A black and white photograph of a modern building's entrance. The scene is dominated by a large, open-air structure with a grid-patterned ceiling and several thick, square concrete columns. Sunlight streams in from the left, casting long, sharp shadows of the columns onto the tiled floor. In the background, a city skyline is visible, including a prominent building with a pointed spire. The overall mood is architectural and professional.

MGIC

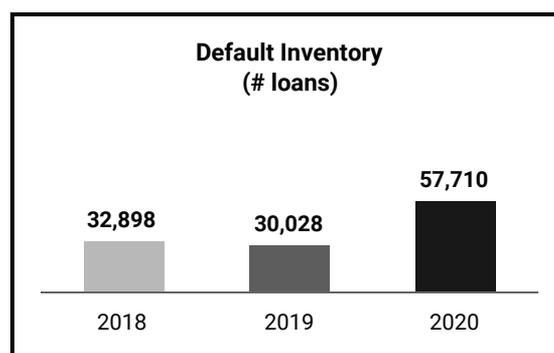
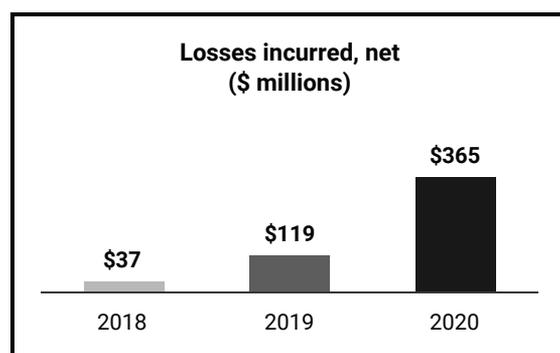
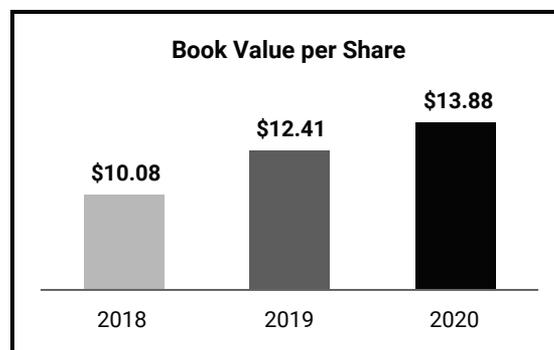
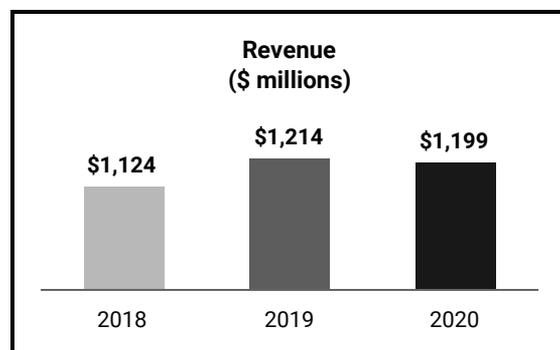
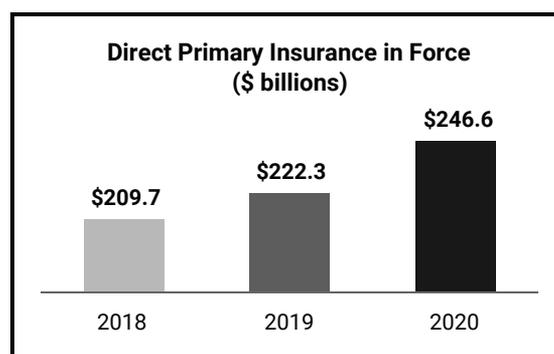
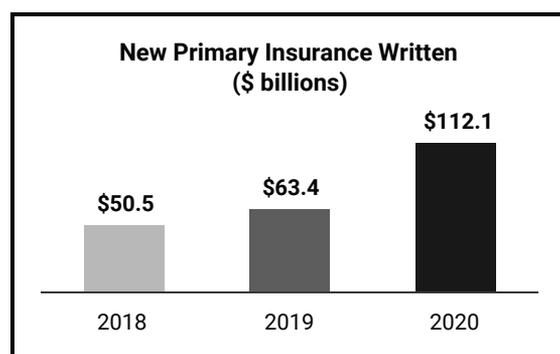
**MGIC Investment
Corporation
Annual Report
2020**

Our Business

We are a holding company and through wholly-owned subsidiaries, including Mortgage Guaranty Insurance Corporation, we provide private mortgage insurance, other mortgage credit risk management solutions, and ancillary services.

Financial Summary

	2018	2019	2020
Net income (\$ millions)	\$ 670.1	\$ 673.8	\$ 446.1
Diluted income per share (\$)	\$ 1.78	\$ 1.85	\$ 1.29
Net operating income ⁽¹⁾ (\$ millions)	\$ 668.7	\$ 669.7	\$ 456.8
Net operating income per diluted share ⁽¹⁾ (\$)	\$ 1.78	\$ 1.84	\$ 1.32



⁽¹⁾ We believe that use of the Non-GAAP measures of net operating income and net operating income per diluted share facilitate the evaluation of the company's core financial performance thereby providing relevant information. For a description of how we calculate these measures and for a reconciliation of these measure to their nearest comparable GAAP measures, see "Explanation and Reconciliation of our use of Non-GAAP Financial Measures" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Dear Fellow Shareholders:



Our main business objective is to provide critical support to the housing market, especially first-time, and low- and moderate-wealth, homebuyers. We strive to achieve that objective by, among other things, offering competitive products and best-in-class service to mortgage originators and servicers, and by maintaining a sharp focus on the sources and uses of our capital. We deliver a product that helps people get the keys to their own homes. At MGIC, we take pride in knowing that what we do matters.

I am pleased to report that 2020 was another successful year for our company. We produced another year of strong financial results and kept our focus on the long-term success of our company, all while dealing with the impacts of the COVID-19 pandemic both personally and professionally. Following are several of our 2020 accomplishments:

- We increased primary new insurance written (NIW) from \$63.4 billion in 2019 to \$112.1 billion in 2020 and increased primary insurance in force (IIF) by more than 10.9% year-over-year. The NIW is consistent with the Company's risk and return goals.
- In response to the COVID-19 pandemic, we transitioned 90%+ of our workforce to a remote work environment, in a year with record-breaking NIW, and positioned our co-workers to continue to provide high service levels.
- We continued to distribute risk by expanding our reinsurance program by securing quota share reinsurance coverage on NIW through 2021, and by executing a \$413 million insurance-linked notes transaction, providing excess-of-loss reinsurance coverage on the majority of our NIW from January 1, 2020 through July 31, 2020. These transactions allow us to better manage our risk profile and they provide an alternative source of capital.
- We continued to pay dividends to holders of our common stock, despite the COVID-19 pandemic.
- We paid \$390 million of dividends of cash and investments from our insurance subsidiary, MGIC, to our holding company, before temporarily suspending dividends from MGIC as a result of the COVID-19 pandemic.
- In addition to our quarterly dividends to our shareholders, we also returned approximately \$120 million to shareholders by repurchasing 9.6 million shares of our stock, before we temporarily suspended our stock repurchase program as a result of the COVID-19 pandemic.
- We issued \$650 million aggregate principal amount of 5.25% Notes due in 2028, using a portion of the proceeds to repurchase \$183 million of our 5.75% Notes due in 2023 and \$48 million of our 9% Debentures due in 2063. These capital actions increased our liquidity and improved our debt maturity profile.
- We continued to transform our business processes and to enhance our data and analytics capabilities.
- We delivered diversity and inclusion workshops to all officers and our Business Resource Group co-hosted several diversity and inclusion events.
- We continued to focus on enhancing career development opportunities, talent analytics and financial health capabilities for employees.

Even with the pandemic roiling society, we earned net income of \$446.1 million in 2020. This was a decrease of \$227.7 million when compared to the prior year, and diluted income per share of \$1.29 decreased by 30% when compared to the prior year which reflects a material increase in losses incurred due to the economic impact of the COVID-19 pandemic and a loss on debt extinguishment. Diluted income per share decreased due to the decrease in net income, partially offset by a decrease in the number of

diluted weighted average shares outstanding. Despite the adverse impacts of COVID-19, we generated a solid 10.4% return on shareholders' equity.

The economic impact of COVID-19 was sudden and severe. Delinquencies dramatically increased, especially in the second quarter, following the sudden and unprecedented increase in unemployment resulting from initiatives intended to reduce the transmission of COVID-19. The federal government enacted numerous economic stimulus programs to mitigate some of the economic impact, including forbearance programs and foreclosure moratoriums. Many of the government actions are designed to assist borrowers experiencing a hardship during the COVID-19 pandemic and to avoid any unnecessary foreclosures. The GSEs and loan servicers are also providing forbearance and foreclosure relief to many borrowers.

In the early stages of the pandemic, mortgage lending slowed almost immediately due to the uncertainty caused by COVID-19. Not long after, however, demand for both single family purchase loans and refinance loans began recovering and then exceeded pre-pandemic levels. The housing demand increased as consumers began desiring more space for work, school and health reasons. With interest rates being driven to record lows due to government actions, many consumers accelerated their home purchases. These forces combined to make the housing market one of the bright spots in the economy, with record volumes of both purchase and refinance mortgage originations in 2020, and enabled us to write a record volume of new business.

This record amount of NIW more than offset the pressure of lower persistency (the percentage of insurance remaining in force from the year prior) on our existing books of business and, as a result, our insurance in force increased nearly 11% year-over-year. In fact, 2020 was only the sixth time in the last 30 years that our insurance in force grew by more than 10%. Our record NIW also reflects the value proposition we offer to both lenders (ease of execution and ancillary services) and borrowers (faster equity buildup and ability to cancel, when compared to FHA execution). As reported by *Inside Mortgage Finance*, the size of the market for insurable low down-payment loans was approximately \$1.4 trillion in 2020, and the PMI industry's share of that market was 43.9%, compared to 44.7% in 2019. MGIC's market share within the PMI industry was 18.7% in 2020, compared to 16.5% in 2019.

Prior to the onset of COVID-19, the insurance we wrote in recent years had performed exceptionally well, in part due to improved credit profiles of the insured loans and the strong economy, with its low unemployment and solid home price appreciation. However, we know that economic cycles change over time and we have in place risk management tools to help prepare for such changes. One tool is reinsurance. We have used quota share transactions since 2013 and have used insurance-linked notes transactions, executed in the capital markets, on portions of the 2016 through 2020 books. We have been able to execute these transactions at attractive costs of capital and intend to continue to seek to use these tools when it makes long-term economic sense. In addition to reducing losses in weaker economic environments (we ceded \$78 million of incurred losses in 2020 compared to \$11 million in 2019), these transactions diversify our sources of capital and enhance our returns.

Reflecting our strong balance sheet and capital position at the end of 2019, in February of 2020, our Board authorized MGIC to pay a quarterly dividend of \$70 million and a special dividend of \$320 million to our holding company. Prior to temporarily suspending our stock repurchase program due to the uncertainty surrounding COVID-19, our holding company repurchased 9.6 million shares of our common stock, totaling \$120 million. The company has \$291 million remaining available under our Board's current authorization, which expires at the end of 2021. As a sign of our continued financial strength, our holding company continued to pay a quarterly common stock dividend of \$0.06/share during 2020, which returned an additional \$80 million to shareholders.

Our balance sheet and capital position continued to strengthen throughout 2020. At year-end 2020, we had \$3.2 billion more capital than required under state capital requirements and \$1.8 billion more available assets than required by the private mortgage insurer eligibility requirements (PMIERS) of Fannie Mae and Freddie Mac (the GSEs). Our excess over the PMIERS required amount includes \$700 million of relief that has been temporarily provided by the GSEs and does not include the approximately \$360 million reduction to the requirement from the insurance-linked notes transaction we entered into in February of 2021.

Our total debt to capital ratio increased to approximately 19% at December 31, 2020 from approximately 16% at December 31, 2019, primarily due to the issuance of \$650 million of Senior Notes due in 2028, which was only partially offset by the repurchase of \$183 million of our Senior Notes due in 2023 and the repurchase of \$48 million of the Junior Subordinated Debentures due in 2063.

As of December 31, 2020, our consolidated cash and investments totaled \$7.0 billion, including \$847 million of cash and investments at our holding company. The consolidated investment portfolio had a mix of 83% taxable and 17% tax exempt securities, a pre-tax yield of 2.55% and a duration of 4.3 years.

While 2020 was a year of unique challenges, it also was a year that saw the public policy debate about the future state of the residential housing and mortgage finance industry continue without a definitive resolution, including with respect to the appropriate roles for the GSEs, the Federal Housing Administration, and private capital.

Although there do not appear to be any short-term answers on the horizon, we intend to continue to be actively engaged in discussions about housing finance policy. While we do not know specifically what actions will be taken, we expect the Biden Administration will focus on continued loss mitigation efforts for homeowners impacted by COVID-19 and on affordable housing, both owner-occupied and rental. The details of these initiatives should become clearer as 2021 unfolds. Meanwhile, we will continue to advocate for the increased use of private capital, including private mortgage insurance, in the residential housing and mortgage finance industry in order to reduce taxpayer exposure to housing while still maintaining a resilient housing finance system.

2021 marks the 64th year that MGIC has been supporting the US housing market and helping individuals and families find affordable and sustainable homeownership. In addition to offering a compelling business proposition for our customers, we strive to offer a compelling value proposition for our co-workers and the communities in which we live and work. We invest in co-worker development programs that promote accountability and we maintain a continuous-improvement culture that addresses issues arising from the changing workforce, work environment, and competitive landscape.

As I mentioned earlier, at MGIC, we take pride in knowing that what we do matters. Simply put we help people own their own homes. The value we place on homes and the people in them influences the way we approach our business and our responsibilities. It is evident in how we manage our accountabilities to all our stakeholders – co-workers, customers, investors and communities. It is my hope that our efforts provide a compelling investment opportunity to our shareholders. To help articulate our values, we published our first Environmental, Social and Governance report in March of 2020 and expect to be updating it in March of 2021.

