reserve	(14,183)	(9,019)
Unearned premiums	(7,491)	(14,496)
Income taxes payable (current)	844	1,345
Net cash used in operating activities	(423,615)	(420,933)
Cash flows from investing activities:		
Purchase of fixed maturities	(1,833,039)	(900,110)
Purchase of equity securities	(21)	(38)
Proceeds from sale of fixed maturities	1,519,761	625,893
Proceeds from maturity of fixed maturities	617,036	498,726
Net increase in payable for securities	26,685	4,642
Net cash provided by investing activities	330,422	229,113
Net cash provided by financing activities	-	-
Net decrease in cash and cash equivalents	(93,193)	(191,820)
Cash and cash equivalents at beginning of period	995,799	1,304,154
Cash and cash equivalents at end of period	\$902,606	\$1,112,334

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012
(Unaudited)

Note 1 - Basis of presentation

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.

The accompanying unaudited consolidated financial statements of MGIC Investment Corporation and its wholly-owned subsidiaries have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission ("SEC") for interim reporting and do not include all of the other information and disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2011 included in our Annual Report on Form 10-K. As used below, "we," "our" and "us" refer to MGIC Investment Corporation's consolidated operations or to MGIC Investment Corporation, as the context requires.

In the opinion of management the accompanying financial statements include all adjustments, consisting primarily of normal recurring accruals, necessary to fairly state our financial position and results of operations for the periods indicated. The results of operations for the interim period may not be indicative of the results that may be expected for the year ending December 31, 2012.

Capital

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

At March 31, 2012, MGIC's risk-to-capital ratio was 20.3 to 1 and its policyholder position exceeded the MPP by \$197 million. We currently expect MGIC's risk-to-capital to exceed 25 to 1 in the second half of 2012. At March 31, 2012, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 22.2 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements.

Under a statutory accounting principle that became effective January 1, 2012, as MGIC approaches a risk-to-capital ratio of 25 to 1, the benefit to statutory capital allowed for deferred tax assets will be eliminated. Effectively, MGIC's risk-to-capital ratio, computed while excluding any deferred tax assets from statutory capital, must be under 25 to 1 in order to include such assets in the amount of available statutory capital. Any exclusion of these assets would negatively impact our statutory capital for purposes of calculating compliance with the Capital Requirements. At March 31, 2012, deferred tax assets of \$141 million were included in MGIC's statutory capital.

As discussed below, in accordance with Accounting Standards Codification ("ASC") 450-20, we have not accrued an estimated loss in our financial statements to reflect possible adverse developments in litigation or other dispute resolution proceedings. An accrual, if required and depending on the amount, could result in material non-compliance with Capital Requirements. For more information about factors that could negatively impact our compliance with Capital Requirements, which depending on the severity of adverse outcomes could result in material non-compliance with Capital Requirements, see Note 5 – "Litigation and contingencies."

Although we currently meet the Capital Requirements of Wisconsin, the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") has waived them until December 31, 2013. In place of the Capital Requirements, the OCI Order containing the waiver of Capital Requirements (the "OCI Order") provides that MGIC can write new business as long as it maintains regulatory capital that the OCI determines is reasonably in excess of a level that would constitute a financially hazardous condition. The OCI Order requires MGIC Investment Corporation, beginning January 1, 2012 and continuing through the earlier of December 31, 2013 and the termination of the OCI Order (the "Covered Period"), to make cash equity contributions to MGIC as may be necessary so that its "Liquid Assets" are at least \$1 billion (this portion of the OCI Order is referred to as the "Keepwell Provision"). "Liquid Assets," which include those of MGIC as well as those held in certain of our subsidiaries, excluding MGIC Indemnity Corporation ("MIC") and its reinsurance affiliates, are the sum of (i) the aggregate cash and cash equivalents, (ii) fair market value of investments and (iii) assets held in trusts supporting the obligations of captive mortgage reinsurers to MGIC. As of March 31, 2012, "Liquid Assets" were approximately \$5.9 billion. Although we do not expect that MGIC's Liquid Assets will fall below \$1 billion during the Covered Period, we do expect the amount of Liquid Assets to continue to decline materially after March 31, 2012 and through the end of the Covered Period as MGIC's claim payments and other uses of cash continue to exceed cash generated from operations. For more information about factors that could negatively impact MGIC's Liquid Assets, see Note 5 – "Litigation and contingencies."

Previously, MGIC also applied for waivers in the other jurisdictions with Capital Requirements and received waivers from some of them. Most of those waivers expired December 31, 2011. Although we currently meet the Capital Requirements in those other jurisdictions, we have re-applied for waivers of them. Some jurisdictions denied our previous request for a waiver and those and other jurisdictions may deny our current or future requests. The OCI and other insurance departments, in their sole discretion, may modify, terminate or extend their waivers, although any modification or extension of the Keepwell Provision requires our written consent. If the OCI or another insurance department modifies or terminates its waiver, or if it fails to grant a waiver or renew its waiver after expiration, depending on the circumstances, MGIC could be prevented from writing new business anywhere, in the case of the waiver from the OCI, or in the particular jurisdiction, in the case of the other waivers, if MGIC does not comply with the Capital Requirements. New insurance written in the jurisdictions that have Capital Requirements represented approximately 50% of new insurance written in 2011 and the first quarter of 2012. If we were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the Capital Requirements or obtained a necessary waiver to allow it to once again write new business.

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

We have implemented a plan to write new mortgage insurance in MIC, a direct subsidiary of MGIC, in selected jurisdictions in order to address our expectation that in the future MGIC will not meet the Capital Requirements discussed above and may not be able to obtain appropriate waivers of them. As part of this plan, and pursuant to the OCI Order, MGIC contributed \$200 million to MIC in January 2012. As of March 31, 2012, MIC had statutory capital of \$437 million. MIC is licensed to write business in all jurisdictions and has received the necessary approvals from Fannie Mae and Freddie Mac (the "GSEs") and the OCI to write business in all of the jurisdictions in which we expect MGIC would be prohibited from continuing to write new business in the event of MGIC's failure to meet Capital Requirements and obtain waivers of them. 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 Capital Requirements, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC is not eligible to insure loans purchased or guaranteed by Fannie Mae or Freddie Mac. If this were to occur, we would need to seek the GSEs' approval to allow MIC to write business in those jurisdictions.

Under an agreement in place with Fannie Mae, MIC will be eligible to write mortgage insurance only in those jurisdictions (other than Wisconsin) in which MGIC cannot write new insurance due to MGIC's failure to meet Capital Requirements and to obtain a waiver of them. The agreement with Fannie Mae includes certain conditions and restrictions to its continued effectiveness including the continued effectiveness of the OCI Order and the continued applicability of the Keepwell Provisions in the OCI Order. As noted above, we cannot assure you that the OCI will not modify or revoke the OCI Order, or that it will renew it when it expires.

Under a letter dated January 23, 2012, Freddie Mac has approved MIC to write business only in those jurisdictions where MGIC does not meet the Capital Requirements and does not obtain waivers of them. Freddie Mac anticipates that MGIC will obtain waivers of the minimum Capital Requirements of most jurisdictions that have such requirements. Therefore, approval of MIC as an eligible mortgage insurer is currently only given for New York, Idaho and Puerto Rico. The approval from Freddie Mac includes certain conditions and restrictions to its continued effectiveness including requirements that while MIC is writing new business under the Freddie Mac approval, MIC may not exceed a risk-to-capital ratio of 20 to 1; MGIC and MIC comply with all terms and conditions of the OCI Order, the OCI Order remain effective, and that MIC provide MGIC access to the capital of MIC in an amount necessary for MGIC to maintain sufficient liquidity to satisfy its obligations under insurance policies issued by MGIC (as requested by the OCI, we have notified Freddie Mac that the OCI has objected to this last requirement and others contained in the Freddie Mac approval because those requirements do not recognize the OCI's statutory authority and obligations). As noted above, we cannot assure you that the OCI will not modify or revoke the OCI Order, or that it will renew it when it expires. As noted above, Freddie Mac has approved MIC as an eligible insurer only through December 31, 2012 and Freddie Mac may modify the terms and conditions of its approval at any time without notice and may withdraw its approval of MIC as an eligible insurer at any time in its sole discretion. Unless Freddie Mac extends the term of its approval of MIC, whether MIC will continue as an eligible mortgage insurer after December 31, 2012 will be determined by Freddie Mac's mortgage insurer eligibility requirements then in effect.

Since mid-2011, two of our competitors, Republic Mortgage Insurance Company (“RMIC”) and PMI Mortgage Insurance Co. (“PMI”), ceased writing new insurance commitments, were placed under the supervision of the insurance departments of their respective domiciliary states and are subject to partial claim payment plans, under which their claim payments will be made at 50% for a certain period of time, with the remaining amount deferred. (PMI’s parent company subsequently filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code.)