We are confident in our positioning in this market, and we like the risk-reward equation that the current conditions offer. Long term, I remain encouraged about the future role that our company and industry can play in housing finance. That is why when I look ahead, I am very excited about the future of our company.

I would like to thank our shareholders, customers and business partners for their support in 2020. I especially want to thank my fellow co-workers. Throughout our more than 60 years of providing support to first-time homebuyers, our people have been the cornerstone of the many accomplishments of MGIC. This was true again in 2020.

The efforts and character of our team throughout the unprecedented operating environment of 2020, to support our customers, their local communities and fellow co-workers, while coping with their own unique circumstances brought about by the COVID-19 pandemic, have been remarkable. I am humbled to lead an organization of such high dedication and integrity.

Respectfully,



Tim Mattke
Chief Executive Officer

Five-Year Summary of Financial Information

Summary of operations

<i>(In thousands, except per share data)</i>	As of and for the Years Ended December 31,				
	2020	2019	2018	2017	2016
Revenues:					
Net premiums written	\$ 928,742	\$ 1,001,308	\$ 992,262	\$ 997,955	\$ 975,091
Net premiums earned	1,021,943	1,030,988	975,162	934,747	925,226
Investment income, net	154,396	167,045	141,331	120,871	110,666
Realized investment (losses) gains, net including net impairment losses	13,752	5,306	(1,353)	231	8,921
Other revenue	9,055	10,638	8,708	10,205	17,670
Total revenues	1,199,146	1,213,977	1,123,848	1,066,054	1,062,483
Losses and expenses:					
Losses incurred, net	364,774	118,575	36,562	53,709	240,157
Underwriting and other expenses	188,778	194,769	190,143	170,749	160,409
Interest expense	59,595	52,656	52,993	57,035	56,672
Loss on debt extinguishment	26,736	—	—	65	90,531
Total losses and expenses	639,883	366,000	279,698	281,558	547,769
Income before tax	559,263	847,977	844,150	784,496	514,714
Provision for income taxes ⁽¹⁾	113,170	174,214	174,053	428,735	172,197
Net income	\$ 446,093	\$ 673,763	\$ 670,097	\$ 355,761	\$ 342,517
Weighted average common shares outstanding	359,293	373,924	386,078	394,766	431,992
Diluted income per share	\$ 1.29	\$ 1.85	\$ 1.78	\$ 0.95	\$ 0.86
Balance sheet data					
Total investments	\$ 6,682,911	\$ 5,758,320	\$ 5,159,019	\$ 4,990,561	\$ 4,692,350
Cash and cash equivalents	287,953	161,847	151,892	99,851	155,410
Total assets	7,354,526	6,229,571	5,677,802	5,619,499	5,734,529
Loss reserves	880,537	555,334	674,019	985,635	1,438,813
Short- and long-term debt	1,034,379	575,867	574,713	573,560	572,406
Convertible senior notes	—	—	—	—	349,461
Convertible junior subordinated debentures	208,814	256,872	256,872	256,872	256,872
Shareholders' equity	\$ 4,698,986	4,309,234	3,581,891	3,154,526	2,548,842
Book value per share	\$ 13.88	12.41	10.08	8.51	7.48

⁽¹⁾ In 2017, we remeasured our net deferred tax assets at the lower enacted corporate income tax rate under the Tax Act.

Other data

	Years Ended December 31,				
	2020	2019	2018	2017	2016
New primary insurance written (\$ millions)	\$ 112,113	\$ 63,421	\$ 50,526	\$ 49,123	\$ 47,875
New primary risk written (\$ millions)	\$ 26,759	\$ 15,811	\$ 12,657	\$ 12,217	\$ 11,831
IIF (at year-end) (\$ millions)					
Direct primary IIF	\$ 246,572	\$ 222,295	\$ 209,707	\$ 194,941	\$ 182,040
RIF (at year-end) (\$ millions)					
Direct primary RIF	\$ 61,812	\$ 57,213	\$ 54,063	\$ 50,319	\$ 47,195
Direct pool RIF					
With aggregate loss limits	210	213	228	236	244
Without aggregate loss limits	130	163	191	235	303
Primary loans in default ratios					
Policies in force	1,126,079	1,079,578	1,058,292	1,023,951	998,294
Loans in default	57,710	30,028	32,898	46,556	50,282
Percentage of loans in default	5.11 %	2.78 %	3.11 %	4.55 %	5.04 %
Insurance operating ratios (GAAP)					
Loss ratio	35.7 %	11.5 %	3.7 %	5.7 %	26.0 %
Underwriting Expense ratio	19.2 %	18.4 %	18.2 %	16.0 %	15.3 %
Risk-to-capital ratio (statutory)					
Mortgage Guaranty Insurance Corporation	9.2:1	9.7:1	9.0:1	9.5:1	10.7:1
Combined insurance companies	9.1:1	9.6:1	9.8:1	10.5:1	12.0:1

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

We have reproduced below the "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and "Financial Statements and Supplementary Data" that appeared in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the Securities and Exchange Commission on February 23, 2021. Except for certain cross-references, we have not changed what appears below in those sections from what was in our Form 10-K. As a result, those sections are not updated to reflect any events or changes in circumstances that have occurred since our Annual Report on Form 10-K was filed with the SEC.

INTRODUCTION

As used below, "we" and "our" refer to MGIC Investment Corporation's consolidated operations or to MGIC Investment Corporation, as a separate entity, as the context requires. References to "we" and "our" in the context of debt obligations refer to MGIC Investment Corporation. See the "Glossary of terms and acronyms" for definitions and descriptions of terms used throughout this annual report. The Risk Factors discuss trends and uncertainties affecting us and are an integral part of the MD&A.

The following is a discussion and analysis of the financial conditions and results of operations for the year ended December 31, 2020 and 2019, including comparisons between 2020 and 2019. Comparisons between 2019 and 2018 have been omitted from this Annual Report, but can be found in "Item 7 - 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, 2019 filed with the SEC.

Forward Looking and Other Statements

As discussed under "Forward Looking Statements and Risk Factors" in this Annual Report, actual results may differ materially from the results contemplated by forward looking statements. We are not undertaking any obligation to update any forward looking statements or other statements we may make in the following discussion or elsewhere in this document even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. Therefore, no reader of this document should rely on these statements being current as of any time other than the time at which our Annual Report on Form 10-K for the year ended December 31, 2020 was filed with the Securities and Exchange Commission.

OVERVIEW

This Overview of the MD&A highlights selected information and may not contain all of the information that is important to readers of this Annual Report. Hence, this Overview is qualified by the information that appears elsewhere in this Annual Report, including the other portions of the MD&A.

Through our subsidiary, MGIC, we are a leading provider of PMI in the United States, as measured by \$246.6 billion of primary IIF on a consolidated basis at December 31, 2020.

Summary of financial results of MGIC Investment Corporation

<i>(in millions, except per share data)</i>	Year Ended December 31,		
	2020	2019	Change
Selected statement of operations data			
Net premiums earned	\$ 1,021.9	\$ 1,031.0	(1)%
Investment income, net of expenses	154.4	167.0	(8)%
Losses incurred, net	364.8	118.6	208 %
Other operating and underwriting expenses, net	176.4	182.8	(3)%
Income before tax	559.3	848.0	(34)%
Provision for income taxes	113.2	174.2	(35)%
Net income	446.1	673.8	(34)%
Diluted income per share	\$ 1.29	\$ 1.85	(30)%
Non-GAAP Financial Measures ⁽¹⁾			
Adjusted pre-tax operating income	\$ 572.8	\$ 842.9	(32)%
Adjusted net operating income	456.8	669.7	(32)%
Adjusted net operating income per diluted share	\$ 1.32	\$ 1.84	(28)%

⁽¹⁾ See "Explanation and Reconciliation of our use of Non-GAAP Financial Measures."

SUMMARY OF 2020 FINANCIAL RESULTS

Net income of \$446.1 million for 2020 decreased by \$227.7 million when compared to the prior year, and diluted income per share of \$1.29 decreased by 30% when compared to the prior year. These decreases primarily reflect an increase in losses incurred, a loss on debt extinguishment, a decrease in net premiums earned, and a decrease in investment income, net of expenses. Diluted income per share decreased due to a decline in net income, partially offset by a decrease in the number of diluted weighted average shares outstanding.

Adjusted net operating income for 2020 was \$456.8 million (2019: \$669.7 million) and adjusted net operating income per diluted share was \$1.32 (2019: \$1.84). Adjusted net operating income for 2020 included an adjustment for a loss on debt extinguishment and for both 2020 and 2019, included an adjustment for net realized investment gains.

NPE decreased slightly due to lower premium rates on our IIF and a decrease in profit commission from our QSR transactions that was a result of higher ceded losses incurred, partially offset by higher average IIF and an increase in accelerated premiums from single premium policy cancellations.

Net investment income decreased due to lower investment yields, partially offset by an increase in the investment portfolio balance.

Losses incurred, net were \$364.8 million, compared to \$118.6 million the prior year. The increase reflects an increase in new delinquency notices due to the COVID-19 pandemic and the current macroeconomic environment. The increase in losses incurred was also due to adverse development of \$19.6 million in 2020 compared to favorable development of \$71.0 million in 2019, which was net of the non-recurring recognition of a probable loss of \$23.5 million for litigation of our claims paying practices. In 2020, the COVID-19 pandemic began to affect the U.S. economy and we received new delinquency notices of 106,099 compared to 54,239 for the prior year. This was partially offset by an increase in cures received in latter half of 2020 as the economy improved.

We recorded a \$26.7 million loss on debt extinguishment associated with the repurchase of a portion of our 5.75% Notes and our 9% Debentures.

BUSINESS ENVIRONMENT

Economic conditions

Despite the economic effects of the COVID-19 pandemic, there were favorable trends in the housing market in 2020. Low interest rates, increasing household formations and appreciating home values continue to support favorable housing fundamentals.

Mortgage interest rates have been lower on average in 2020 compared to 2019. The lower mortgage rates contributed to a material increase in home purchase and refinance activity in 2020. The homeownership rate increased slightly in 2020. The continued favorable housing trends and the increase in refinance transactions resulted in a significant increase in our NIW, from \$112.1 billion in 2020 when compared to \$63.4 billion in 2019.

The impacts of the COVID-19 pandemic, including unemployment resulting from initiatives intended to reduce the transmission of COVID-19, have resulted in an increase in the number of loans in our delinquency inventory. Payment forbearance programs are currently in place to assist borrowers experiencing a hardship during the COVID-19 pandemic. Forbearance allows for mortgages to be suspended for up to 360 days. For loans in a COVID-19 forbearance plan as of February 28, 2021, the plan may be extended for an additional three months, subject to certain limits. As of December 31, 2020, 62% of the loans in our delinquency inventory are subject to a forbearance plan.

The COVID-19 pandemic may adversely affect our future business, results of operations, and financial condition. The extent of the adverse effects will depend on the duration and continued severity of the COVID-19 pandemic and its effect on the U.S. economy and housing market.

The level of unemployment, interest rates, and home prices may change in the future. For the possible effects of such changes, see our risk factors titled "If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could decline," "Downturns in the domestic economy or declines in home prices may result in more homeowners defaulting and our losses increasing, with a corresponding decrease in our returns," "Changes in interest rates, house prices or mortgage insurance cancellation requirements may change the length of time that our policies remain in force," and "The COVID-19 pandemic may continue to materially impact our financial results and may also materially impact our business, liquidity, and financial condition."

Mortgage lending

The past several years of favorable housing fundamentals and in our view, favorable risk characteristics of our recently insured loans contributed to declining delinquent inventory, and lower losses incurred and claims paid in 2019. While favorable trends continued in the housing market in 2020, we experienced an increase in our losses incurred due to the impacts of the COVID-19 pandemic.

After easing somewhat in 2018, lending standards became tighter again in 2019. The percentage of our NIW with DTI ratios over 45% declined in 2020 and 2019. Change in both years was primarily driven by adjustments to GSE underwriting guidelines for loans with DTI ratios over 45% and our pricing for loans with such DTI ratios. The increase in the percentage of our NIW from refinance transactions in 2020 and 2019 was due to the low interest rate environment and also resulted in a consistently lower percentage of our NIW with LTV ratios over 95% for both years.

Refer to "Mortgage Insurance Portfolio" for additional discussion of changes in our NIW mix during 2020.

Competition

PMI. The private mortgage insurance industry is highly competitive and is expected to remain so. We believe that we currently compete with other private mortgage insurers based on premium rates, underwriting requirements, financial strength (including based on credit or financial strength ratings), customer relationships, name recognition, reputation, strength of management teams and field organizations, the ancillary products and services provided to lenders and the effective use of technology and innovation in the delivery and servicing of our mortgage insurance products.

Pricing practices

In recent years much of the changes in premium pricing practices has centered on the decrease in the use of our standard rate card as published on our website, www.mgic.com/rates, the increased use of "risk-based pricing systems" that utilize a spectrum of filed rates that allow for formulaic, risk-based pricing based on multiple attributes that may be quickly adjusted within certain parameters, and customized rate plans both of which typically have rates lower than the standard rate card. We expect our direct premium yield to continue to decline as older policies with higher premium rates run off, and new insurance policies with lower premium rates are written.

For information about competition in the private mortgage insurance industry, see our risk factor titled "*Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or increase our losses.*"

GSE Risk Share Transactions

In 2018, the GSEs initiated secondary mortgage market programs with loan level mortgage default coverage provided by various (re)insurers that are not mortgage insurers governed by PMIERS, and that are not selected by the lenders. Due to differences in policy terms, these programs may offer premium rates that are below prevalent single premium LPMI rates. While we view these programs as competing with traditional private mortgage insurance, we participate in these programs from time to time.

The GSEs (and other investors) have also used other forms of credit enhancement that did not involve traditional private mortgage insurance, such as engaging in credit-linked note transactions executed in the capital markets, or using other forms of debt issuances or securitizations that transfer credit risk directly to other investors, including competitors and an affiliate of MGIC; using other risk mitigation techniques in conjunction with reduced levels of private mortgage insurance coverage; or accepting credit risk without credit enhancement.