A failure to meet the Capital Requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force, even in scenarios in which it fails to meet Capital Requirements, we cannot assure you that the events that led to MGIC failing to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC’s claims paying resources and claim obligations are based on various assumptions. These assumptions include our anticipated rescission activity, the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received, 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 when anticipated claims will be received, housing values, and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims that will be rescinded and the outcome of any legal proceedings or settlement discussions related to rescissions that we make, including those with Countrywide. (For more information about the Countrywide legal proceedings, see Note 5 – “Litigation and contingencies.”)

Historically, rescissions of coverage on loans for which claims have been submitted to us were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescission of coverage on loans has materially mitigated our paid losses. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately \$1.2 billion; in 2011, rescissions mitigated our paid losses by approximately \$0.6 billion; and in the first quarter of 2012, rescissions mitigated our paid losses by approximately \$80 million (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, 13% to 19% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

As previously disclosed, in the second half of 2011, Countrywide materially increased the percentage of loans for which it is rebutting the assertions that we make prior to rescinding a loan. When we receive a rebuttal prior to a rescission, we do not rescind coverage until after we respond to the rebuttal. This resulted in our having, as of December 31, 2011, a substantial pipeline of pre-rescission rebuttals that, based on our historical experience with such rebuttals, we expected would eventually result in rescissions. As discussed in Note 5 – “Litigation and contingencies” we are in mediation in an effort to resolve our dispute with Countrywide. In connection with that mediation, we have voluntarily suspended rescissions of coverage related to loans that we believe could be included in a potential resolution, including those that had been in our December 31, 2011 pipeline of pre-rescission rebuttals. As of March 31, 2012, coverage on approximately 860 loans, representing total potential claim payments of approximately \$65 million, that we had determined was rescindable was affected by our decision to suspend such rescissions. Substantially all of these potential rescissions relate to claims received beginning in the first quarter of 2011 or later and, had we not suspended rescissions, most of these rescissions would have mitigated paid claims in the first quarter of 2012. In addition, as of March 31, 2012, approximately 250 rescissions, representing total potential claim payments of approximately \$16 million, were affected by our decision to suspend rescissions for customers other than Countrywide. Although the loans with suspended rescissions are included in our delinquency inventory, for purposes of determining our reserve amounts, it is assumed that coverage on these loans will be rescinded. The decision to suspend these potential rescissions does not represent the only reason for the recent decline in the percentage of claims that have been resolved through rescissions and we continue to expect that our rescissions will continue to decline.

Our loss reserving methodology incorporates the effects we expect rescission activity to have on the losses we expect to pay on our delinquent inventory. Historically, the number of rescissions that we have reversed has been immaterial. A variance between ultimate actual rescission and reversal rates and these estimates, as a result of the outcome of claims investigations, litigation, settlements or other factors, could materially affect our losses. We estimate rescissions mitigated our incurred losses by approximately \$2.5 billion in 2009 and \$0.2 billion in 2010. In 2011 and the first quarter of 2012, we estimate that rescissions had no significant impact on our losses incurred. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. At March 31, 2012, we had 160,473 loans in our primary delinquency inventory; a significant portion of these loans will cure their delinquency or be rescinded and will not involve paid claims.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. For the majority of our rescissions since 2009 that are not subject to a settlement agreement, the period in which a dispute may be brought has not ended. We consider a rescission resolved for financial reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. For more information about these legal proceedings, see Note 5 – “Litigation and contingencies.”

In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. We continue to discuss with other lender-customers their objections to material rescissions and have reached settlement terms with several of our significant lender-customers. In connection with some of these settlement discussions, we have suspended rescissions related to loans that we believe could be included in potential settlements. As of March 31, 2012, approximately 250 rescissions, representing total potential claim payments of approximately \$16 million, were affected by our decision to suspend rescissions for customers other than Countrywide. Any definitive agreement with these customers would be subject to GSE approval under announcements they made last year. One GSE has approved one of our settlement agreements, with no related suspended rescissions and we believe that it is probable (within the meaning of ASC 450-20) that this agreement will be approved by the other GSE. As a result, we considered the terms of the agreement when establishing our loss reserves at March 31, 2012. This agreement did not have a significant impact on our established loss reserves. Neither GSE has approved our other settlement agreements and the terms of these other agreements were not considered when establishing our loss reserves at March 31, 2012. The terms of our settlement agreements vary and there can be no assurances that either GSE will approve any other settlement agreements. We have also reached settlement agreements that do not require GSE approval, but they have not been material in the aggregate.

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2011 amounts to conform to 2012 presentation.

Subsequent events

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

Note 2 - New Accounting Guidance

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

In June 2011, as amended in December 2011, new guidance was issued requiring entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. Our disclosures reflect the requirements of this new guidance beginning with the first quarter of 2012. Other provisions of this guidance regarding reclassifications out of other comprehensive income have been delayed.

In October 2011, new guidance was issued on accounting for costs associated with acquiring or renewing insurance contracts. The new guidance changed how insurance companies account for acquisition costs, particularly in determining what costs are deferrable. The new requirements are effective beginning in the first quarter of 2012 and we have adopted them prospectively. Under the new guidance in effect, we deferred \$1.5 million of acquisition costs in the first quarter of 2012. In the first quarter of 2011 we deferred \$1.3 million in acquisition costs and under the new guidance we would have deferred \$1.8 million of such costs. Acquisition costs are not deferred on a statutory accounting basis, therefore this new guidance has no impact on our statutory capital.

Note 3 – Debt

Senior Notes

At March 31, 2012 and December 31, 2011 we had outstanding \$171 million, 5.375% Senior Notes due in November 2015. During 2011 we repurchased \$129 million in par value of our 5.375% Senior Notes due in November 2015. We recognized a gain on the repurchases of approximately \$27.7 million, which is included in other revenue on the Consolidated Statements of Operations for the year ended December 31, 2011. Covenants in the Senior Notes include the requirement that there be no liens on the stock of the designated subsidiaries unless the Senior Notes are equally and ratably secured; that there be no disposition of the stock of designated subsidiaries unless all of the stock is disposed of for consideration equal to the fair market value of the stock; and that we and the designated subsidiaries preserve our corporate existence, rights and franchises unless we or any such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Senior Notes. A designated subsidiary is any of our consolidated subsidiaries which has shareholders' equity of at least 15% of our consolidated shareholders' equity. We were in compliance with all covenants at March 31, 2012.

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

There were no interest payments on the Senior Notes in the three months ended March 31, 2012 or 2011.

Convertible Senior Notes

At March 31, 2012 and December 31, 2011 we had outstanding \$345 million principal amount of 5% Convertible Senior Notes due in 2017. Interest on the Convertible Senior Notes is payable semi-annually in arrears on May 1 and November 1 of each year. We do not have the right to defer interest payments on the Convertible Senior Notes. The Convertible Senior Notes will mature on May 1, 2017, unless earlier converted by the holders or repurchased by us. Covenants in the Convertible Senior Notes include a requirement to notify holders in advance of certain events and that we and the designated subsidiaries (defined above) preserve our corporate existence, rights and franchises unless we or any such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Convertible Senior Notes.

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

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

There were no interest payments on the Convertible Senior Notes for the three months ended March 31, 2012 or 2011.

Convertible Junior Subordinated Debentures

At March 31, 2012 and December 31, 2011 we had outstanding \$389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 (the "debentures"). The debentures have an effective interest rate of 19% that reflects our non-convertible debt borrowing rate at the time of issuance. At March 31, 2012 and December 31, 2011 the amortized value of the principal amount of the debentures is reflected as a liability on our consolidated balance sheet of \$352.6 million and \$344.4 million, respectively, with the unamortized discount reflected in equity. The debentures rank junior to all of our existing and future senior indebtedness.

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

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

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

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

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

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

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

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

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

The debentures are currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per \$1,000 principal amount of debentures at any time prior to the maturity date. This represents an initial conversion price of approximately \$13.50 per share. If a holder elects to convert their debentures, deferred interest owed on the debentures being converted is also converted into shares of our common stock. The conversion rate for any deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert. In 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.

There were no interest payments on the debentures for the three months ended March 31, 2012 or 2011.

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
March 31, 2012				
Liabilities:				
Senior Notes	\$ 141,075	\$ 141,075	\$-	\$ -
Convertible Senior Notes	273,413	273,413	-	-
Convertible Junior Subordinated Debentures	227,140	-	227,140	-
Total Debt	\$641,628	\$ 414,488	\$227,140	\$ -
December 31, 2011				
Liabilities:				
Senior Notes	\$ 116,708	\$ 116,708	\$-	\$ -
Convertible Senior Notes	202,256	202,256	-	-
Convertible Junior Subordinated Debentures	189,648	-	189,648	-
Total Debt	\$508,612	\$ 318,964	\$189,648	\$ -

The fair value of our Senior Notes and Convertible Senior Notes was determined using publicly available trade information and are considered Level 1 securities as described in Note 8 – “Fair value measurements.” The fair value of our debentures was determined using available pricing for these debentures or similar instruments and are considered Level 2 securities as described in Note 8 – “Fair value measurements.”