Government programs. PMI also competes against government mortgage insurance programs such as the FHA, VA, and USDA, primarily for lower FICO score business. The combined market share of primary mortgage insurance written by government programs continues to exceed that written by PMI in 2019 and 2020. The strong refinance markets in 2019 and 2020, and PMI premium rate reductions, have contributed to a PMI market share at its highest levels since the financial crisis.

Refer to "Mortgage Insurance Portfolio" for additional discussion of the 2020 business environment and the impact it had on operating measures including NIW, IIF and RIF.

PMIERS

We operate under the requirements of the PMIERS of the GSEs in order to insure loans delivered to or purchased by them. The PMIERS include financial requirements as well as business, quality control and certain transactional approval requirements. The financial requirements of the PMIERS require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book of risk in force, calculated from tables of factors with several risk dimensions, reduced for credit given for risk ceded under reinsurance transactions, and subject to a floor amount). Based on our application of the more restrictive PMIERS, MGIC's Available Assets under PMIERS totaled \$5.3 billion, an excess of \$1.8 billion over its Minimum Required Assets at December 31, 2020.

BUSINESS OUTLOOK FOR 2021

Our outlook for 2021 should be viewed against the backdrop of the business environment discussed above.

NIW

Our NIW is affected by total mortgage originations, the percentage of total mortgage originations using private mortgage insurance (the "PMI penetration rate"), and our market share within the PMI industry. As of late January 2021, the total mortgage

origination forecasts from the GSEs and MBA indicate average mortgage originations of \$3.3 trillion in 2021, compared to an average estimated \$4 trillion in 2020. Purchase originations are expected to increase in 2021, compared to 2020, while refinance transactions are expected to decrease in 2021. Our NIW from refinance originations is expected to be lower in 2021 compared to a strong 2020. In 2020, the majority of the refinances were from recent books that experienced only a modest level of price appreciation. Therefore, many of the refinanced loans in 2020 required mortgage insurance. We expect the PMI penetration rate on refinance transactions to decline in 2021.

The widespread use of risk based pricing systems by the PMI industry makes it more difficult to compare our rates to those offered by our competitors. We may not be aware of industry rate changes until we observe that our volume of NIW has changed. In addition, business under customized rate plans is awarded by certain customers for only limited periods of time. As a result, our NIW may fluctuate more than it had in the past.

IIF

Our IIF increased 10.9% in 2020, and we expect our IIF to grow in 2021. Our book of IIF is an important driver of our future revenues, and its growth is driven by our ability to generate NIW and retain existing policies in force, as measured by our persistency. Interest rates influence both our NIW and persistency. In a rising rate environment, total mortgage originations may decline; however, we would also expect policy cancellation rates to decline, and in turn increase persistency, although the impact generally lags the change in interest rates. The Federal Reserve has indicated that they expect interest rates to remain low.

Results of operations

Premiums. Despite an increase in IIF, we expect our 2021 earned premiums (on a direct basis) to be lower than they were in 2020. Overall, our premium rates have been trending down in recent years, including in 2020, as the books of business written at lower rates represent an increasing percentage of our total IIF.

Our 2021 direct premiums written are expected to be comparable to 2020, while our net premiums earned are expected to decrease in 2021. Our net premiums written and earned will be impacted by the downward trend in premium rates noted above and by the amount of premiums we cede under our quota share and excess of loss reinsurance transactions. Net premiums earned are also impacted by the amount of accelerated premiums from single premium policy cancellations. Our unearned premium decreased to \$287.1 million at December 31, 2020 from \$380.3 million at December 31, 2019. The amount of profit commission we receive, which reduces the amount of

premiums we cede, is variable year-to-year and is dependent on the amount of losses ceded. In 2020, our profit commission was impacted by the increase in ceded losses incurred. The amount of premiums we cede in 2021 will be affected by any changes in our reinsurance coverage.

Factors that affect the amount of premiums we earn from our IIF are further discussed in our "Consolidated Results of Operations - Premium yield."

Investment income. Net investment income is a material contributor to our results of operations. We expect net investment income in 2021 to be comparable to 2020. We expect our invested assets will remain relatively flat. The amount of investment income will be impacted by the change in the yield we can earn on investments.

Losses. Losses incurred, net in 2020 were \$364.8 million, an increase of \$246.2 million over the prior year losses incurred of \$118.6 million. The increase was primarily due to an increase in the delinquency inventory due to the impacts of the COVID-19 pandemic, including unemployment resulting from initiatives intended to reduce the transmission of COVID-19. We expect 2021 losses incurred to be lower than the comparable amount for 2020 as we expect to receive fewer new delinquency notices in 2021. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related delinquencies on our loss incidence. The foreclosure moratoriums and forbearance plans in place have decreased our losses and LAE paid in 2020. As foreclosure moratoriums and forbearance plans end, we expect to see an increase in claims received and claims paid, but the magnitude and timing of the increases are uncertain.

Underwriting and operating expenses, net. We expect underwriting and operating expenses, net to increase in 2021 as we invest in our technology infrastructure to execute our strategies.

Income taxes. We expect our 2021 effective tax rate to be approximately 21%.

CAPITAL

MGIC dividend payments to our holding company

In the first quarter of 2020 and in the full year of 2019, MGIC paid a cash and/or investment security dividend of \$390 million and \$280 million, respectively, to our holding company. In the third quarter of 2020 MGIC distributed to the holding company, as a dividend, its ownership in \$133 million of the holding company's 9% Debentures. Future dividend payments from MGIC to the holding company will continue to be determined on a quarterly basis in consultation with the board, and after considering any updated estimates about the length and severity of the economic impacts of

the COVID-19 pandemic on our business. We ask the Wisconsin OCI not to object before MGIC pays dividends to the holding company, and under the PMIERS guidance, any dividend paid by MGIC to our holding company, through June 30, 2021, requires GSE approval.

Share repurchase programs

In the first quarter of 2020 and in the full year of 2019, we repurchased approximately 9.6 million and 8.7 million shares of our common stock, respectively, using approximately \$120 million and \$114 million, respectively, of holding company resources. As of December 31, 2020, we had \$291 million of authorization remaining to repurchase our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in January 2020. Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. The repurchase programs may be suspended for periods or discontinued at any time. Due to the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases, but may resume them in the future.

The following table shows details of our share repurchase programs.

Repurchase Program	Expiration Date	Repurchased (in millions)	Authorization Remaining (in millions)
2018 Authorization	December 31, 2019	\$ 200	\$ —
2019 Authorization	December 31, 2020	\$ 200	\$ —
2020 Authorization	December 31, 2021	\$ 9	\$ 291

As of December 31, 2020, we had approximately 339 million shares of common stock outstanding.

Dividends to shareholders

In 2020, MGIC paid quarterly dividends of \$0.06 per common share to its shareholders totaling \$83 million. On January 26, 2021, our Board of Directors declared a quarterly cash dividend of \$0.06 per common share to shareholders of record on February 17, 2021, payable on March 3, 2021.

For information about how the payment of dividends by our holding company will result in an adjustment to the conversion rate and price of our convertible securities, 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."*

GSEs

We must comply with a GSE's PMIERS to be eligible to insure loans delivered to or purchased by that GSE. The PMIERS include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERS require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are generally based on an insurer's book of risk in force and are calculated from tables of factors with several risk dimensions, reduced for credit given for risk ceded under reinsurance transactions).

The PMIERS generally require us to hold significantly more Minimum Required Assets for delinquent loans than for performing loans and the Minimum Required Assets required to be held increases as the number of payments missed on a delinquent loan increases. For delinquent loans whose initial missed payment occurred on or after March 1, 2020 and prior to April 1, 2021 (the "COVID-19 Crisis Period"), the Minimum Required Assets are generally reduced by 70% for at least three months. The 70% reduction will continue, or be newly applied, for delinquent loans that are subject to a forbearance plan that is granted in response to a financial hardship related to COVID-19, the terms of which are materially consistent with terms of forbearance plans offered by Freddie Mac or Fannie Mae. Under the PMIERS, a forbearance plan on a loan with an initial missed payment occurring during the COVID-19 Crisis Period is assumed to have been granted in response to a financial hardship related to COVID-19. Loans considered to be subject to a forbearance plan include those that are in a repayment plan or loan modification trial period following the forbearance plan.

Forbearance for federally-insured mortgages allows for mortgage payments to be suspended for up to 360 days; an initial forbearance period of up to 180 days and, if requested by the borrower following contact by the servicers, an extension of up to 180 days. The servicer of the loan must begin attempts to contact the borrower no later than 30 days prior to the expiration of any forbearance plan term and must continue outreach attempts until appropriate contact is made or the forbearance plan term has expired.

If a servicer of a loan is unable to contact the borrower prior to the expiration of the first 180-day forbearance plan term, or if the forbearance plan reaches its twelve-month anniversary and is not further extended, the forbearance plan will generally expire. In such case, if the loan remains delinquent, the 70% reduction in Minimum Required Assets for that loan will no longer be applicable, our Minimum Required Assets will increase and our excess of Available Assets over Minimum Required Assets will decrease.

If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our NIW, the substantial majority of which is for loans delivered to or purchased by the GSEs. In addition to the increase in Minimum Required Assets associated with delinquent loans, factors that may negatively impact MGIC's ability to continue to comply with the financial requirements of the PMIERS include the following:

- The GSEs may make the PMIERS more onerous in the future. The PMIERS provide that the factors that determine Minimum Required Assets will be updated periodically, or as needed if there is a significant change in macroeconomic conditions or loan performance. We do not anticipate that the regular periodic updates will occur more frequently than once every two years. The PMIERS state that the GSEs will provide notice 180 days prior to the effective date of updates to the factors; however, the GSEs may amend any portion of the PMIERS at any time.
- There may be future implications for PMIERS as a result of changes to regulatory capital requirements for the GSEs. In November 2020, the FHFA adopted a rule containing a risk-based capital framework for the GSEs that will increase their capital requirements, effective on the later of (i) the date of termination of the FHFA's conservatorship of the applicable GSE; (ii) sixty days after publication of the adopted rule in the Federal Register; or (iii) any later compliance date provided in a consent order or other transition order applicable to a GSE. The increase in capital requirements may ultimately result in an increase in the Minimum Required Assets required to be held by mortgage insurers.
- Our future operating results may be negatively impacted by the matters discussed in our risk factors. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby creating a shortfall in Available Assets.

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- Should capital be needed by MGIC in the future, capital contributions from our holding company may not be available due to competing demands on holding company resources, including for repayment of debt.
-

Our reinsurance transactions enable us to earn higher returns on our business than we would without them because they reduce the Minimum Required Assets we must hold under PMIERS. However, reinsurance may not always be available to us; or available on similar terms, and our quota share reinsurance subjects us to counterparty credit risk. The calculated credit for excess of loss reinsurance transactions under PMIERS is generally based on the PMIERS requirement of the covered loans and the attachment and detachment point of the coverage. PMIERS credit is generally not given for the reinsured risk above the PMIERS requirement. The total credit under the PMIERS for risk ceded under our reinsurance transactions is subject to a modest reduction. Our existing reinsurance transactions are subject to periodic review by the GSEs and there is a risk we will not receive our current level of credit in future periods for the risk ceded under them. In addition, we may not receive the same level of credit under future transactions that we receive under existing transactions.

State Regulations

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 its RIF (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the "State Capital Requirements." While they vary among jurisdictions, the most common State Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if (i) the percentage decrease in capital exceeds the percentage decrease in insured risk, or (ii) the percentage increase in capital is less than the percentage increase in insured risk. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a MPP. The "policyholder position" of a mortgage insurer is its net worth or surplus, contingency reserve, and a portion of the reserve for unearned premiums.

At December 31, 2020, MGIC's risk-to-capital ratio was 9.2 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was \$3.2 billion above the required MPP of \$1.7 billion. Our risk-to-capital ratio and MPP reflect full credit for the risk ceded under our reinsurance transactions. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded under such transactions. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERS, MGIC may terminate the reinsurance transactions, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, refer to our risk factor titled "State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis" for more information about matters that could negatively affect such compliance.

At December 31, 2020, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 9.1 to 1.

The NAIC has previously announced plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. In December 2019, a working group of state regulators released an exposure draft of a revised Mortgage Guaranty Insurance Model Act and a risk-based capital framework to establish capital requirements for mortgage insurers, although no date has been established by which the NAIC must propose revisions to the capital requirements and certain items have not yet been completely addressed by the framework, including the treatment of ceded risk and minimum capital floors. Currently we believe that the PMIERS contain more restrictive capital requirements than the draft Mortgage Guaranty Insurance Model Act in most circumstances.

GSE REFORM

The FHFA has been the conservator of the GSEs since 2008 and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential housing finance system through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change, including through administrative action, in ways that have a material adverse effect on us and that the charters of the GSEs are changed by new federal legislation.

In 2019, the U.S. Treasury Department ("Treasury") released the "Treasury Housing Reform Plan" (the "Plan"). The Plan recommends administrative and legislative reforms for the housing finance system, with such reforms intended to achieve the goals of ending conservatorships of the GSEs; increasing competition and participation by the private sector in

the mortgage market including by authorizing the FHFA to approve additional guarantors of conventional mortgages in the secondary market, simplifying the qualified mortgage ("QM") rule of the Consumer Financial Protection Bureau ("CFPB"), transferring risk to the private sector, and eliminating the GSE Patch (discussed below); establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market.

The GSE capital framework adopted in November 2020 establishes a post-conservatorship regulatory capital framework intended to ensure that the GSEs operate in a safe and sound manner. In January 2021, the GSEs' Preferred Stock Purchase Agreements ("PSPAs") were amended to allow the GSEs to continue to retain earnings until they satisfy the requirements of the 2020 GSE capital framework. In addition, a proposed rule issued by the FHFA in December 2020 would require minimum funding requirements and new liquidity standards.