Note 4 – Reinsurance

The reinsurance recoverable on loss reserves as of March 31, 2012 and December 31, 2011 was approximately \$142 million and \$155 million, respectively. Captive agreements are written on an annual book of business and the captives are required to maintain a separate trust account to support the combined reinsured risk on all annual books. MGIC is the sole beneficiary of the trust, and the trust account is made up of capital deposits by the lender captive, premium deposits by MGIC, and investment income earned. These amounts are held in the trust account and are available to pay reinsured losses. The reinsurance recoverable on loss reserves related to captive agreements was approximately \$133 million at March 31, 2012 which was supported by \$346 million of trust assets, while at December 31, 2011 the reinsurance recoverable on loss reserves related to captives was \$142 million which was supported by \$359 million of trust assets. As of March 31, 2012 and December 31, 2011 there was an additional \$25 million and \$27 million, respectively, of trust assets in captive agreements where there was no related reinsurance recoverable on loss reserves. Trust fund assets of \$425 thousand and \$917 thousand were transferred to us as a result of captive terminations during the first three months of 2012 and 2011, respectively.

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

Note 5 – Litigation and contingencies

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. Mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC’s settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs’ claims in litigation against it under FCRA in December 2004, following denial of class certification in June 2004. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. On or about December 9, 2011, seven mortgage insurers (including MGIC) and a large mortgage lender (which was the named plaintiffs’ lender) were named as defendants in a complaint, alleged to be a class action, filed in U.S. District Court for the Central District of California. Since then, as of April 19, 2012, six similar cases have been filed naming various mortgage lenders and mortgage insurers (including MGIC) as defendants. One of those six cases has been voluntarily dismissed. The complaints in all seven cases alleged various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the defendants violated RESPA by paying excessive premiums to the lenders’ captive reinsurer in relation to the risk assumed by that captive. MGIC denies any wrongdoing and intends to vigorously defend itself against the allegations in the lawsuits. There can be no assurance that we will not be subject to further litigation under RESPA (or FCRA) or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us.

In June 2005, in response to a letter from the New York Insurance Department (now known as the New York Department of Financial Services), we provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the New York Insurance Department requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the New York Insurance Department that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the "MN Department"), which regulates insurance, we provided the MN Department with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the MN Department, and beginning in March 2008, the MN Department has sought additional information as well as answers to questions regarding captive mortgage reinsurance on several occasions, including as recently as May 2011.

In addition, beginning in June 2008, and as recently as December 2011, we received various subpoenas from the U.S. Department of Housing and Urban Development ("HUD"), seeking information about captive mortgage reinsurance similar to that requested by the MN Department, but not limited in scope to the state of Minnesota. In January 2012, we received correspondence from the Consumer Financial Protection Bureau ("CFPB") indicating that the CFPB had opened an investigation into captive mortgage reinsurance premium ceding practices by private mortgage insurers. In that correspondence, the CFPB also requested, among other things, certain information regarding captive mortgage reinsurance transactions in which we participated. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

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

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

In July 2011, the U.S. Department of Justice (“DOJ”) filed a civil complaint against MGIC and two of its employees in the U.S. District Court for the Western District of Pennsylvania. The complaint sought redress for alleged housing discrimination. On April 30, 2012, the parties agreed to the terms of a Consent Order under which, among other things, MGIC, while denying any claim of unlawful discrimination, agreed to pay (i) \$511,250 into a settlement fund for possible payments to 70 individuals covered by the settlement (including the individual loan applicant on whose behalf the DOJ filed its complaint), and (ii) \$38,750 as a separate civil penalty.

In October 2010, a separate purported class action lawsuit was filed against MGIC by the same loan applicant in the same District Court in which the above-referenced DOJ complaint was filed. In this separate lawsuit, the loan applicant alleged that MGIC discriminated against her and certain proposed class members on the basis of sex and familial status when MGIC underwrote their loans for mortgage insurance. In May 2011, the District Court granted MGIC’s motion to dismiss with respect to all claims except certain Fair Housing Act claims. On April 30, 2012, the parties submitted to the District Court a Memorandum of Understanding containing the terms and conditions of a proposed settlement of the lawsuit. Under the Memorandum of Understanding, MGIC would create a settlement fund of \$500,000 (in addition to the settlement fund created in the DOJ lawsuit referenced above) to pay claims of certain members of the proposed class, would pay the class representative an incentive fee of \$7,500, and would pay an as yet undetermined amount of attorneys’ fees to class counsel. Any monies remaining in the settlement fund following the complete administration of the claims process in the case would be returned to MGIC. The Memorandum of Understanding is intended to guide the parties’ subsequent good faith settlement negotiations, but is not binding on the parties. In addition, any definitive settlement agreement reached by the parties would require final approval by the District Court. Based on the facts known at this time, we do not foresee the ultimate resolution of this case having a material adverse effect on us.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees’ Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the “Complaint”) in June 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations 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 (a former minority-owned, unconsolidated, joint venture investment), including its liquidity. The Complaint also named two officers of C-BASS with respect to the Complaints’ allegations regarding C-BASS. Our motion to dismiss the Complaint was granted in February 2010. In March 2010, plaintiffs filed a motion for leave to file an amended complaint. Attached to this motion was a proposed Amended Complaint (the “Amended Complaint”). The Amended Complaint alleged that we and two of our officers named in the Amended Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about C-BASS, including its liquidity, and by failing to properly account for our investment in C-BASS. The Amended Complaint also named two officers of C-BASS with respect to the Amended Complaint’s allegations regarding C-BASS. The purported class period covered by the Amended Complaint began on February 6, 2007 and ended on August 13, 2007. The Amended Complaint sought damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported violations of federal securities laws. In December 2010, the plaintiffs’ motion to file an amended complaint was denied and the Complaint was dismissed with prejudice. In January 2011, the plaintiffs appealed the February 2010 and December 2010 decisions to the United States Court of Appeals for the Seventh Circuit; during oral argument before the Appeals Court regarding the case on January 12, 2012, the plaintiffs confirmed the appeal was limited to issues regarding C-BASS. On April 12, 2012, the Appeals Court affirmed the dismissals by the District Court. The plaintiffs are entitled to seek review of the Appeals Court decision by the U.S. Supreme Court. In June 2011, the plaintiffs filed a motion with the District Court for relief from that court’s judgment of dismissal on the ground of newly discovered evidence consisting of transcripts the plaintiffs obtained of testimony taken by the Securities and Exchange Commission in its now-terminated investigation regarding C-BASS. We are opposing this motion and the matter is awaiting decision by

the District Court. We are unable to predict the ultimate 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.

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

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

In December 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 insurance policies at issue. In October 2011, the United States District Court for the Northern District of California, to which the case had been removed, entered an order staying the litigation in favor of the arbitration proceeding we commenced against Countrywide in February 2010.

In the arbitration proceeding, we are seeking a determination that MGIC is entitled to rescind coverage on the loans involved in the proceeding. From January 1, 2008 through March 31, 2012, rescissions of coverage on Countrywide-related loans mitigated our paid losses on the order of \$435 million. This amount is the amount we estimate we would have paid had the coverage not been rescinded. On a per loan basis, the average amount that we would have paid had the loans not been rescinded was approximately \$72,300. Various materials exchanged by MGIC and Countrywide in 2011 bring into the dispute loans we did not consider before then to be Countrywide-related and loans on which MGIC rescinded coverage subsequent to those specified at the time MGIC began the proceeding (including loans insured through the bulk channel), and set forth Countrywide's contention that, in addition to the claim amounts under coverage it alleges MGIC has improperly rescinded, Countrywide is entitled to other damages of almost \$700 million as well as exemplary damages. Countrywide and MGIC have each selected 12 loans for which a three-member arbitration panel will determine coverage. While the panel's determination will not be binding on the other loans at issue, the panel will identify the issues for these 24 "bellwether" loans and strive to set forth findings of fact and conclusions of law in such a way as to aid the parties to apply them to the other loans at issue. The hearing before the panel on the bellwether loans has been scheduled to begin in March 2013.

We are in mediation in an effort to resolve our dispute with Countrywide, although we cannot predict whether the mediation will result in a resolution. If it does, a resolution with Countrywide will be subject to various conditions before it becomes effective. In connection with our mediation with Countrywide, we have voluntarily suspended rescissions related to loans that we believe could be covered by a potential resolution. As of March 31, 2012, coverage on approximately 860 loans, representing total potential claim payments of approximately \$65 million, that we had determined was rescindable was affected by our decision to suspend such rescissions. Substantially all of these potential rescissions relate to claims received beginning in the first quarter of 2011 or later. If we are able to reach a resolution with Countrywide, under ASC 450-20, we would record the effects of the resolution in our accounts when we determine that it is probable the resolution will become effective and the financial effect on us can be reasonably estimated. We expect that if these conditions to recording would be met, the financial statement effect on us would involve the recognition of additional loss, which would negatively impact our capital.

If we are not able to reach a resolution with Countrywide, we intend to defend MGIC against any further proceedings arising from Countrywide's complaint and to advocate MGIC's position in the arbitration, vigorously. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, we have not accrued any reserves that would reflect an adverse outcome in this proceeding. An accrual for an adverse outcome in this (or any other) proceeding would be a reduction to our capital. In this regard, see Note 1 – "Basis of presentation-Capital."

At March 31, 2012, 34,825 loans in our primary delinquency inventory were Countrywide-related loans (approximately 22% of our primary delinquency inventory). As noted above, we have suspended Countrywide rescissions of coverage on loans that we believe could be included in a potential resolution with Countrywide. Although these loans are included in our delinquency inventory, for purposes of determining our reserve amounts, it is assumed that coverage on these loans will be rescinded. We expect a significant portion of the Countrywide loans in our delinquency inventory will cure their delinquency or their coverage will be rescinded and will not involve paid claims. From January 1, 2008 through March 31, 2012, of the claims on Countrywide-related loans that were resolved (a claim is resolved when it is paid or the coverage is rescinded; claims that are submitted but which are under review are not resolved until one of these two outcomes occurs), approximately 80% were paid and coverage on the remaining 20% were rescinded. Had we processed the rescissions we have suspended, these percentages would be approximately 78% and 22%, respectively.

The flow policies at issue with Countrywide are in the same form as the flow policies that we use with all of our customers, and the bulk policies at issue vary from one another, but are generally similar to those used in the majority of our Wall Street bulk transactions. Because our rescission practices with Countrywide do not differ from our practices with other servicers with which we have not entered into settlement agreements, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. From January 1, 2008 through March 31, 2012, we estimate that total rescissions mitigated our incurred losses by approximately \$3.1 billion, which included approximately \$2.7 billion of mitigation on paid losses, excluding \$0.6 billion that would have been applied to a deductible. At March 31, 2012, we estimate that our total loss reserves were benefited from rescissions by approximately \$0.6 billion.

In addition to the rescissions at issue with Countrywide, we have a substantial pipeline of claims investigations and pre-rescission rebuttals (including those involving loans related to Countrywide) that we expect will eventually result in future rescissions. For additional information about rescissions as well as rescission settlement agreements, see Note 12 – "Loss Reserves."

MGIC and Freddie Mac disagree on the amount of the aggregate loss limit under certain pool insurance policies insuring Freddie Mac that share a single aggregate loss limit. We believe the initial aggregate loss limit for a particular pool of loans insured under a policy decreases to correspond to the termination of coverage for that pool under that policy while Freddie Mac believes the initial aggregate loss limit remains in effect until the last of the policies that provided coverage for any of the pools terminates. The aggregate loss limit is approximately \$535 million higher under Freddie Mac's interpretation than under our interpretation. We account for losses under our interpretation although it is reasonably possible that were the matter to be decided by a third party our interpretation would not prevail. The differing interpretations had no effect on our results until the second quarter of 2011. For 2011 and the first quarter of 2012, our incurred losses would have been \$192 million and \$49 million higher, respectively, had they been recorded based on Freddie Mac's interpretation, and our capital and Capital Requirements would have been negatively impacted. We expect the incurred losses that would have been recorded under Freddie Mac's interpretation will continue to increase in future quarters. We have discussed the disagreement with Freddie Mac in an effort to resolve it and expect to have future discussions with them.

A non-insurance subsidiary of our holding company is a shareholder of the corporation that operates the Mortgage Electronic Registration System ("MERS"). Our subsidiary, as a shareholder of MERS, along with MERS and its other shareholders, are defendants in four lawsuits asserting various causes of action arising from allegedly improper recording and foreclosure activities by MERS. One of these lawsuits was dismissed by the court in which it was filed and is on appeal. In addition, our subsidiary as a shareholder of MERS, was a defendant in two other lawsuits that were dismissed by the courts in which they were filed, but those dismissals were not appealed. The damages sought in all of these actions are substantial.

Our mortgage insurance business utilizes its underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of our contract underwriting activities, we are responsible for the quality of our underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. We may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such obligations. Through March 31, 2012, the cost of remedies provided by us to customers for failing to meet the standards of the contracts has not been material. However, a generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs, and claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years, including for 2006 and 2007, has involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans for which we provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. Beginning in the second half of 2009, we experienced an increase in claims for contract underwriting remedies, which has continued into the first quarter of 2012. Hence, there can be no assurance that contract underwriting remedies will not be material in the future.

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

See Note 11 – "Income taxes" for a description of federal income tax contingencies.

Note 6 – Earnings (loss) per share

Our basic EPS is based on the weighted average number of common shares outstanding, which excludes participating securities of 1.1 million and 1.3 million, respectively, for the three months ended March 31, 2012 and 2011 because they were anti-dilutive due to our reported net loss. Typically, diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include certain stock awards, stock options and the dilutive effect of our convertible debt. In accordance with accounting guidance, if we report a net loss from continuing operations then our diluted EPS is computed in the same manner as the basic EPS. In addition if any common stock equivalents are anti-dilutive they are excluded from the calculation. The following includes a reconciliation of the weighted average number of shares; however for the three months ended March 31, 2012 and 2011 common stock equivalents of 56.0 million and 55.6 million, respectively, were not included because they were anti-dilutive.

	Three Months Ended March 31,	
	2012	2011
	(In thousands, except per share data)	
Basic earnings per share:		
Weighted average common shares outstanding	201,528	200,744
Net loss	\$ (19,555)	\$ (33,661)
Basic loss per share	\$ (0.10)	\$ (0.17)
Diluted earnings per share:		
Weighted-average shares - Basic	201,528	200,744
Common stock equivalents	-	-
Weighted-average shares - Diluted	201,528	200,744
Net loss	\$ (19,555)	\$ (33,661)
Diluted loss per share	\$ (0.10)	\$ (0.17)

Note 7 – Investments

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

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March 31, 2012	Amortized Cost	Gross Unrealized Gains (In thousands)	Gross Unrealized Losses (1)	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$234,151	\$3,787	\$(889)	\$237,049
Obligations of U.S. states and political subdivisions	1,617,383	45,848	(4,762)	1,658,469
Corporate debt securities	2,756,698	24,414	(8,665)	2,772,447
Residential mortgage-backed securities	457,756	984	(1,589)	457,151
Commercial mortgage-backed securities	254,442	7,935	(441)	261,936
Debt securities issued by foreign sovereign governments	139,972	6,456	(14)	146,414
Total debt securities	5,460,402	89,424	(16,360)	5,533,466
Equity securities	2,687	97	(1)	2,783
Total investment portfolio	\$5,463,089	\$89,521	\$(16,361)	\$5,536,249

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

(1) At March 31, 2012 and December 31, 2011, there were no other-than-temporary impairment losses recorded in other comprehensive income.

The amortized cost and fair values of debt securities at March 31, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most auction rate and mortgage-backed securities provide for periodic payments throughout their lives, they are listed below in separate categories.

March 31, 2012	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$819,437	\$821,597
Due after one year through five years	2,334,380	2,372,280
Due after five years through ten years	936,995	959,983
Due after ten years	510,918	518,264
	\$4,601,730	\$4,672,124
Commercial mortgage-backed securities	254,442	261,936
Residential mortgage-backed securities	457,756	457,151
Auction rate securities (1)	146,474	142,255
Total at March 31, 2012	\$5,460,402	\$5,533,466

(1) At March 31, 2012, all of the auction rate securities had a contractual maturity greater than 10 years.

At March 31, 2012 and December 31, 2011, the investment portfolio had gross unrealized losses of \$16.4 million and \$14.6 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

securities at par in order to provide us with liquidity as needed. The ARS we hold are collateralized by portfolios of student loans, substantially all of which are ultimately 97% guaranteed by the United States Department of Education. At March 31, 2012, our ARS portfolio was 88% AAA/Aaa-rated by one or more of the major rating agencies.

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 March 31, 2012, our entire ARS portfolio, consisting of 17 investments, was subject to failed auctions; however, from the period when the auctions began to fail through March 31, 2012, \$392 million in par value of ARS was either sold or called, with the average amount we received being approximately 96% of par which approximated the aggregate fair value prior to redemption. To date, we have collected all interest due on our ARS.