The impact of the Plan on private mortgage insurance is unclear. The plan does not refer to mortgage insurance explicitly; however, it refers to a requirement for credit enhancement on high LTV ratio loans, which is a requirement of the current GSE charters. The Plan also indicates that the FHFA should continue to support efforts to expand credit risk transfer ("CRT") programs and should encourage the GSEs to continue to engage in a diverse mix of economically sensible CRT programs, including by increasing reliance on institution-level capital (presumably, as distinguished from capital obtained in the capital markets). For more information about CRT programs, see our risk factor titled "*The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance.*"

In December 2020, the CFPB adopted a rule that will eliminate the GSE Patch effective upon the earlier of the GSEs' exit from conservatorship or July 1, 2021. The GSE Patch expanded the definition of QM under the Truth in Lending Act (Regulation Z) ("TILA") to include mortgages eligible to be purchased by the GSEs, even if the mortgages do not meet the debt-to-income ("DTI") ratio limit of 43% that is included in the standard QM definition. Originating a QM may provide a lender with legal protection from lawsuits that claim the lender failed to verify a borrower's ability to repay. Not all future loans with DTI ratios greater than 43% will be affected by the expiration of the GSE Patch. The new QM definition that becomes effective March 1, 2021, continues to require lenders to consider a borrower's DTI ratio; however, it replaces the DTI ratio

Management's Discussion and Analysis

cap with a pricing threshold that would exclude from the definition of QM a loan whose annual percentage rate ("APR") exceeds the average prime offer rate for comparable loans by 2.25 percentage points or more.

The Treasury's Plan indicated that the FHFA and HUD should develop and implement a specific understanding as to the appropriate roles and overlap between the GSEs and FHA, including with respect to the GSEs' acquisitions of high LTV ratio and high DTI ratio loans. In connection with the 2021 amendment to the PSPAs, the GSEs must limit the acquisition of certain loans with multiple higher risk characteristics related to LTV, DTI and credit score, to levels indicated to be their current levels at the time of the amendment.

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

COVID-19 PANDEMIC

The COVID-19 pandemic had a material impact on our 2020 financial results. The increased level of unemployment and economic uncertainty resulting from the COVID-19 pandemic, initiatives to reduce the transmission of COVID-19 (including "shelter-in-place" restrictions), as well as COVID-19-related illnesses and deaths, had a material impact on our financial results, as we reserved for losses associated with the increased delinquency notices received. While uncertain, the future impact of the COVID-19 pandemic on the Company's business, financial results, liquidity and/or financial condition may also be material. The magnitude of the impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the level of unemployment, and the impact of past and future government initiatives and actions taken by the GSEs (including mortgage forbearance and modification programs) to mitigate the economic harm caused by the COVID-19 pandemic and efforts to reduce its transmission.

Current mitigation programs include, among others:

- Payment forbearance on federally-backed mortgages (including those delivered to or purchased by the GSEs) to borrowers experiencing a hardship during the COVID-19 pandemic.
- Additional cash payments to individuals provided for in the Consolidated Appropriations Act signed into law in December 2020.
- For those mortgages that are not subject to forbearance, a suspension of foreclosures and

evictions until at least March 31, 2021, on mortgages purchased or securitized by the GSEs.

- Enhanced unemployment payments for pay periods between December 26, 2020 and March 14, 2021.
- An extension of the maximum duration for unemployment benefits, generally through March 14, 2021.
- Employee retention tax credits for certain small businesses.
- "Paycheck Protection Program" to provide small businesses with funds to pay certain payroll and other costs.

As noted above, the servicer of the loan must begin attempts to contact the borrower no later than 30 days prior to the expiration of any forbearance plan term and must continue outreach attempts until appropriate contact is made or the forbearance plan term has expired. In certain circumstances, the servicer may be unable to contact the borrower and the forbearance plan will expire after the first 180-day plan. A delinquent mortgage for which the borrower was unable to be contacted and that is not in a forbearance plan may be more likely to result in a claim than a delinquent loan in a forbearance plan. The substantial majority of our NIW was delivered to or purchased by the GSEs. While servicers of some non-GSE loans may not be required to offer forbearance to borrowers, we allow servicers to apply GSE loss mitigation programs to non-GSE loans. In addition, the CFPB requires substantial loss mitigation efforts be made prior to servicers initiating foreclosure, therefore, servicers of non-GSE loans may have an incentive to offer forbearance or deferment.

Historically, forbearance plans have reduced the incidence of our losses on affected loans. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related forbearances on our loss incidence. As of December 31, 2020 62% of our delinquency inventory was reported to us as in forbearance plans. Whether a loan's delinquency will cure, including through modification, when its forbearance plan ends will depend on the economic circumstances of the borrower at that time. The severity of losses associated with loans whose delinquencies do not cure will depend on economic conditions at that time, including home prices.

The GSEs have introduced specific loss mitigation options for borrowers impacted by COVID-19 when their forbearance plans end, including the COVID-19 Payment Deferral solution for borrowers who are unable to immediately or gradually repay their missed loan payments. Under the COVID-19 Payment Deferral solution, the borrower's monthly loan payment would be returned to its pre-COVID amount and the missed payments would be added to the end of the mortgage

term without accruing any additional interest or late fees. The deferred payments would be due when the loan is paid off, refinanced or the home is sold.

The foreclosure moratoriums and forbearance plans in place under the GSE initiatives have delayed, and may continue to delay, the receipt and payment of claims.

LOAN MODIFICATIONS AND OTHER SIMILAR PROGRAMS

The federal government, including through the U.S. Department of the Treasury and the GSEs, and several lenders have modification and refinance programs to make outstanding loans more affordable to borrowers with the goal of reducing the number of foreclosures. These programs included HAMP, which expired at the end of 2016, and HARP, which expired at the end of 2018. The GSEs have introduced other loan modifications programs to replace HAMP and HARP.

We cannot determine the total benefit we may derive from loan modification programs, particularly given the uncertainty around the re-default rates for defaulted loans that have been modified. Our loss reserves do not account for potential re-defaults of current loans.

As shown in the table below, approximately 8% of our total primary RIF has been modified as of December 31, 2020. Based on loan count at December 31, 2020, the loans associated with 94% of all HARP modifications and 77% of HAMP and other modifications were current.

Modifications

Policy Year	HARP ⁽¹⁾ Modifications	HAMP & Other Modifications
2004 and Prior	10.9%	55.4%
2005 to 2008	36.0%	42.7%
2009 and Later	0.1%	0.5%
Total	3.2%	4.6%

⁽¹⁾ Includes proprietary programs that are substantially the same as HARP.

FACTORS AFFECTING OUR RESULTS

As noted above, the COVID-19 pandemic may adversely affect our future business, results of operations, and financial condition. The extent of the adverse effects will depend on the duration and continued severity of the COVID-19 pandemic and its effects on the U.S. economy and housing market. We have addressed some of the potential impacts throughout this document.

Our results of operations are affected by:

Premiums written and earned

Premiums written and earned in a year are influenced by:

- NIW, which increases IIF. Many factors affect NIW, including the volume of low down payment home mortgage originations and competition to provide credit enhancement on those mortgages from the FHA, the VA, other mortgage insurers, and other alternatives to mortgage insurance, including GSE programs that may reduce or eliminate the demand for mortgage insurance. NIW does not include loans previously insured by us that are modified, such as loans modified under HARP.
- Cancellations, which reduce IIF. Cancellations due to refinancing are affected by the level of current mortgage interest rates compared to the mortgage coupon rates throughout the in force book, current home values compared to values when the loans in the in force book were insured and the terms on which mortgage credit is available. Home price appreciation can give homeowners the right to cancel mortgage insurance on their loans if sufficient home equity is achieved. Cancellations also result from policy rescissions, which require us to return any premiums received on the rescinded policies, and claim payments, which require us to return any premium received on the related policies from the date of default on the insured loans. Cancellations of single premium policies, which are generally non-refundable, result in immediate recognition of any remaining unearned premium.
- Premium rates, which are affected by product type, competitive pressures, the risk characteristics of the insured loans, the percentage of coverage on the insured loans, and PMIERS capital requirements. The substantial majority of our monthly and annual mortgage insurance premiums are under premium plans for which, for the first ten years of the policy, the amount of premium is determined by multiplying the initial premium rate by the original loan balance; thereafter, the premium rate resets to a lower rate used for the remaining life of the policy. However, for loans that have utilized HARP, the initial ten-year period resets as of the date of the HARP transaction. The remainder of our monthly and annual premiums are under premium plans for which premiums are determined by a fixed percentage of the loan's amortizing balance over the life of the policy.
- Premiums ceded, net of profit commission under our QSR Transactions, and premiums ceded under our Home Re Transactions. The profit commission varies inversely with the level of

ceded losses on a "dollar for dollar" basis and can be eliminated at ceded loss levels higher than we experienced in 2020. As a result, lower levels of losses result in a higher profit commission and less benefit from ceded losses; higher levels of losses result in more benefit from ceded losses and a lower profit commission (or for certain levels of accident year loss ratios, its elimination). See Note 9 – "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance transactions.

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

Investment income

Our investment portfolio is composed principally of investment grade fixed income securities. The principal factors that influence investment income are the size of the portfolio and its yield. As measured by amortized cost (which excludes changes in fair value, such as from changes in interest rates), the size of the investment portfolio is mainly a function of cash generated from (or used in) operations, such as NPW, investment income, net claim payments and expenses, and cash provided by (or used for) non-operating activities, such as debt or stock issuances or repurchases, and dividends.

Losses incurred

Losses incurred are the current expense that reflects claim payments, cost of settling claims, and estimated payments that will ultimately be made as a result of delinquencies on insured loans. As explained under "Critical Accounting Policies" below, except in the case of a premium deficiency reserve, we recognize an estimate of this expense only for delinquent loans. The level of new delinquencies has historically followed a seasonal pattern, with new delinquencies in the first part of the year lower than new delinquencies in the latter part of the year, though this pattern can be affected by the state of the economy and local housing markets. Pandemics, including COVID-19, and other natural disasters may result in delinquencies not following the typical pattern. Losses incurred are generally affected by:

- The state of the economy, including unemployment and housing values, each of which affects the likelihood that loans will become delinquent and whether loans that are delinquent cure their delinquency.
- The product mix of the in force book, with loans having higher risk characteristics generally resulting in higher delinquencies and claims.
- The size of loans insured, with higher average loan amounts tending to increase losses incurred.
- The percentage of coverage on insured loans, with deeper average coverage tending to increase incurred losses.
- The rate at which we rescind policies or curtail claims. Our estimated loss reserves incorporate our estimates of future rescissions of policies and curtailments of claims, and reversals of rescissions and curtailments. We collectively refer to such rescissions and denials as "rescissions" and variations of this term. We call reductions to claims "curtailments."
- The distribution of claims over the life of a book. Historically, the first few years after loans are originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency, the condition of the economy, including unemployment and housing prices, and other factors can affect this pattern. For example, a weak economy or housing value declines can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. See further information under "Mortgage insurance earnings and cash flow cycle" below.
- Losses ceded under reinsurance agreements. See Note 9 – "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance agreements.

Underwriting and other expenses

Underwriting and other expenses includes items such as employee compensation, fees for professional and consulting services, depreciation and maintenance expense, and premium taxes, and are reported net of ceding commissions associated with our QSR Transactions. Employee compensation expenses are variable due to share-based compensation, changes in benefits, and changes in headcount (which can fluctuate due to volume). See Note 9 – "Reinsurance" to our consolidated financial statements for a discussion of ceding commission on our QSR Transactions.

Interest expense

Interest expense reflects the interest associated with our consolidated outstanding debt obligations discussed in Note 7 – “Debt” to our consolidated financial statements and under “Liquidity and Capital Resources” below.

Other

Certain activities that we do not consider being part of our fundamental operating activities may also impact our results of operations and are described below.

Net realized investment gains (losses)

- *Fixed income securities.* Realized investment gains and losses reflect the difference between the amount received on the sale of a fixed income security and the fixed income security's cost basis, as well as any credit allowances (2020) and any "other than temporary" impairments (2019) recognized in earnings. The amount received on the sale of fixed income securities is affected by the coupon rate of the security compared to the yield of comparable securities at the time of sale.
- *Equity securities.* Realized investment gains and losses are accounted for as a function of the periodic change in fair value.

Loss on debt extinguishment

Gains and losses on debt extinguishment result from discretionary activities that are undertaken to enhance our capital position, improve our debt profile and/or reduce potential dilution from our outstanding convertible debt. Extinguishing our outstanding debt obligations early through these discretionary activities may result in losses primarily driven by the payment of consideration in excess of our carrying value, and the write off of unamortized debt issuance costs on the extinguished portion of the debt.

Refer to “Explanation and reconciliation of our use of Non-GAAP financial measures” below to understand how these items impact our evaluation of our core financial performance.

MORTGAGE INSURANCE EARNINGS AND CASH FLOW CYCLE

In general, the majority of any underwriting profit that a book generates occurs in the early years of the book, with the largest portion of any underwriting profit realized in the first year following the year the book was written. Subsequent years of a book may result in either underwriting profit or underwriting losses. This pattern of results typically occurs because relatively few of the incurred losses on delinquencies that a book will ultimately experience typically occur in the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as the number of insured loans decreases (primarily due to loan prepayments) and increasing losses. The typical pattern is also a function of premium rates generally resetting to lower levels after ten years. Changes in economic conditions, including those related to pandemics, including COVID-19, and other natural disasters may result in delinquencies not following the typical pattern.

EXPLANATION AND RECONCILIATION OF OUR USE OF NON-GAAP FINANCIAL MEASURES

NON-GAAP FINANCIAL MEASURES

We believe that use of the Non-GAAP measures of adjusted pre-tax operating income (loss), adjusted net operating income (loss) and adjusted net operating income (loss) per diluted share facilitate the evaluation of the company's core financial performance thereby providing relevant information to investors. These measures are not recognized in accordance with GAAP and should not be viewed as alternatives to GAAP measures of performance.

Adjusted pre-tax operating income (loss) is defined as GAAP income (loss) before tax, excluding the effects of net realized investment gains (losses), gain (loss) on debt extinguishment, net impairment losses recognized in income (loss) and infrequent or unusual non-operating items, where applicable.

Adjusted net operating income (loss) is defined as GAAP net income (loss) excluding the after-tax effects of net realized investment gains (losses), gain (loss) on debt extinguishment, net impairment losses recognized in income (loss), and infrequent or unusual non-operating items, where applicable. The amounts of adjustments to components of pre-tax operating income (loss) are tax effected using our now federal statutory income tax rate of 21%.