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

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 the first three months of 2012 and 2011 there were no other-than-temporary impairments (“OTTI”) recognized.

The net realized investment gains (losses) and OTTI on the investment portfolio are as follows:

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Net realized investment gains (losses) and OTTI on investments:		
Fixed maturities	\$ 75,339	\$ 5,729
Equity securities	382	32
Other	1,840	-
	\$ 77,561	\$ 5,761

Three Months Ended
March 31,
2012 2011
(In thousands)

Net realized investment gains (losses) and OTTI on investments:

Gains on sales	\$ 80,035	\$ 8,392
Losses on sales	(2,474)	(2,631)
Impairment losses	-	-
	\$ 77,561	\$ 5,761

We elected to realize these gains, by selling certain securities, given the favorable market conditions experienced in 2011 and the first quarter of 2012. We then reinvested the funds taking into account our anticipated future claim payment obligations. We also continue to reduce our investments in tax exempt municipal securities and increase our investments in taxable securities. For statutory purposes investments are generally held at amortized cost, therefore the realized gains increased our statutory policyholders' position or statutory capital in 2011 and the first quarter of 2012.

Note 8 – Fair value measurements

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

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

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

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

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

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

Assets classified as Level 3 are as follows:

Securities available-for-sale classified in Level 3 are not readily marketable and are valued using internally developed models based on the present value of expected cash flows. Our Level 3 securities primarily consist of auction rate securities as observable inputs or value drivers are unavailable due to events described in Note 7 – “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 March 31, 2012 and December 31, 2011. 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 for the auction rate securities is based on the following key assumptions:

Nominal credit risk as substantially all of the underlying collateral of these securities is ultimately guaranteed by the United States Department of Education;

Liquidity by December 31, 2013 through December 31, 2014;

Continued receipt of contractual interest; and

Discount rates ranging from 2.24% to 4.24%, which include a spread for liquidity risk.

A 1.00% change in the discount rate would change the value of our ARS by approximately \$3.0 million. A two year change to the years to liquidity assumption would change the value of our ARS by approximately \$4.5 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.

Fair value measurements for assets measured at fair value included the following as of March 31, 2012 and December 31, 2011:

	Fair Value (In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2012				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$237,049	\$237,049	\$-	\$ -
Obligations of U.S. states and political subdivisions	1,658,469	-	1,562,953	95,516
Corporate debt securities	2,772,447	-	2,721,329	51,118
Residential mortgage-backed securities	457,151	-	457,151	-
Commercial mortgage-backed securities	261,936	-	261,936	-
Debt securities issued by foreign sovereign governments	146,414	146,414	-	-
Total debt securities	5,533,466	383,463	5,003,369	146,634
Equity securities	2,783	2,462	-	321
Total investments	\$5,536,249	\$385,925	\$5,003,369	\$ 146,955
Real estate acquired (1)	\$2,340	\$-	\$-	\$ 2,340
December 31, 2011				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$597,037	\$597,037	\$-	\$ -
Obligations of U.S. states and political subdivisions	2,323,471	-	2,209,245	114,226
Corporate debt securities	2,032,851	1,455	1,971,168	60,228
Residential mortgage-backed securities	445,417	-	445,417	-
Commercial mortgage-backed securities	264,934	-	264,934	-
Debt securities issued by foreign sovereign governments	157,190	147,976	9,214	-
Total debt securities	5,820,900	746,468	4,899,978	174,454
Equity securities	2,747	2,426	-	321
Total investments	\$5,823,647	\$748,894	\$4,899,978	\$ 174,775
Real estate acquired (1)	\$1,621	\$-	\$-	\$ 1,621

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

There were no transfers of securities between Level 1 and Level 2 during the first three months of 2012 or 2011.

For assets measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the three months ended March 31, 2012 and 2011 is as follows:

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
	(In thousands)				
Balance at December 31, 2011	\$ 114,226	\$ 60,228	\$ 321	\$ 174,775	\$ 1,621
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment gains (losses), net	(1,950)	(381)	-	(2,331)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(316)
Included in other comprehensive income	1,869	277	-	2,146	-
Purchases	27	-	-	27	2,082
Sales	(18,656)	(9,006)	-	(27,662)	(1,047)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at March 31, 2012	\$ 95,516	\$ 51,118	\$ 321	\$ 146,955	\$ 2,340
Amount of total losses included in earnings for the three months ended March 31, 2012 attributable to the change in unrealized losses on assets still held at March 31, 2012	\$-	\$-	\$-	\$-	\$-

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
	(In thousands)				
Balance at December 31, 2010	\$295,690	\$70,053	\$321	\$366,064	\$6,220
Total realized/unrealized gains (losses):					
Included in earnings and reported as losses incurred, net	-	-	-	-	7
Included in other comprehensive income	533	220	-	753	-
Purchases	-	-	-	-	1,369
Sales	(25,492)	-	-	(25,492)	(2,720)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at March 31, 2011	\$270,731	\$70,273	\$321	\$341,325	\$4,876
Amount of total losses included in earnings for the three months ended March 31, 2011 attributable to the change in unrealized losses on assets still held at March 31, 2011	\$-	\$-	\$-	\$-	\$-

Additional fair value disclosures related to our investment portfolio are included in Note 7 – “Investments.” Fair value disclosures related to our debt are included in Note 3 – “Debt.”

Note 9 – Other Comprehensive income

Our other comprehensive income for the three months ended March 31, 2012 and 2011 was as follows:

	Three Months Ended March 31, 2012			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	\$ (46,926)	\$ 16,256	\$ (15,248)	\$ (45,918)
Unrealized foreign currency translation adjustment	1,667	(584)	-	1,083
Other comprehensive income (loss)	\$ (45,259)	\$ 15,672	\$ (15,248)	\$ (44,835)

	Three Months Ended March 31, 2011			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	\$ (25,358)	\$ 8,916	\$ (9,162)	\$ (25,604)
Unrealized foreign currency translation adjustment	1,411	(494)	-	917
Other comprehensive income (loss)	\$ (23,947)	\$ 8,422	\$ (9,162)	\$ (24,687)

See Note 11 – “Income taxes” for a discussion of the valuation allowance.

Our total accumulated other comprehensive income was as follows:

	March 31, 2012 (In thousands)	December 31, 2011
Unrealized gains (losses) on investments	\$ 7,643	\$ 53,561
Defined benefit plans	(43,642)	(43,642)
Foreign currency translation adjustment	21,288	20,205
Total accumulated other comprehensive (loss) income	\$ (14,711)	\$ 30,124

Note 10 - Benefit Plans

The following table provides the components of net periodic benefit cost for the pension, supplemental executive retirement and other postretirement benefit plans:

	Three Months Ended March 31,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2012	2011	2012	2011
	(In thousands)			
Service cost	\$ 2,390	\$ 2,172	\$ 309	\$ 254
Interest cost	4,106	4,122	292	354
Expected return on plan assets	(4,516)	(4,194)	(790)	(823)
Recognized net actuarial loss	1,478	1,217	210	187
Amortization of prior service cost	161	162	(1,554)	(1,554)
Net periodic benefit cost	\$ 3,619	\$ 3,479	\$ (1,533)	\$ (1,582)

We currently do not intend to make any contributions to the plans during 2012.

Note 11 – Income Taxes

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

For the three months ended March 31, 2012 and 2011, our deferred tax valuation allowance was increased due to a decrease in the deferred tax liability related to \$43.6 million and \$26.2 million, respectively, of unrealized losses on investments that were recorded in other comprehensive income. In the event of future operating losses, it is likely that the valuation allowance will be adjusted by any taxes recorded to equity for changes in unrealized gains or losses or other items in other comprehensive income.

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

	Three Months Ended March 31, 2012	
	2012	2011
	(In thousands)	
Benefit from income taxes	\$ (6,062)	\$ (19,234)
Change in valuation allowance	7,425	21,003
Tax provision	\$ 1,363	\$ 1,769

The increase in the valuation allowance that was included in other comprehensive income for the three months ended March 31, 2012 and 2011 was \$15.2 million and \$9.2 million, respectively. The total valuation allowance as of March 31, 2012 and December 31, 2011 was \$631.4 million and \$608.8 million, respectively.

We have approximately \$1,526 million of net operating loss carryforwards on a regular tax basis and \$653 million of net operating loss carryforwards for computing the alternative minimum tax as of March 31, 2012. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 through 2032.