Adjusted net operating income (loss) per diluted share is calculated in a manner consistent with the accounting standard regarding earnings per share, by dividing (i) adjusted net operating income (loss) after making adjustments for interest expense on convertible debt, whenever the impact is dilutive, by (ii) diluted weighted average common shares outstanding, which reflects share dilution from unvested restricted stock units and from convertible debt when dilutive under the "if-converted" method.

Although adjusted pre-tax operating income (loss) and adjusted net operating income (loss) exclude certain items that have occurred in the past and are expected to occur in the future, the excluded items represent items that are: (1) not viewed as part of the operating performance of our primary activities; or (2) impacted by both discretionary and other economic or regulatory factors and are not necessarily indicative of operating trends, or both. These adjustments, along with the reasons for their treatment, are described below. Trends in the profitability of our fundamental operating activities can be more clearly identified without the fluctuations of these adjustments. Other companies may calculate these measures differently. Therefore, their measures may not be comparable to those used by us.

- (1) *Net realized investment gains (losses)*. The recognition of net realized investment gains or losses can vary significantly across periods as the timing of individual securities sales is highly discretionary and is influenced by such factors as market opportunities, our tax and capital profile, and overall market cycles.
- (2) *Gains and losses on debt extinguishment*. Gains and losses on debt extinguishment result from discretionary activities that are undertaken to enhance our capital position, improve our debt profile, and/or reduce potential dilution from our outstanding convertible debt.
- (3) *Net impairment losses recognized in earnings*. The recognition of net impairment losses on investments can vary significantly in both size and timing, depending on market credit cycles, individual issuer performance, and general economic conditions.
- (4) *Infrequent or unusual non-operating items*. Items that are non-recurring in nature and are not part of our primary operating activities. Past adjustments in this category include our 2018 income tax expense related to our IRS dispute.

Non-GAAP reconciliations

Reconciliation of Income before tax / Net income to Adjusted pre-tax operating income / Adjusted net operating income:

(in thousands)	Years Ended December 31,					
	2020			2019		
	Pre-tax	Tax Effect	Net (after-tax)	Pre-tax	Tax Effect	Net (after-tax)
Income before tax / Net income	\$ 559,263	\$ 113,170	\$ 446,093	847,977	174,214	673,763
Adjustments:						
Net realized investment (gains) losses	(13,245)	(2,781)	(10,464)	(5,108)	(1,073)	(4,035)
Loss on debt extinguishment	26,736	5,615	21,121	—	—	—
Adjusted pre-tax operating income / Adjusted net operating income	\$ 572,754	\$ 116,004	\$ 456,750	\$ 842,869	\$ 173,141	\$ 669,728

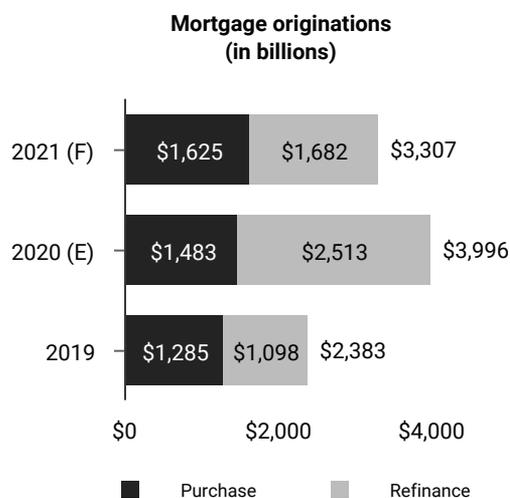
Reconciliation of Net income per diluted share to Adjusted net operating income per diluted share:

Weighted average diluted shares outstanding		359,293		373,924
Net income per diluted share	\$	1.29		\$ 1.85
Net realized investment (gains) losses		(0.03)		(0.01)
Loss on debt extinguishment		0.06		—
Adjusted net operating income per diluted share ⁽¹⁾	\$	1.32		\$ 1.84

MORTGAGE INSURANCE PORTFOLIO

MORTGAGE ORIGINATIONS

The primary mortgage insurance market is affected by total mortgage originations and PMI's market share. Total originations are estimated to have increased in 2020 compared with 2019, due to higher refinance originations, as well as higher purchase originations. Refinance originations increased as a result of lower mortgage interest rates on average; while continued solid housing fundamentals, such as household formations and attractive mortgage rates supported the increase in purchase originations, despite the increase in unemployment. Total mortgage originations in 2021 are forecast to be down compared to 2020 estimated levels, primarily due to an expected decrease in refinancing transactions partially offset by an expected increase in purchase originations. The COVID-19 pandemic, including the related restrictions on business in many parts of the U.S., and its effect on unemployment and consumer confidence, may affect the number of purchase mortgage originations.



E - Estimated, F- Forecast

Source: GSEs and MBA estimates/forecasts as of January 2021. Amounts represent the average of all sources.

PMI's market share is impacted by competition from government mortgage insurance programs and the GSEs' CRT transactions. In consideration of the expected decrease in mortgage originations and these factors, our 2021 NIW is expected to decrease from 2020.

Estimated total of PMI, FHA, USDA, and VA primary mortgage insurance

(in billions)	Nine Months Ended September 30, 2020	Twelve Months Ended December 31, 2019
Primary mortgage insurance	\$978	\$859

Source: *Inside Mortgage Finance* - November 13, 2020 or SEC filings. Includes HARP NIW.

MORTGAGE INSURANCE INDUSTRY

We compete against five other private mortgage insurers, as well as government mortgage insurance programs, including those offered by the FHA, VA, and USDA. Refer to "Overview - Business Environment - Competition" for a discussion of our competitive position.

The PMI industry's market share through September 30, 2020 decreased compared to the market share for the full year of 2019.

Estimated primary MI market share

(% of total primary MI volume)	Nine Months Ended September 30, 2020	Twelve Months Ended December 31, 2019
PMI	43.2%	44.7%
FHA	24.4%	28.2%
VA	30.6%	25.2%
USDA	1.8%	1.9%

Source: *Inside Mortgage Finance* - November 13, 2020. Includes HARP NIW.

We expect that our market share within the PMI industry increased in 2020 when compared to 2019. For additional discussion of the competitive landscape of the industry refer to "Overview - Business Environment - Competition."

Estimated MGIC market share

(% of total primary private MI volume)	Nine Months Ended September 30, 2020	Twelve Months Ended December 31, 2019
MGIC	18.7%	16.5%

Source: *Inside Mortgage Finance* - November 13, 2020 or SEC filings. Excludes HARP NIW.

NEW INSURANCE WRITTEN

NIW for 2020 continued to have what we believe are favorable risk characteristics. The following tables provide information about characteristics of our NIW.

Primary NIW by FICO score

(% of primary NIW)	Years Ended December 31,	
	2020	2019
760 and greater	47.1 %	44.9 %
740 - 759	18.2 %	18.7 %
720 - 739	13.3 %	13.9 %
700 - 719	10.3 %	10.8 %
680 - 699	7.3 %	7.0 %
660 - 679	2.1 %	2.7 %
640 - 659	1.1 %	1.4 %
639 and less	0.6 %	0.6 %
Total	100 %	100 %

Primary NIW by loan-to-value

(% of primary NIW)	Years Ended December 31,	
	2020	2019
95.01% and above	8.6 %	12.9 %
90.01% to 95.00%	39.1 %	43.5 %
85.01% to 90.00%	32.1 %	29.5 %
80.01% to 85%	20.2 %	14.1 %
Total	100 %	100 %

An increase in the percentage of refinances, discussed below, and home price appreciation have decreased the percentage of our NIW with LTV ratios greater than 95% in 2020 compared to 2019.

Primary NIW by debt-to-income ratio

(% of primary NIW)	Years Ended December 31,	
	2020	2019
45.01% and above	11.3 %	13.5 %
38.01% to 45.00%	30.8 %	32.9 %
38.00% and below	57.9 %	53.6 %
Total	100 %	100 %

In 2020, the percentage of our NIW on loans with DTI ratios over 45% was 11.3%, down from 13.5% in 2019. We believe the decline in 2020 was primarily due to pricing changes associated with such loans.

Primary NIW by policy payment type

(% of primary NIW)	Years Ended December 31,	
	2020	2019
Monthly premiums	91.0 %	84.4 %
Single premiums	8.9 %	15.5 %
Annual Premiums	0.1 %	0.1 %

Primary NIW by type of mortgage

(% of primary NIW)	Years Ended December 31,	
	2020	2019
Purchases	64.3 %	80.9 %
Refinances	35.7 %	19.1 %

IIF AND RIF

Our IIF grew 10.9% in 2020, and 6.0% in 2019, as NIW more than offset policy cancellations. Cancellation activity is primarily due to refinancing activity, but is also impacted by rescissions, cancellations due to claim payment, and policies cancelled when borrowers achieve the required amount of home equity. Refinancing activity has historically been affected by the level of mortgage interest rates and the level of home price appreciation. Cancellations generally move inversely to the change in the direction of interest rates, although they generally lag a change in direction.

Persistency. Our persistency at December 31, 2020 was 60.5% compared to 75.8% at December 31, 2019. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

Insurance in force and risk in force

(\$ in billions)	Years Ended December 31,	
	2020	2019
NIW	\$ 112.1	\$ 63.4
Cancellations	(87.8)	(50.8)
Increase in primary IIF	\$ 24.3	\$ 12.6
Direct primary IIF as of December 31,	\$ 246.6	\$ 222.3
Direct primary RIF as of December 31,	\$ 61.8	\$ 57.2

CREDIT PROFILE OF OUR PRIMARY RIF

The proportion of our total primary RIF written after 2008 has been steadily increasing in proportion to our total primary RIF. Our 2009 and later books possess significantly improved risk characteristics when compared to our 2005-2008 books. The credit profile

of our pre-2009 RIF has benefited from modification and refinance programs making outstanding loans more affordable to borrowers with the goal of reducing the number of foreclosures. These programs included HAMP and HARP, which expired at the end of 2016 and 2018, respectively, but have been replaced by other GSE modification programs. HARP allowed borrowers who were not delinquent, but who may not otherwise have been able to refinance their loans under the current GSE underwriting standards due to, for example, the current LTV exceeding 100%, to refinance and lower their note rate. As of December 31, 2020, HARP modifications accounted for approximately 3.2% of our total primary RIF, compared to 4.6% at December 31, 2019. Loans associated with 94.1% of all our HARP modifications were current as of December 31, 2020. For additional information on the composition of our primary RIF see "Business - Our Products and Services"

The composition of our primary RIF by policy year as of December 31, 2020 and 2019 is shown below:

Primary risk in force

(\$ in millions)	December 31, 2020	December 31, 2019
2004 and prior	635	760
2005 - 2008	5,043	6,352
2009 and later	56,134	50,101
Total	61,812	57,213

POOL AND OTHER INSURANCE

MGIC has written no new pool insurance since 2008, however, for a variety of reasons, including responding to capital market alternatives to private mortgage insurance and customer demands, MGIC may write pool risk in the future. Our direct pool RIF was \$340 million (\$210 million on pool policies with aggregate loss limits and \$130 million on pool policies without aggregate loss limits) at December 31, 2020 compared to \$376 million (\$213 million on pool policies with aggregate loss limits and \$163 million on pool policies without aggregate loss limits) at December 31, 2019. If claim payments associated with a specific pool reach the aggregate loss limit, the remaining IIF within the pool would be cancelled and any remaining defaults under the pool would be removed from our default inventory.

In connection with the GSEs' CRT programs, an insurance subsidiary of MGIC provides insurance and reinsurance covering portions of the credit risk related to certain reference pools of mortgages acquired by the GSEs. Our RIF, as reported to us, related to these programs was approximately \$287 million and \$182 million as of December 31, 2020 and December 31, 2019, respectively.

CONSOLIDATED RESULTS OF OPERATIONS

The following section of the MD&A provides a comparative discussion of our Consolidated Results of Operations for the two-year period ended December 31, 2020. For a discussion of the Critical Accounting Policies used by us that affect the Consolidated Results of Operations, see "Critical Accounting Policies" below.

Revenues

(In millions)	Year Ended December 31,	
	2020	2019
Net premiums written	\$ 928.7	\$ 1,001.3
Net premiums earned	\$ 1,021.9	\$ 1,031.0
Investment income, net of expenses	154.4	167.0
Net realized investment (losses) gains	13.8	5.3
Other revenue	9.1	10.6
Total revenues	\$ 1,199.1	\$ 1,214.0

NET PREMIUMS WRITTEN AND EARNED

NPW and NPE decreased 7% and 1%, respectively, compared to the prior year, primarily due to lower premium rates on our IIF and an increase in our reduction for ceded premiums due to the decrease in profit commission from our QSR transactions. The decrease in profit commission was a result of higher ceded losses incurred. This was partially offset by higher average insurance. NPE was also impacted by an increase in accelerated premiums from single premium policy cancellations.

Premium yield

Premium yield is NPE divided by average IIF during the year and is influenced by a number of key drivers, which have a varying impact from period to period. The following table provides information related to our premium yield for 2020, and 2019.

Premium Yield

(in basis points)	Year Ended December 31,	
	2020	2019
In force portfolio yield (1)	46.7	51.4
Premium refunds	(0.5)	(0.5)
Accelerated earnings on single premium policies	5.0	2.6
Total direct premium yield	51.2	53.5
Ceded premiums earned, net of profit commission and assumed premiums (2)	(7.6)	(5.8)
Net premium yield	43.6	47.7

- (1) Total direct premiums earned, excluding premium refunds and accelerated premiums from single premium policy cancellations divided by average primary insurance in force.
- (2) Assumed premiums include those from our participation in GSE CRT programs, of which the impact on the net premium yield was 0.5 bps in 2020 and 0.2 bps in 2019

Changes in our premium yields when compared to the respective prior year periods reflect the following:

In force Portfolio Yield

- A larger percentage of our IIF is from book years with lower premium rates due to a decline in premium rates in recent years resulting from pricing competition, insuring mortgages with lower risk characteristics, lower required capital, certain policies undergoing premium rate resets on their ten-year anniversaries, and the availability of reinsurance.