The Internal Revenue Service (“IRS”) completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and issued assessments for unpaid taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits (“REMICs”). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. The IRS assessment related to the REMIC issue is \$190.7 million in taxes and penalties. There would also be applicable interest, which may be substantial. Additional state income taxes along with any applicable interest may become due when a final resolution is reached and could also be substantial. We appealed these assessments within the IRS and, in 2007, we made a payment of \$65.2 million with the United States Department of the Treasury related to this assessment. In August 2010, we reached a tentative settlement agreement with the IRS. Because net operating losses that we incurred in 2009 were carried back to taxable years that were included in the settlement agreement, it was subject to review by the Joint Committee on Taxation of Congress. Following that review, the IRS indicated that it is reconsidering the terms of the settlement. We are attempting to address the IRS’ concerns, but there is a risk that we may not be able to settle the proposed adjustments with the IRS or, alternatively, that the terms of any final settlement will be more costly to us than the currently proposed settlement. In the event that we are unable to reach any settlement of the proposed adjustments, we would be required to litigate their validity in order to avoid a full concession to the IRS. Any such litigation could be lengthy and costly in terms of legal fees and related expenses. We adjusted our tax provision and liabilities for the effects of the tentative settlement agreement in 2010. The IRS’ reconsideration of the terms of the settlement agreement did not change our belief that the previously recorded items are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows and statutory capital. In this regard, see Note 1 – “Basis of presentation -Capital.”

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

Note 12 – Loss Reserves

We establish reserves to recognize the estimated liability for losses and loss adjustment expenses (“LAE”) related to defaults on insured mortgage loans. Loss reserves are established by estimating the number of loans in our inventory of delinquent loans that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity.

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment, and the current and future strength of local housing markets. Current conditions in the housing and mortgage industries make these assumptions more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a further deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a further drop in housing values that could result in, among other things, greater losses on loans that have pool insurance, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance and mitigation from rescissions being materially less than assumed. Changes to our estimates could result in a material impact to our results of operations and capital position, even in a stable economic environment.

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The following table provides a reconciliation of beginning and ending loss reserves for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Reserve at beginning of year	\$ 4,557,512	\$ 5,884,171
Less reinsurance recoverable	154,607	275,290
Net reserve at beginning of year (1)	4,402,905	5,608,881
Losses incurred:		
Losses and LAE incurred in respect of default notices related to:		
Current year	280,565	347,399
Prior years (2)	56,523	(36,968)
Subtotal (3)	337,088	310,431
Losses paid:		
Losses and LAE paid in respect of default notices related to:		
Current year	280	26
Prior years	673,257	686,748
Reinsurance terminations (4)	(425)	(917)
Subtotal (5)	673,112	685,857
Net reserve at end of period (6)	4,066,881	5,233,455
Plus reinsurance recoverables	142,289	238,039
Reserve at end of period	\$ 4,209,170	\$ 5,471,494

(1) At December 31, 2011 and 2010, the estimated reduction in loss reserves related to rescissions approximated \$0.7 billion and \$1.3 billion, respectively.

(2) 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.

(3) Rescissions did not have a significant impact on incurred losses in the three months ended March 31, 2012 or 2011.

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

(5) Rescissions mitigated our paid losses by an estimated \$0.1 billion in the three months ended March 31, 2012 and by an estimated \$0.2 billion in the three months ended March 31, 2011, which excludes amounts that may have been applied to a deductible.

(6) At March 31, 2012 and 2011, the estimated reduction in loss reserves related to rescissions approximated \$0.6 billion and \$1.1 billion, respectively.

The "Losses incurred" section of the table above shows losses incurred on default notices received in the current year and in prior years. The amount of losses incurred relating to default notices received in the current year represents the estimated amount to be ultimately paid on such default notices. The amount of losses incurred relating to default

notices received in prior years represents the actual claim rate and severity associated with those defaults notices resolved in the current year differing from the estimated liability at the prior year-end, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. This re-estimation of the estimated claim rate and estimated severity is the result of our review of current trends in 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.

In the first quarter of 2012, net losses incurred were \$337 million, comprised of \$281 million of current year loss development and \$56 million of unfavorable prior years' loss development. In the first quarter of 2011, net losses incurred were \$310 million, comprised of \$347 million of current year loss development, offset by \$37 million of favorable prior years' loss development.

Current year losses incurred decreased in the first quarter of 2012 compared to the same period in 2011 primarily due to a decrease in the number of new default notices received, net of cures, compared to the prior period.

The development of the reserves in the first quarter of 2012 and 2011 is reflected in the "Prior years" line in the table above. The \$56 million increase in losses incurred in the first quarter of 2012 that was related to defaults that occurred in prior years resulted primarily from an increase in the estimated claim rate on primary defaults (approximately \$50 million). The increase in the claim rate was based on a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. Recent experience has increased our estimate of the claim rate on defaults that are 12 months or more delinquent. The remaining increase in losses incurred that was related to defaults that occurred in prior years (approximately \$6 million) related to pool reserves, LAE reserves and reinsurance.

The \$37 million decrease in losses incurred in the first quarter of 2011 that was related to defaults that occurred in prior years resulted primarily from a slight decrease in severity on primary defaults (approximately \$28 million) as well as a slight decrease in the expected claim rate on primary defaults (approximately \$16 million). The decrease in the severity and claim rate was based on the resolution of approximately 22% of the prior year default inventory, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. The offsetting increase in losses incurred related to prior years (approximately \$7 million) related to pool reserves, LAE reserves and reinsurance.

The "Losses paid" section of the table above shows the breakdown between claims paid on default notices received in the current year and default notices received in prior years. It has historically taken, prior to the last few years, on average, approximately twelve months for a default which is not cured to develop into a paid claim, therefore, most losses paid relate to default notices received in prior years. Due to a combination of reasons that have slowed the rate at which claims are received and paid, including foreclosure moratoriums and suspensions, servicing delays, court delays, loan modifications, our fraud investigations and our claim rescissions and denials for misrepresentation, it is difficult to estimate how long it may take for current and future defaults that do not cure to develop into paid claims. In 2011, we experienced an increase in claims paid on default notices related to the current year due to fewer claim investigations and an increase in short sales. The "Losses paid" section of the table also includes a decrease in losses paid related to terminated reinsurance agreements as noted in footnote (4) of the table above.

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at March 31, 2012 and December 31, 2011 and approximated \$120 million and \$114 million, respectively. Separate components of this liability are included in "Other liabilities" and "Premium deficiency reserve" on our consolidated balance sheet. Changes in the liability affect premiums written and earned and change in premium deficiency reserve.

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

Aging of the Primary Default Inventory

	March 31, 2012			December 31, 2011			March 31, 2011		
Consecutive months in default									
3 months or less	22,516	14	%	31,456	18	%	27,744	14	%
4 - 11 months	45,552	28	%	46,352	26	%	57,319	29	%
12 months or more	92,405	58	%	97,831	56	%	110,822	57	%
Total primary default inventory	160,473	100	%	175,639	100	%	195,885	100	%
Primary claims received inventory included in ending default inventory									
	12,758	8	%	12,610	7	%	17,686	9	%

The length of time a loan is in the default inventory can differ from the number of payments that the borrower has not made or is considered delinquent. These differences typically result from a borrower making monthly payments that do not result in the loan becoming fully current. The number of payments that a borrower is delinquent is shown in the table below.

Number of Payments Delinquent

	March 31, 2012			December 31, 2011			March 31, 2011		
3 payments or less	33,579	21	%	42,804	24	%	40,680	21	%
4 - 11 payments	45,539	28	%	47,864	27	%	61,060	31	%
12 payments or more	81,355	51	%	84,971	49	%	94,145	48	%
Total primary default inventory	160,473	100	%	175,639	100	%	195,885	100	%

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

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Because we can review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, rescissions of coverage on loans for which claims have been submitted to us were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescission of coverage on loans has materially mitigated our paid losses. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately \$1.2 billion; in 2011, rescissions mitigated our paid losses by approximately \$0.6 billion; and in the first quarter of 2012, rescissions mitigated our paid losses by approximately \$80 million (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, 13% to 19% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

As previously disclosed, in the second half of 2011, Countrywide materially increased the percentage of loans for which it is rebutting the assertions that we make prior to rescinding a loan. When we receive a rebuttal prior to a rescission, we do not rescind coverage until after we respond to the rebuttal. This resulted in our having, as of December 31, 2011, a substantial pipeline of pre-rescission rebuttals that, based on our historical experience with such rebuttals, we expected would eventually result in rescissions. As discussed in Note 5 – “Litigation and contingencies” we are in mediation in an effort to resolve our dispute with Countrywide. In connection with that mediation, we have voluntarily suspended rescissions of coverage related to loans that we believe could be included in a potential resolution, including those that had been in our December 31, 2011 pipeline of pre-rescission rebuttals. As of March 31, 2012, coverage on approximately 860 loans, representing total potential claim payments of approximately \$65 million, that we had determined was rescindable was affected by our decision to suspend such rescissions. Substantially all of these potential rescissions relate to claims received beginning in the first quarter of 2011 or later and, had we not suspended rescissions, most of these rescissions would have mitigated paid claims in the first quarter of 2012. In addition, as of March 31, 2012, approximately 250 rescissions, representing total potential claim payments of approximately \$16 million, were affected by our decision to suspend rescissions for customers other than Countrywide. Although the loans, with suspended rescissions, are included in our delinquency inventory, for purposes of determining our reserve amounts, it is assumed that coverage on these loans will be rescinded. The decision to suspend these potential rescissions does not represent the only reason for the recent decline in the percentage of claims that have been resolved through rescissions and we continue to expect that our rescissions will continue to decline.

Our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. We do not utilize an explicit rescission rate in our reserving methodology, but rather our reserving methodology incorporates the effects rescission activity has had on our historical claim rate and claim severities. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. Our estimation process does not include a direct correlation between claim rates and severities to projected rescission activity or other economic conditions such as changes in unemployment rates, interest rates or housing values. Our experience is that analysis of that nature would not produce reliable results, as the change in one condition cannot be isolated to determine its sole effect on our ultimate paid losses as our ultimate paid losses are also influenced at the same time by other economic conditions. The estimation of the impact of rescissions on incurred losses, as shown in the table below, must be considered together with the various other factors impacting incurred losses and not in isolation. At March 31, 2012, we had 160,473 loans in our primary delinquency inventory; a

significant portion of these loans will cure their delinquency or be rescinded and will not involve paid claims.

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

	Three Months Ended	
	March 31,	2011
	2012	
	(In billions)	
Estimated rescission reduction - beginning reserve	\$ 0.7	\$ 1.3
Estimated rescission reduction - losses incurred	-	-
Rescission reduction - paid claims	0.1	0.2
Amounts that may have been applied to a deductible	-	-
Net rescission reduction - paid claims	0.1	0.2
Estimated rescission reduction - ending reserve	\$ 0.6	\$ 1.1

At March 31, 2012, our loss reserves continued to be significantly impacted by expected rescission activity. We expect that the reduction of our loss reserves due to rescissions will continue to decline because our recent experience indicates new notices in our default inventory have a lower likelihood of being rescinded than those already in the inventory.

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At March 31, 2012 and December 31, 2011 the estimate of this liability totaled \$49 million and \$58 million, respectively. Separate components of this liability are included in "Other liabilities" and "Premium deficiency reserve" on our consolidated balance sheet. Changes in the liability affect premiums written and earned and change in premium deficiency reserve.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. For the majority of our rescissions since 2009 that are not subject to a settlement agreement, the period in which a dispute may be brought has not ended. We consider a rescission resolved for financial reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. For more information about these legal proceedings, see Note 5 – "Litigation and contingencies."

In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. We continue to discuss with other lender-customers their objections to material rescissions and have reached settlement terms with several of our significant lender-customers. In connection with some of these settlement discussions, we have suspended rescissions related to loans that we believe could be included in potential settlements. As of March 31, 2012, approximately 250 rescissions, representing total potential claim payments of approximately \$16 million, were affected by our decision to suspend rescissions for customers other than Countrywide. Any definitive agreement with these customers would be subject to GSE approval under announcements they made last year. One GSE has approved one of our settlement agreements, with no related suspended rescissions and we believe that it is probable (within the meaning of ASC 450-20) that this agreement will be approved by the other GSE. As a result, we considered the terms of the agreement when establishing our loss reserves at March 31, 2012. This agreement did not have a significant impact on our established loss reserves. Neither GSE has approved our other settlement agreements and the terms of these other agreements were not considered when establishing our loss reserves at March 31, 2012. The terms of our settlement agreements vary and there can be no assurances that either GSE will approve any other settlement agreements. We have also reached settlement agreements that do not require GSE approval, but they have not been material in the aggregate.

A rollforward of our primary default inventory for the three months ended March 31, 2012 and 2011 appears in the table below. The information concerning new notices and cures is compiled from monthly reports received from loan servicers. The level of new notice and cure activity reported in a particular month can be influenced by, among other things, the date on which a servicer generates its report, the number of business days in a month and by transfers of servicing between loan servicers.

	Three Months Ended March 31,	
	2012	2011
Default inventory at beginning of period	175,639	214,724
Plus: New Notices	34,781	43,195
Less: Cures	(37,144)	(45,639)
Less: Paid (including those charged to a deductible or captive)	(11,909)	(13,466)
Less: Rescissions and denials	(894)	(2,929)
Default inventory at end of period	160,473	195,885

Pool insurance notice inventory decreased from 32,971 at December 31, 2011 to 26,601 at March 31, 2012. The pool insurance notice inventory was 40,769 at March 31, 2011.

Note 13 – Premium Deficiency Reserve

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

	March 31, 2012	December 31, 2011 (In millions)	March 31, 2011
Present value of expected future paid losses and expenses, net of expected future premium	\$ (903)	\$ (961)	\$ (1,170)
Established loss reserves	782	826	1,000
Net deficiency	\$ (121)	\$ (135)	\$ (170)

The decrease in the premium deficiency reserve for the three months ended March 31, 2012 and 2011 was \$14 million and \$9 million, respectively, as shown in the table below, which represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The net change in assumptions for the first quarter of 2012 and 2011 is primarily related to higher estimated ultimate premiums.

Three Months Ended March 31,
2012 2011
(In millions)

Premium Deficiency Reserve at beginning of period	\$(135)	\$(179)
Paid claims and loss adjustment expenses	\$76	\$75
Decrease in loss reserves	(44)	(75)
Premium earned	(28)	(33)
Effects of present valuing on future premiums, losses and expenses	-	(11)
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized	4	(44)
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)	10	53
Premium Deficiency Reserve at end of period	\$(121)	\$(170)

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

Note 14 – Shareholders’ Equity

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

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

Under the Agreement each outstanding share of our Common Stock is accompanied by one Right. The Distribution Date occurs on the earlier of ten days after a public announcement that a person has become an Acquiring Person, or ten business days after a person announces or begins a tender offer in which consummation of such offer would result in a person becoming an Acquiring Person. An Acquiring Person is any person that becomes, by itself or together with its affiliates and associates, a beneficial owner of 5% or more of the shares of our Common Stock then outstanding, but excludes, among others, certain exempt and grandfathered persons as defined in the Agreement. The Rights are not exercisable until the Distribution Date. Each Right will initially entitle shareholders to buy one-half of one share of our Common Stock at a Purchase Price of \$25 per full share (equivalent to \$12.50 for each one-half share), subject to adjustment. Each exercisable Right (subject to certain limitations) will entitle its holder to purchase, at the Rights’ then-current Purchase Price, a number of our shares of Common Stock (or if after the Shares Acquisition Date, we are acquired in a business combination, common shares of the acquiror) having a market value at the time equal to twice the Purchase Price. The Rights will expire on August 17, 2012, or earlier as described in the Agreement. The Rights are redeemable at a price of \$0.001 per Right at any time prior to the time a person becomes an Acquiring Person. Other than certain amendments, the Board of Directors may amend the Rights in any respect without the consent of

the holders of the Rights.

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

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. The discussion below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2011. We refer to this Discussion as the "10-K MD&A." In the discussion below, we classify, in accordance with industry practice, as "full documentation" loans approved by GSE and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income. For additional information about such loans, see footnote (3) to the composition of primary default inventory table under "Results of Consolidated Operations-Losses-Losses incurred" below. The discussion of our business in this document generally does not apply to our Australian operations which have historically been immaterial. The results of our operations in Australia are included in the consolidated results disclosed. For additional information about our Australian operations, see our risk factor titled "Our Australian operations may suffer significant losses" and "Overview—Australia" in our 10-K MD&A.

Forward Looking and Other Statements

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

Outlook

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

Whether we may continue to write insurance on new residential mortgage loans due to actions our regulators or the GSEs could take upon deterioration in our capital position or based upon their projections of future deterioration in our capital position. This challenge is discussed under "Capital" below.

Whether we will prevail in legal proceedings challenging whether our rescissions were proper or if we enter into material resolution arrangements. For additional information about this challenge and other potentially significant challenges that we face, see "Rescissions" below as well as our risk factors titled "Our losses could increase if rescission rates decrease faster than we are projecting, we do not prevail in proceedings challenging whether our rescissions were proper or we enter into material resolution arrangements" and "We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future." An adverse outcome in these matters would negatively impact our capital position. See discussion of this challenge under "Capital" below.

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

Capital

Insurance regulators

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

At March 31, 2012, MGIC’s risk-to-capital ratio was 20.3 to 1 and its policyholder position exceeded the MPP by \$197 million. We currently expect MGIC’s risk-to-capital to exceed 25 to 1 in the second half of 2012. At March 31, 2012, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 22.2 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements.