Premium Refunds

- Premium refunds adversely impact our premium yield and are primarily driven by claim activity and our estimate of refundable premiums on our delinquent inventory.

Accelerated earnings on single premium policies

- Greater amounts of accelerated earned premium from cancellation of single premium policies prior to their estimated policy life, primarily due to increased refinancing activity.

Ceded premiums earned, net of profit commission and assumed premiums

- Ceded premiums earned, net of profit commission adversely impact our premium yield. Ceded premium earned, net of profit commission, were primarily associated with QSR Transactions and Home Re Transactions. Assumed premiums consists primarily of premiums from GSE CRT programs. See "Reinsurance Agreements" below for further discussion on our reinsurance transactions.

As discussed in our Risk Factor titled "Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or increase our losses," the private mortgage insurance industry is highly competitive and premium rates have declined over the past several years. We expect that our inforce portfolio yield will continue to

decline as older insurance policies with higher premium rates run off or have their premium rates reset, and new insurance policies with lower premium rates are written. While our increased use of reinsurance over the past several years has helped to mitigate the negative effect of declining premium rates on our returns, refer to our risk factor titled "Reinsurance may not always be available or affordable" for a discussion of the risks associated with the availability of reinsurance.

See "Overview – Factors Affecting Our Results" above for additional factors that also influence the amount of net premiums written and earned in a year.

REINSURANCE AGREEMENTS

Quota share reinsurance

Our quota share reinsurance affects various lines of our statements of operations and therefore we believe it should be analyzed by reviewing its effect on our pre-tax net income, as described below.

- We cede a fixed percentage of premiums earned and received on insurance covered by the agreements.
- We receive the benefit of a profit commission through a reduction in the premiums we cede. The profit commission varies inversely with the level of losses on a "dollar for dollar" basis and can be eliminated at loss levels higher than we are currently experiencing. As a result, lower levels of losses result in a higher profit commission and less benefit from ceded losses; higher levels of ceded losses result in more benefit from ceded losses and a lower profit commission (or for certain levels of losses of accident year loss ratios, its elimination).
- We receive the benefit of a ceding commission through a reduction in underwriting expenses equal to 20% of premiums ceded (before the effect of the profit commission).
- We cede a fixed percentage of losses incurred on insurance covered by the agreements.

The following table provides information related to our quota share agreements for 2020 and 2019.

Quota share reinsurance

	As of and For the Years Ended December 31,	
<i>(Dollars in thousands)</i>	2020	2019
Statements of operations:		
Ceded premiums written and earned, net of profit commission	\$ 167,930	\$ 111,550
% of direct premiums written	15 %	11 %
% of direct premiums earned	14 %	11 %
Profit commission	\$ 72,452	\$ 139,179
Ceding commissions	\$ 48,077	\$ 48,793
Ceded losses incurred	\$ 78,012	\$ 11,395

Mortgage insurance portfolio:

Ceded RIF (in millions)	\$ 14,006	\$ 11,360
2015 QSR	\$ 1,625	\$ 2,657
2017 QSR	\$ 1,330	\$ 2,297
2018 QSR	\$ 1,333	\$ 2,389
2019 QSR	\$ 2,779	\$ 4,017
2020 QSR	\$ 6,169	\$ –
Credit Union QSR	\$ 770	\$ –

Covered Risk

The amount of our NIW, new risk written, IIF, and RIF subject to our QSR Transactions as shown in the following table will vary from period to period in part due to the mix of our risk written during the period.

Quota share reinsurance

	As of and For the Years Ended December 31,	
	2020	2019
NIW subject to QSR Transactions	74.4 %	81.5 %
New Risk Written subject to QSR Transactions	85.5 %	89.5 %
IIF subject to QSR Transactions	75.9 %	78.5 %
RIF subject to QSR Transactions	81.8 %	81.4 %

The NIW subject to quota share reinsurance decreased in 2020 compared to 2019 due to an increase in NIW with LTVs less than or equal to 85% and amortization terms less than or equal to 20 years, which are excluded from the QSR Transactions.

We terminated a portion of our 2015 QSR Transaction effective June 30, 2019, paid a termination fee of \$6.8 million, and entered into an amended quota share reinsurance agreement that effectively reduces the quota share cede rate from 30% to 15% on the remaining eligible insurance. The lower cede rate reduced our ceded RIF but does not impact our

determination of the amount of IIF subject to quota share reinsurance agreements.

2021 and 2022 QSR Transaction. We have agreed to terms with a group of unaffiliated reinsurers for reinsurance transactions with similar structures to our existing QSR transactions that will cover most of our NIW in 2021 (with an additional 12.5% quota share) and 2022 (with a 15% quota share). This is in addition to the reinsurance agreements executed in 2020 that included a 17.5% quota share on eligible 2021 NIW and the Credit Union QSR Transaction that covers NIW on loans originated by credit unions with a 65% quota share.

Excess of loss reinsurance

Our excess-of-loss reinsurance agreements provide \$839.4 million of loss coverage on an existing portfolio of in force policies having an in force dates from July 1, 2016 through March 31, 2019 and January 1, 2020 through July 31, 2020. As of December 31, 2020, the aggregate exposed principal balances under the Home Re 2018-1, 2019-1, and 2020-1 transactions were approximately \$3.5 billion, \$3.3 billion, and \$8.7 billion, respectively, which take into account the mortgage insurance coverage percentage, net retained risk after quota share reinsurance, and the reinsurance inclusion percentage of the unpaid principal balance. Total ceded premiums for 2020 and 2019 were \$20.8 million and \$17.6 million, respectively.

In October 2020, MGIC entered into an excess-of-loss agreement (executed through an insurance linked notes transaction) on a portfolio of policies having in force dates from January 1, 2020 through July 31, 2020.

In February 2021, MGIC entered into \$398.8 excess of loss agreement (executed through an insurance linked notes transaction) on a portfolio of policies having in force dates from August 1, 2020 through December 31, 2020.

A "Trigger Event" has occurred on for each our outstanding ILN transactions. On the 2018 and 2019 ILN transactions a "Trigger Event" has occurred because the reinsured principal balance of loans that were reported 60 or more days delinquent exceeded 4% of the total reinsured principal balance of loans under each transaction. A "Trigger Event" has occurred on our 2020 ILN transaction because the credit enhancement of the most senior tranche is less than the target credit enhancement. While the "Trigger Event" is in effect, payment of principal on the related notes will be suspended and the reinsurance coverage available to MGIC under the transactions will not be reduced by such principal payments.

INVESTMENT INCOME, NET

Net investment income decreased 8% to \$154 million in 2020 compared to \$167 million in 2019. The decrease in investment income was due to lower investment yields, partially offset by an increase in the investment portfolio balance.

See "Balance Sheet Review" in this MD&A for further discussion regarding our investment portfolio.

NET REALIZED INVESTMENT GAINS (LOSSES)

Net realized investment gains (losses) in 2020 and 2019 were \$14 million and \$5 million, respectively. The increase in net realized investment gains was due to an increase in the sale of fixed income and equity securities.

OTHER REVENUE

Other revenue decreased to \$9 million in 2020 from \$11 million in 2019.

Losses and expenses

<i>(In millions)</i>	Year Ended December 31,	
	2020	2019
Losses incurred, net	\$ 364.8	\$ 118.6
Amortization of deferred policy acquisition costs	12.4	12.0
Other underwriting and operating expenses, net	176.4	182.8
Interest expense	59.6	52.7
Loss on debt extinguishment	26.7	—
Total losses and expenses	\$ 639.9	\$ 366.0

LOSSES INCURRED, NET

As discussed in "Critical Accounting Policies" below and consistent with industry practices, we establish case loss reserves for future claims on delinquent loans that were reported to us as two payments past due and have not become current or resulted in a claim payment. Such loans are referred to as being in our delinquency inventory. Case loss reserves are established based on estimating the number of loans in our delinquent inventory that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity.

IBNR reserves are established for delinquencies estimated to have occurred prior to the close of an accounting period, but not yet reported to us. IBNR reserves are established using estimated delinquencies, claim rates and claim severities.

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. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrower income and thus their ability to make mortgage payments, and a drop in housing values that could result in, among other things, greater losses on loans, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new notice activity and a lower cure rate. Changes in economic circumstances, including those associated with the COVID-19 pandemic affected this pattern in 2020.

As discussed in our Risk Factor titled "The Covid-19 pandemic may continue to materially impact our financial results and may also materially impact our business, liquidity and financial condition" the impact of the COVID-19 pandemic on our future incurred losses is uncertain and may be material. As discussed in our risk factor titled "Because we establish loss reserves only upon a loan delinquency rather than based on estimates of our ultimate losses on risk in force, losses may have a disproportionate adverse effect on our earnings in certain periods" if we have not received a notice of delinquency with respect to a loan and if we have not estimated the loan to be delinquent as of December 31, 2020 and recorded an IBNR reserve, then we have not yet recorded an incurred loss with respect to that loan.

Our estimates are also affected by any agreements we enter into regarding our claims paying practices such as the settlement agreements discussed in Note 17 – "Litigation and Contingencies" to our consolidated financial statements. Changes to our estimates could result in a material impact to our consolidated results of operations and financial position, even in a stable economic environment.

Losses incurred, net increased to \$365 million compared to \$119 million in 2019. The increase was primarily due to an increase in the delinquency inventory due to the impacts of the COVID-19 pandemic, including unemployment resulting from initiatives intended to reduce the transmission of COVID-19. There were 57,710 loans in our delinquency inventory at December 31, 2020 compared to 30,028 at December 31, 2019. The increase in losses incurred, net was also due to adverse loss reserve development on previously received delinquencies of \$20 million in 2020 compared to favorable development of \$71 million in 2019.

See "New notice claim rate" and "Claims severity" below for additional factors and trends that impact these loss reserve assumptions.

Composition of losses incurred

<i>(In millions)</i>	Year Ended December 31,	
	2020	2019
Current year / New notices	\$ 345	\$ 190
Prior year reserve development	20	(71)
Losses incurred, net	\$ 365	\$ 119

Loss ratio

The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and LAE, net to net premiums earned. The increase in the loss ratio in 2020 when compared to 2019 was primarily due to an increase in losses incurred discussed above.

	Year Ended December 31,	
	2020	2019
Loss ratio	35.7 %	11.5 %

New notice claim rate

We received an increased number of new delinquency notices in 2020 compared to 2019, as a result of the COVID-19 pandemic and its related effects (including higher unemployment and the widespread introduction of loan forbearance plans as a mechanism for economic relief). The decrease in the weighted average new notice claim rate for 2020 to 7% from 8% at December 31, 2019 is primarily due to the percentage of new notices of delinquency reported to as being in a COVID-19 related forbearance plan. As of December 31, 2020, 62% of our delinquency inventory were in such plans.

Historically, forbearance plans have reduced the incidence of our losses on affected loans. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related forbearances on our loss incidence. Whether a loan's delinquency will cure when its forbearance plan ends will depend on the economic circumstances of the borrower at that time. Forbearance information is based on the most recent information provided by the GSEs, as well as loan servicers, and we believe substantially all represent forbearances related to COVID-19. While the forbearance information provided by the GSEs refers to delinquent loans in forbearance as of the prior month-end, the information provided by loan servicers may be more current.

Management's Discussion and Analysis

The table below presents our new notices, delinquency inventory, and the average missed payment of the delinquency inventory by policy year.

New notices and delinquency inventory during the period

December 31, 2020				
Policy Year	New Notices in 2020	Delinquency Inventory as of 12/31/20	% of Delinquency Inventory in Forbearance	Avg. Number of Missed Payments of Delinquency Inventory
2004 and prior	6,079	3,885	24.1 %	16
2005-2008	26,838	17,084	38.0 %	14
2009-2015	13,513	6,917	66.1 %	8
2016	9,497	4,599	75.9 %	7
2017	13,139	6,746	76.8 %	7
2018	15,040	7,468	79.4 %	7
2019	16,904	7,929	84.1 %	6
2020	5,089	3,082	84.8 %	5
Total	106,099	57,710	62.2 %	10
Claim rate on new notices⁽¹⁾	7.0 %			

December 31, 2019			
Policy Year	New Notices in 2019	Inventory as of 12/31/19	Avg. Number of Missed Payments of Delinquency Inventory
2004 and prior	7,742	4,686	16
2005-2008	26,510	16,275	14
2009-2015	7,776	3,647	7
2016	3,700	1,578	6
2017	4,486	1,989	5
2018	3,374	1,521	4
2019	651	332	3
Total	54,239	30,028	12
Claim rate on new notices⁽¹⁾	8.0 %		

(1) - Claim rate is the respective full year weighted average rate and is rounded to the nearest whole percent.

Claims severity

Factors that impact claim severity include:

- economic conditions at that time, including home prices compared to home prices at the time of placement of coverage
- exposure on the loan, which is the unpaid principal balance of the loan times our insurance coverage percentage,
- length of time between delinquency and claim filing (which impacts the amount of interest and expenses, with a longer period between default and claim filing generally increasing severity), and
- curtailments.

As discussed in Note 8 - "Loss Reserves," the average time for servicers to process foreclosures, prior to 2020, has been decreasing. In light of the uncertainty caused by the COVID-19 pandemic, the average number of missed payments at the time a claim is received and expected to be received will increase in 2021. Our loss reserves estimates take into consideration trends over time, because the development of the delinquencies may vary from period to period without establishing a meaningful trend.

The majority of loans from 2005 through 2008 (which represent 30% of the loans in the delinquent inventory) are covered by master policy terms that, except under certain circumstances, do not limit the number of years that

an insured can include interest when filing a claim. Under our current master policy terms, an insured can include accumulated interest when filing a claim only for the first three years the loan is delinquent. In each case, the insured must comply with its obligations under the terms of the applicable master policy.

The quarterly trend in claims severity for each of the three years in the period ended December 31, 2020 is shown in the following table.

Claims severity trend

Period	Average exposure on claim paid	Average claim paid	% Paid to exposure	Average number of missed payments at claim received date
Q4 2020	\$ 48,321	\$ 40,412	83.6 %	\$ 32
Q3 2020	47,780	40,600	85.0 %	27
Q2 2020	44,905	42,915	95.6 %	32
Q1 2020	46,247	47,222	102.1 %	33
Q4 2019	46,076	46,302	100.5 %	34
Q3 2019	42,821	44,388	103.7 %	35
Q2 2019	46,950	46,883	99.9 %	34
Q1 2019	42,277	43,930	103.9 %	35
Q4 2018	45,366	47,980	105.8 %	35
Q3 2018	43,290	47,230	109.1 %	35
Q2 2018	44,522	50,175	112.7 %	38
Q1 2018	45,597	51,069	112.0 %	38

Note: Table excludes material settlements. Settlements include amounts paid in settlement of disputes for claims paying practices and/or commutations of policies.

The foreclosure moratoriums and forbearance plans in place under GSE initiatives have and may continue to delay the receipt of claims. Claims that were resolved after the first quarter of 2020 experienced an increase in loss mitigation activities, primarily third party acquisitions (sometimes referred to as "short sales"), resulting in a decrease in the average claim paid and the average claim paid as a percentage of exposure. As foreclosure moratoriums and forbearance plans end, we expect to see an increase in claims received and claims paid at exposure levels above those experienced prior to the second quarter of 2020. The magnitude and timing of the increases are uncertain.

In considering the potential sensitivity of the factors underlying our estimate of loss reserves, it is possible that even a relatively small change in our estimated claim rate or severity could have a material impact on loss reserves and, correspondingly, on our consolidated results of operations even in a stable economic environment. For example, as of December 31, 2020, assuming all other factors remain constant, a \$1,000 increase/decrease in the average severity reserve factor would change the loss reserve amount by approximately +/- \$16 million. A one percentage point increase/decrease in the average claim rate reserve factor would change the loss reserve amount by approximately +/- \$34 million.

See Note 8 – "Loss Reserves" to our consolidated financial statements and "Critical Accounting Policies" below for a discussion of our losses incurred and claims paying practices (including curtailments).

Management's Discussion and Analysis

The length of time a loan is in the delinquency 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 following table.

Primary delinquent inventory - number of payments delinquent

	December 31,			
	2020 Non-Forbearance	2020 Forbearance ⁽²⁾	2020 Total	2019 Total
3 payments or less	7,603	6,580	14,183	14,895
4 - 11 payments	7,824	28,153	35,977	8,519
12 payments or more ⁽¹⁾	6,405	1,145	7,550	6,614
Total	21,832	35,878	57,710	30,028
3 payments or less	35 %	18 %	25 %	50 %
4 - 11 payments	36 %	79 %	62 %	28 %
12 payments or more	29 %	3 %	13 %	22 %
Total	100 %	100 %	100 %	100 %

⁽¹⁾ Approximately 31% and 36% of the loans in the primary delinquency inventory with 12 payments or more delinquent have at least 36 payments delinquent as of December 31, 2020, and 2019, respectively.

⁽²⁾ We believe substantially all represent forbearances related to COVID-19.

COVID-19 Delinquency Activity

New delinquency notices increased in 2020 because of the impacts of the COVID-19 pandemic, including the high level of unemployment and economic uncertainty resulting from measures to reduce the transmission of the COVID-19. The number of new delinquency notices received in the second quarter of 2020 was 57,584, but decreased 74% by the fourth quarter to 15,193 new delinquency notices. In the third and fourth quarter of 2020, we experienced an increase in cures, likely associated with our COVID-19 new delinquency notices.

Forbearance programs enacted by the GSEs provide for payment forbearance on mortgages to borrowers experiencing a hardship during the COVID-19 pandemic. These forbearance plans generally allow for mortgage payments to be suspended for up to 360 days: an initial forbearance period up to 180 days and, if requested by the borrower, an extension of up to 180 days. For loans in a COVID-19 forbearance plan as of February 28, 2021, the plan may be extended for an additional three months, subject to certain limits. As of December 31, 2020, 62% of our delinquency inventory was reported as subject to a forbearance plan. We believe substantially all represent forbearances related to COVID-19. Forbearance information is based on the most recent information provided by the GSEs, as well as loan servicer. While the forbearance information provided by the GSEs refers to delinquent loans in forbearance as of the prior month-end, the information provided by loan servicers may be more current. We expect our delinquency inventory will remain at elevated levels during 2021 due to the impacts of the COVID-19 pandemic and initiatives intended to reduce the transmission of COVID-19. Given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related delinquencies on our loss incidence.

NET LOSSES AND LAE PAID

Net losses and LAE paid decreased 50% in 2020 compared to 2019 primarily due to lower claim activity on our primary business due to foreclosure moratoriums and payment forbearance plans in place. During 2019, losses paid included settlement payments under commutations of coverage on policies and/or related to disputes concerning our claims paying practices.

While foreclosure moratoriums and payment forbearance plans remain in place, net losses and LAE paid are expected to continue to be lower. As the various moratorium and forbearance plans end, we expect net losses and LAE paid to increase, however, the magnitude and timing of the increases are uncertain.

The table below presents our net losses and LAE paid for 2020 and 2019.

Net losses and LAE paid		
<i>(in millions)</i>	2020	2019
Total primary (excluding settlements)	\$ 98	\$ 193
Claims paying practices and NPL settlements ⁽¹⁾	—	30
Pool	2	4
Direct losses paid	100	227
Reinsurance	(4)	(8)
Net losses paid	96	219
LAE	18	21
Net losses and LAE paid before terminations	114	240
Reinsurance terminations	—	(14)
Net losses and LAE paid	\$ 114	\$ 226

⁽¹⁾ See Note 8 - "Loss Reserves" for additional information on our settlements of disputes for claims paying practices and/or commutations of policies

Primary losses paid for the top 15 jurisdictions (based on 2020 losses paid) and all other jurisdictions for 2020 and 2019 appears in the table below.

Primary paid losses by jurisdiction

<i>(In millions)</i>	2020	2019
Florida *	\$ 13	\$ 28
New York *	11	25
Illinois *	9	13
New Jersey *	8	20
Maryland	7	9
Puerto Rico *	5	12
Pennsylvania *	4	8
California	3	5
Ohio *	3	7
Virginia	2	4
Massachusetts	2	3
Michigan	2	4
Texas	2	4
Connecticut *	2	6
Wisconsin	2	3
All other jurisdictions	22	42
Total primary (excluding settlements)	\$ 98	\$ 193

Note: Asterisk denotes jurisdictions in the table above that predominately use a judicial foreclosure process, which generally increases the amount of time it takes for a foreclosure to be completed.

The primary average claim paid for the top 5 jurisdictions (based on 2020 losses paid) for 2020 and 2019 appears in table below.

Primary average claim paid

	2020	2019
Florida *	\$ 59,610	\$ 65,576
New York *	111,112	102,819
Illinois *	43,339	42,833
New Jersey *	96,116	81,811
Maryland	63,665	60,905
All other jurisdictions	32,798	33,983
All jurisdictions	43,901	45,324

Note: Asterisk denotes jurisdictions in the table above that predominately use a judicial foreclosure process, which generally increases the amount of time it takes for a foreclosure to be completed.

Management's Discussion and Analysis

The primary average claim paid can vary materially from period to period based upon a variety of factors, including the local market conditions, average loan amount, average coverage percentage, the amount of time between delinquency and claim filing, and our loss mitigation efforts on loans for which claims are paid.

The primary average RIF on delinquent loans as of December 31, 2020 and 2019 and for the top 5 jurisdictions (based on 2020 losses paid) appears in the following table.

Primary average exposure - delinquent loans

	2020	2019
Florida	\$ 56,956	\$ 52,566
New York	73,509	72,188
Illinois	41,451	38,740
New Jersey	67,709	64,444
Maryland	68,347	64,208
All other jurisdictions	52,071	41,145
All jurisdictions	53,804	45,028

The primary average RIF on all loans was \$54,891, \$52,995 at December 31, 2020 and December 31, 2019, respectively.

LOSS RESERVES

Our primary default rate at December 31, 2020 was 5.11% (2019: 2.78%). Our primary delinquency inventory held 57,710 loans at December 31, 2020, compared to 30,028 at December 31, 2019. The increase in our primary delinquency inventory from the prior year is primarily due to the adverse economic impact of the COVID-19 pandemic. As of December 31, 2020, 62% of our delinquency inventory were reported to us as subject to forbearance plans. We believe substantially all represent forbearance plans related to COVID-19. Prior to 2020, we experienced a decline in the number of delinquencies in inventory with twelve or more missed payments. Generally, a defaulted loan with fewer missed payments is less likely to result in a claim. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related delinquencies and forbearances on our loss incidence. Whether a loan's delinquency will cure when its forbearance plan ends will depend on the economic circumstances of the borrower at that time.

The primary and pool loss reserves as of December 31, 2020, and 2019 appear in the table below.

Gross loss reserves

	December 31,	
	2020	2019
Primary:		
Case reserves (<i>In millions</i>)	\$ 789	\$ 490
IBNR and LAE	82	56
Total primary direct loss reserves	871	546
Ending delinquency inventory	57,710	30,028
Percentage of loans delinquent (default rate)	5.11 %	2.78 %
Average direct reserve per default	\$ 15,100	\$ 18,171
Primary claims received inventory included in ending delinquency inventory	159	538
Pool ⁽¹⁾:		
Direct loss reserves (<i>In millions</i>):		
With aggregate loss limits	6	7
Without aggregate loss limits	2	2
Total pool direct loss reserves	8	9
Ending delinquency inventory:		
With aggregate loss limits	442	430
Without aggregate loss limits	238	223
Total pool ending delinquency inventory	680	653
Pool claims received inventory included in ending delinquency inventory	10	11
Other gross loss reserves ⁽²⁾ (<i>In millions</i>)	2	—

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

(2) Other gross loss reserves includes direct and assumed reserves that are not included within our primary or pool loss reserves.

The average direct reserve per default as of December 31, 2020 declined when compared to the average as of December 31, 2019 because the delinquency inventory as of December 31, 2020 included loans with fewer missed payments and loans with lower anticipated paid to exposure rates.

Management's Discussion and Analysis

The primary default inventory for the top 15 jurisdictions (based on 2020 losses paid) at December 31, 2020, and 2019 appears in table the below.

Primary delinquent inventory by jurisdiction

	Non-Forbearance 2020	Forbearance ⁽¹⁾ 2020	Total 2020	Total 2019
Florida *	1,786	4,150	5,936	2,504
New York *	1,328	1,088	2,416	1,634
Illinois *	1,298	2,162	3,460	1,749
New Jersey *	786	1,174	1,960	992
Maryland	562	994	1,556	796
Puerto Rico *	828	630	1,458	1,122
Pennsylvania *	1,299	1,294	2,593	1,755
California	916	2,668	3,584	1,213
Ohio *	1,313	1,228	2,541	1,498
Virginia	442	935	1,377	580
Massachusetts	397	451	848	544
Michigan	691	1,151	1,842	921
Texas	1,332	3,285	4,617	2,251
Connecticut *	344	565	909	506
Wisconsin	520	536	1,056	694
All other jurisdictions	7,990	13,567	21,557	11,269
Total	21,832	35,878	57,710	30,028

Note: Asterisk denotes jurisdictions in the table above that predominately use a judicial foreclosure process, which generally increases the amount of time it takes for a foreclosure to be completed.

⁽¹⁾ We believe substantially all represent forbearances related to COVID-19.

The primary default inventory by policy year at December 31, 2020, and 2019 appears in the table below.

Primary delinquent inventory by policy year

	Non-Forbearance 2020	Forbearance ⁽¹⁾ 2020	Total 2020	Total 2019
2004 and prior	2,948	937	3,885	4,686
2004 and prior %:	14 %	3 %	6 %	16 %
2005	1,791	671	2,462	2,799
2006	2,972	1,293	4,265	4,582
2007	4,681	3,330	8,011	7,096
2008	1,149	1,197	2,346	1,798
2005 - 2008 %	49 %	18 %	30 %	54 %
2009	75	84	159	148
2010	61	38	99	115
2011	85	66	151	143
2012	128	229	357	231
2013	346	583	929	521
2014	700	1,389	2,089	1,101
2015	953	2,180	3,133	1,388
2009 - 2015 %	11 %	13 %	12 %	12 %
2016	1,109	3,490	4,599	1,578
2017	1,566	5,180	6,746	1,989
2018	1,541	5,927	7,468	1,521
2019	1,259	6,670	7,929	332
2020	468	2,614	3,082	—
2016 and later %:	27 %	67 %	52 %	18 %
Total	21,832	35,878	57,710	30,028

⁽¹⁾ We believe substantially all represent forbearances related to COVID-19.

We expect that delinquencies will remain at elevated levels in 2021 as a result of the COVID-19 pandemic, including as a result of the increase in unemployment associated with initiatives intended to reduce the transmission of COVID-19. Historically, forbearance plans have reduced the incidence of our losses on affected loans. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related forbearances on our loss incidence. Whether a loan's delinquency will cure when its forbearance plan ends will depend on the economic circumstances of the borrower at that time. Forbearance information is based on the most recent information provided by the GSEs, as well as loan servicers, and we believe substantially all forbearance plans reported are related to COVID-19. While the forbearance information provided by the GSEs refers to delinquent loans in forbearance as of the prior month-end, the information provided by loan servicers may be more current.

The losses we have incurred on our 2005 through 2008 books have exceeded our premiums from those books. Although uncertainty remains with respect to the ultimate losses we may experience on those books, as we continue to write new insurance, those books have become a smaller percentage of our total mortgage insurance portfolio. Our 2005 through 2008 books of business represented approximately 8% and 11% of our total primary RIF at December 31, 2020 and 2019, respectively. Approximately 37% and 39% of the remaining primary RIF on our 2005 through 2008 books of business benefited from HARP as of both December 31, 2020 and 2019, respectively.

On our primary business, the highest claim frequency years have typically been the third and fourth year after loan origination. However, the pattern of claim frequency can be affected by many factors, including persistency and deteriorating economic conditions. Deteriorating economic conditions can result in increasing claims following a period of declining claims. As of December 31, 2020, 66% of our primary RIF was written subsequent to December 31, 2017, 74% of our primary RIF was written subsequent to December 31, 2016, and 82% of our primary RIF was written subsequent to December 31, 2015.