Under a statutory accounting principle that became effective January 1, 2012, as MGIC approaches a risk-to-capital ratio of 25 to 1, the benefit to statutory capital allowed for deferred tax assets will be eliminated. Effectively, MGIC’s risk-to-capital ratio, computed while excluding any deferred tax assets from statutory capital, must be under 25 to 1 in order to include such assets in the amount of available statutory capital. Any exclusion of these assets would negatively impact our statutory capital for purposes of calculating compliance with the Capital Requirements. At March 31, 2012, deferred tax assets of \$141 million were included in MGIC’s statutory capital.

For more information about factors that could negatively impact our compliance with Capital Requirements, which depending on the severity of adverse outcomes could result in material non-compliance with Capital Requirements, see our risk factors titled “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future,” “We have reported net losses for the last five years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability” and “The settlement agreement we reached with the Internal Revenue Service, relating to significant proposed adjustments to our taxable income for 2000 through 2007, may not be finalized.” As discussed below, in accordance with ASC 450-20, we have not accrued an estimated loss in our financial statements to reflect possible adverse developments in litigation or other dispute resolution proceedings. An accrual, if required and depending on the amount, could result in material non-compliance with Capital Requirements.

Although we currently meet the Capital Requirements of Wisconsin, the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”) has waived them until December 31, 2013. In place of the Capital Requirements, the

OCI Order containing the waiver of Capital Requirements (the “OCI Order”) provides that MGIC can write new business as long as it maintains regulatory capital that the OCI determines is reasonably in excess of a level that would constitute a financially hazardous condition. The OCI Order requires MGIC Investment Corporation, beginning January 1, 2012 and continuing through the earlier of December 31, 2013 and the termination of the OCI Order (the “Covered Period”), to make cash equity contributions to MGIC as may be necessary so that its “Liquid Assets” are at least \$1 billion (this portion of the OCI Order is referred to as the “Keepwell Provision”). “Liquid Assets,” which include those of MGIC as well as those held in certain of our subsidiaries, excluding MGIC Indemnity Corporation (“MIC”) and its reinsurance affiliates, are the sum of (i) the aggregate cash and cash equivalents, (ii) fair market value of investments and (iii) assets held in trusts supporting the obligations of captive mortgage reinsurers to MGIC. As of March 31, 2012, “Liquid Assets” were approximately \$5.9 billion. Although we do not expect that MGIC’s Liquid Assets will fall below \$1 billion during the Covered Period, we do expect the amount of Liquid Assets to continue to decline materially after March 31, 2012 and through the end of the Covered Period as MGIC’s claim payments and other uses of cash continue to exceed cash generated from operations. For more information about factors that could negatively impact MGIC’s Liquid Assets, see our risk factors titled “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future,” “We have reported net losses for the last five years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability” and “The settlement agreement we reached with the Internal Revenue Service, relating to significant proposed adjustments to our taxable income for 2000 through 2007, may not be finalized.”

Previously, MGIC also applied for waivers in the other jurisdictions with Capital Requirements and received waivers from some of them. Most of those waivers expired December 31, 2011. Although we currently meet the Capital Requirements in those other jurisdictions, we have re-applied for waivers of them. Some jurisdictions denied our previous request for a waiver and those and other jurisdictions may deny our current or future requests. The OCI and other insurance departments, in their sole discretion, may modify, terminate or extend their waivers, although any modification or extension of the Keepwell Provision requires our written consent. If the OCI or another insurance department modifies or terminates its waiver, or if it fails to grant a waiver or renew its waiver after expiration, depending on the circumstances, MGIC could be prevented from writing new business anywhere, in the case of the waiver from the OCI, or in the particular jurisdiction, in the case of the other waivers, if MGIC does not comply with the Capital Requirements. New insurance written in the jurisdictions that have Capital Requirements represented approximately 50% of new insurance written in 2011 and the first quarter of 2012. If we were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the Capital Requirements or obtained a necessary waiver to allow it to once again write new business.

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

We have implemented a plan to write new mortgage insurance in MIC, a direct subsidiary of MGIC, in selected jurisdictions in order to address our expectation that in the future MGIC will not meet the Capital Requirements discussed above and may not be able to obtain appropriate waivers of them. As part of this plan, and pursuant to the OCI Order, MGIC contributed \$200 million to MIC in January 2012. As of March 31, 2012, MIC had statutory capital of \$437 million. MIC is licensed to write business in all jurisdictions and has received the necessary approvals from Fannie Mae and Freddie Mac (the “GSEs”) and the OCI to write business in all of the jurisdictions in which we expect MGIC would be prohibited from continuing to write new business in the event of MGIC’s failure to meet Capital Requirements and obtain waivers of them. 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 Capital Requirements, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC is not eligible to insure loans purchased or guaranteed by Fannie Mae or Freddie Mac. If this were to occur, we would need to seek the GSEs’ approval to allow MIC to write business in those jurisdictions.

A failure to meet the Capital Requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force, even in scenarios in which it fails to meet Capital Requirements, we cannot assure you that the events that led to MGIC failing to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include our anticipated rescission activity, the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received, 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 when anticipated claims will be received, housing values, and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims that will be rescinded and the outcome of any legal proceedings or settlement discussions related to rescissions that we make, including those with Countrywide. (For more information about the Countrywide legal proceedings, see our risk factor titled "We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future.")

For more information see our risk factor titled "Regulatory capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."

GSEs

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

Rescissions

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

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Because we can review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, rescissions of coverage on loans for which claims have been submitted to us were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescission of coverage on loans has materially mitigated our paid losses. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately \$1.2 billion; in 2011, rescissions mitigated our paid losses by approximately \$0.6 billion; and in the first quarter of 2012, rescissions mitigated our paid losses by approximately \$80 million (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, 13% to 19% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

As previously disclosed, in the second half of 2011, Countrywide materially increased the percentage of loans for which it is rebutting the assertions that we make prior to rescinding a loan. When we receive a rebuttal prior to a rescission, we do not rescind coverage until after we respond to the rebuttal. This resulted in our having, as of December 31, 2011, a substantial pipeline of pre-rescission rebuttals that, based on our historical experience with such rebuttals, we expected would eventually result in rescissions. As discussed in Note 5 – “Litigation and contingencies” we are in mediation in an effort to resolve our dispute with Countrywide. In connection with that mediation, we have voluntarily suspended rescissions of coverage related to loans that we believe could be included in a potential resolution, including those that had been in our December 31, 2011 pipeline of pre-rescission rebuttals. As of March 31, 2012, coverage on approximately 860 loans, representing total potential claim payments of approximately \$65 million, that we had determined was rescindable was affected by our decision to suspend such rescissions. Substantially all of these potential rescissions relate to claims received beginning in the first quarter of 2011 or later and, had we not suspended rescissions, most of these rescissions would have mitigated paid claims in the first quarter of 2012. In addition, as of March 31, 2012, approximately 250 rescissions, representing total potential claim payments of approximately \$16 million, were affected by our decision to suspend rescissions for customers other than Countrywide. Although the loans, with suspended rescissions, are included in our delinquency inventory, for purposes of determining our reserve amounts, it is assumed that coverage on these loans will be rescinded. The decision to suspend these potential rescissions does not represent the only reason for the recent decline in the percentage of claims that have been resolved through rescissions and we continue to expect that our rescissions will continue to decline.

Our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. We do not utilize an explicit rescission rate in our reserving methodology, but rather our reserving methodology incorporates the effects rescission activity has had on our historical claim rate and claim severities. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. Our estimation process does not include a direct correlation between claim rates and severities to projected rescission activity or other economic conditions such as changes in unemployment rates, interest rates or housing values. Our experience is that analysis of that nature would not produce reliable results, as the change in one condition cannot be isolated to determine its sole effect on our ultimate paid losses as our ultimate paid losses are also influenced at the same time by other economic conditions. The estimation of the impact of rescissions on incurred losses, as shown in the table below, must be considered together with the various other factors impacting incurred losses and not in isolation. At March 31, 2012, we had 160,473 loans in our primary delinquency inventory; a significant portion of these loans will cure their delinquency or be rescinded and will not involve paid claims.

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

	Three Months Ended March 31,	
	2012	2011
	(In billions)	
Estimated rescission reduction - beginning reserve	\$ 0.7	\$ 1.3
Estimated rescission reduction - losses incurred	-	-
Rescission reduction - paid claims	0.1	0.2
Amounts that may have been applied to a deductible	-	-
Net rescission reduction - paid claims	0.1	0.2
Estimated rescission reduction - ending reserve	\$ 0.6	\$ 1.1

At March 31, 2012, our loss reserves continued to be significantly impacted by expected rescission activity. We expect that the reduction of our loss reserves due to rescissions will continue to decline because our recent experience indicates new notices in our default inventory have a lower likelihood of being rescinded than those already in the inventory.

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