UNDERWRITING AND OTHER EXPENSES, NET

Underwriting and other expenses includes items such as employee compensation costs, fees for professional and consulting services, depreciation and maintenance expense, and premium taxes, and are reported net of ceding commissions.

Underwriting and other expenses for 2020 decreased when compared to 2019 primarily due to a decreases in employee compensation costs, including equity-based compensation, and travel. This was partially offset by increases in professional services and equipment and software expense.

Underwriting expense ratio

The underwriting expense ratio is the ratio, expressed as a percentage, of the underwriting and operating expenses, net and amortization of DAC of our combined insurance operations (which excludes underwriting and operating expenses of our non-insurance operations) to NPW, and is presented in the table below for the past two years.

	Year Ended December 31,	
	2020	2019
Underwriting expense ratio	19.2 %	18.4 %

The underwriting expense ratio increased in 2020 compared with 2019 due to lower NPW partially offset by a decrease in underwriting expenses.

INTEREST EXPENSE

2020 compared to 2019. Interest expense for 2020 was \$60 million compared to \$53 million for 2019. The increase is due to the issuance of the 5.25% Notes in August 2020, partially offset by the repurchase of a portion of the 5.75% Notes and the 9% Debentures.

INCOME TAX EXPENSE AND EFFECTIVE TAX RATE

Income tax provision and effective tax rate

(In millions, except rate)	2020	2019
Income before tax	\$ 559	\$ 848
Provision for income taxes	113	174
Effective tax rate	20.2 %	20.5 %

The decrease in our provision for income tax expense for 2020 compared to 2019 was primarily due to a decrease in income before tax. Our effective tax rate for 2020 and 2019 was below the federal statutory income tax rate of 21% primarily due to the benefits of tax-preferenced securities.

See Note 12 – "Income Taxes" to our consolidated financial statements for a discussion of our tax position.

BALANCE SHEET REVIEW

Shareholders' equity

(In millions)	Shareholders' equity		
	As of December 31,		\$ Change
	2020	2019	
Shareholders' equity			
Common stock	\$ 371	\$ 371	\$ –
Paid-in capital	1,862	1,870	(8)
Treasury stock	(393)	(283)	(110)
Accumulated Other Comprehensive Income (Loss), net of tax	217	73	144
Retained earnings	2,642	2,278	364
Total	\$ 4,699	\$ 4,309	\$ 390

The increase in shareholders' equity in 2020 compared with the prior year was due to net income and an increase in the fair value of our investment portfolio, offset in part by quarterly dividends paid to shareholders and the repurchase of shares of our common stock in the first quarter of 2020.

Total assets and total liabilities

As of December 31, 2020, total assets were \$7.4 billion and total liabilities were \$2.7 billion. Compared to year-end 2019, total assets increased by \$1.1 billion and total liabilities increased by \$0.7 billion.

The following sections focus on the assets and liabilities experiencing major developments in 2020.

INVESTMENT PORTFOLIO

The investment portfolio increased 16%, to \$6.7 billion as of December 31, 2020 (2019: \$5.8 billion), as net cash from operations and proceeds from debt issuances were used in part for additional investment.

The return we generate on our investment portfolio is an important component of our consolidated financial results. Our investment portfolio primarily consists of a diverse mix of highly rated fixed income securities. The investment portfolio is designed to achieve the following objectives:

Operating Companies ⁽¹⁾	Holding Company
→ Preserve PMIERS assets	→ Provide liquidity with minimized realized loss
→ Maximize total return with emphasis on yield, subject to our other objectives	→ Maintain highly liquid, low volatility assets
→ Limit portfolio volatility	→ Maintain high credit quality
→ Duration 3.5 to 5.5 years	→ Duration maximum of 2.5 years

⁽¹⁾ Primarily MGIC

To achieve our portfolio objectives, our asset allocation considers the risk and return parameters of the various asset classes in which we invest. This asset allocation is informed by, and based on, the following factors:

- economic and market outlooks;
- diversification effects;
- security duration;
- liquidity;
- capital considerations; and
- income tax rates.

The average duration and embedded investment yield of our investment portfolio as of December 31, 2020 and 2019 is shown in the following table.

Portfolio duration and embedded investment yield

	December 31,	
	2020	2019
Duration (in years)	4.3	3.9
Pre-tax yield ⁽¹⁾	2.6%	3.1%
After-tax yield ⁽¹⁾	2.1%	2.5%

⁽¹⁾ Embedded investment yield is calculated on a yield-to-worst basis.

The credit risk of a security is evaluated through analysis of the security's underlying fundamentals, including the issuer's sector, scale, profitability, debt coverage, and ratings. The investment policy guidelines limit the amount of our credit exposure to any one issue, issuer and type of instrument. The following table shows the security ratings of our fixed income investments as of December 31, 2020 and 2019.

Fixed income security ratings

Period	Security Ratings ⁽¹⁾			
	AAA	AA	A	BBB
December 31, 2020	23%	22%	35%	20%
December 31, 2019	21%	20%	34%	24%

⁽¹⁾ Ratings are provided by one or more of: Moody's, Standard & Poor's and Fitch Ratings. If three ratings are available, the middle rating is shown; otherwise the lowest rating is shown.

Our investment portfolio was invested in comparable security types for the years ended December 31, 2020 and December 31, 2019. See Note 5 – "Investments" to our consolidated financial statements for additional disclosure on our investment portfolio.

Investments outlook

Our investment portfolio of fixed income securities is subject to interest rate risk and its fair value is likely to increase in a decreasing interest rate environment. We seek to manage our exposure to interest rate risk and volatility by maintaining a diverse mix of high quality securities with an intermediate duration profile. While higher interest rates may adversely impact the fair values of our fixed income securities, they present an opportunity to reinvest investment income and proceeds from security maturities into higher yielding securities.

Investing activity will continue to decrease our portfolio yield as long as market yields remain below the current portfolio yield. Any decline in market-based portfolio yield is expected to result in lower net investment income in future periods.

As of December 31, 2020, approximately 5% of the fair value of our investment portfolio consisted of securities referencing LIBOR, none of which reference one-week and two-month tenors. As discussed in our risk factor titled "The Company may be adversely impacted by the transition from LIBOR as a reference rate," the ICE Benchmark Administration, the administrator of LIBOR, began consulting on its intention to cease publishing after 2021, with respect to USD LIBOR, only the one-week and two-month tenors and, on June 30, 2023, all other USD LIBOR tenors.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents increased 78%, to \$288 million, as of December 31, 2020 (2019: \$162 million), as net cash generated from operating and financing activities was only partly offset by net cash used in investing activities.

LOSS RESERVES

Our loss reserves include estimates of losses and settlement expenses on (1) loans in our delinquency inventory (known as case reserves) (2) IBNR delinquencies, and (3) LAE. Our gross reserves are reduced by reinsurance recoverable on our estimated losses and settlement expenses to calculate a net reserve balance. Loss reserves increased by 59% to \$881 million as of December 31, 2020, from \$555 million of December 31, 2019. Reinsurance recoverables on our estimated losses and settlement expenses were \$95 million and \$22 million as of December 31, 2020 and December 31, 2019, respectively. The overall increase in our net loss reserves during 2020 was primarily due to an increase in new delinquency notices as well as IBNR reserves, each due to the impacts of the COVID-19 pandemic.

LONG-TERM DEBT

Our long-term debt increased to \$1,243.2 million as of December 31, 2020 from \$832.8 million as of December 31, 2019. In August, 2020, we issued \$650.0 million aggregate principal amount of 5.25% Notes due in 2028 with a three year call feature. We used a portion of the proceeds to repurchase \$182.7 million in aggregate principal of our 5.75% Notes due in 2023 and \$48.1 million in aggregate principal of our 9% Debentures due 2063. The balance of the proceeds remains at the holding company.

UNEARNED PREMIUM

Our unearned premium decreased to \$287.1 million as of December 31, 2020 from \$380.3 million as of December 31, 2019 primarily due to an increase in single premium policy cancellations.

OTHER LIABILITIES

Other liabilities increased 61% to \$245 million as of December 31, 2020 (2019: \$152 million), primarily due to increases in our deferred income tax liability, reinsurance premium payable (net of ceding commission and profit commission), investment securities payable, and interest payable. This was partially offset by decreases in accrued salaries and benefits payable.

Off-balance sheet arrangements

Home Re 2018-1 Ltd., Home Re 2019-1 Ltd., and Home Re 2020-1 Ltd. are special purpose variable interest entities that are not consolidated in our consolidated financial statements because we do not have the unilateral power to direct those activities that are significant to their economic performance. See Note 9 - "Reinsurance," to our consolidated financial statements for additional information.

LIQUIDITY AND CAPITAL RESOURCES

CONSOLIDATED CASH FLOW ANALYSIS

We have three primary types of cash flows: (1) operating cash flows, which consist mainly of cash generated by our insurance operations and income earned on our investment portfolio, less amounts paid for claims, interest expense and operating expenses, (2) investing cash flows related to the purchase, sale and maturity of investments and purchases of property and equipment and (3) financing cash flows generally from activities that impact our capital structure, such as changes in debt and shares outstanding and dividend payouts. The following table summarizes these three cash flows on a consolidated basis for the last two years.

Summary of consolidated cash flows

<i>(In thousands)</i>	Years ended December 31,	
	2020	2019
Total cash provided by (used in):		
Operating activities	\$ 732,309	\$ 609,532
Investing activities	(772,506)	(422,108)
Financing activities	167,821	(173,406)
Increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	\$ 127,624	\$ 14,018

Operating activities

The following list highlights the major sources and uses of cash flow from operating activities:

Sources

- + Premiums received
- + Loss payments from reinsurers
- + Investment income

Uses

- Claim payments
- Premium ceded to reinsurers
- Interest expense
- Operating expenses

Our largest source of cash is from premiums received from our insurance policies, which we receive on a monthly installment basis for most policies. Premiums are received at the beginning of the coverage period for single premium and annual premium policies. Our largest cash outflow is generally for claims that arise when a delinquency results in an insured loss. Due to the foreclosure moratorium and payment forbearance plans in place, we have experienced a decrease in losses and LAE paid. As the various moratorium and forbearance

plans end, we expect net losses and LAE paid to increase, however, the magnitude and timing of the increases are uncertain. We invest our claims paying resources from premiums and other sources in various investment securities that earn interest. We also use cash to pay for our ongoing expenses such as salaries, debt interest, professional services and occupancy costs.

In connection with the reinsurance we use to manage the risk associated with our insurance policies, we cede, or pay out, part of the premiums we receive to our reinsurers and collect cash back when claims subject to our reinsurance coverage are paid.

Net cash provided by operating activities in 2020 increased compared to 2019 primarily due to a lower level of losses paid, net, and a decrease in taxes paid, partially offset by a decrease in net premium written.

Investing activities

The following list highlights the major sources and uses of cash flow from investing activities:

Sources
+ Proceeds from sales of investments
+ Proceeds from maturity of fixed income securities

Uses
- Purchases of investments
- Purchases of property and equipment

We maintain an investment portfolio that is primarily invested in a diverse mix of fixed income securities. As of December 31, 2020, our portfolio had a fair value of \$6.7 billion, an increase of \$0.9 billion, or 16.1% from December 31, 2019. Net cash flows used in investing activities in 2020 and 2019 primarily reflect purchases of fixed income securities in an amount that exceeded our proceeds from sales and maturities of such securities during the year as cash from operations and financing activities was available for additional investment. In addition to investment portfolio activities, our investing activities included investment in our technology infrastructure to enhance our ability to conduct business and execute our strategies.

Financing activities

The following list highlights the major sources and uses of cash flow from financing activities:

Sources
+ Proceeds from debt and/or common stock issuances

Uses
- Repurchase of common stock
- Payment of dividends to shareholders
- Repayment/repurchase of debt
- Payment of withholding taxes related to share-based compensation net share settlement

Net cash flows used in financing activities in 2020 primarily reflect the issuance of our 5.25% Notes, partially offset by the repurchase of a portion of our 5.75% Notes and 9% Debentures, repurchases of our common stock, payment of dividends to shareholders and the payment of withholding taxes related to share-based compensation net share settlement.

* * *

For a further discussion of matters affecting our cash flows, see "Balance Sheet Review" above and "Debt at our Holding Company and Holding Company Liquidity" below.

CAPITALIZATION

Capital Risk

Capital risk is the risk of adverse impact on our ability to comply with capital requirements (regulatory and GSE) and to maintain the level, structure and composition of capital required for meeting financial performance objectives.

A strong capital position is essential to our business strategy and is important to maintain a competitive position in our industry. Our capital strategy focuses on long-term stability, which enables us to build and invest in our business, even in a stressed environment.

Our capital management objectives are to:

- influence and ensure compliance with capital requirements,
- maintain access to capital and reinsurance markets,
- manage our capital to support our business strategies and the competing priorities of relevant stakeholders
- assess appropriate uses for capital that cannot be deployed in support of our business strategies, including the size and form of capital return to shareholders, and
- support business opportunities by enabling capital flexibility and efficiently using company resources.

These objectives are achieved through ongoing monitoring and management of our capital position, mortgage insurance portfolio stress modeling, and a capital governance framework. Capital management

Management's Discussion and Analysis

is intended to be flexible in order to react to a range of potential events. The focus we place on any individual objective may change over time due to factors that include, but are not limited to, economic conditions,

changes at the GSEs, competition, and alternative transactions to transfer mortgage risk.

Capital Structure

The following table summarizes our capital structure as of December 31, 2020, and 2019.

<i>(In thousands, except ratio)</i>	2020	2019
Common stock, paid-in capital, retained earnings, less treasury stock	\$ 4,482,165	\$ 4,236,526
Accumulated other comprehensive loss, net of tax	216,821	72,708
Total shareholders' equity	4,698,986	4,309,234
Long-term debt, par value	1,256,110	836,872
Total capital resources	\$ 5,955,096	\$ 5,146,106
Ratio of long-term debt to shareholders' equity	26.7 %	19.4 %

The increase in total shareholders' equity in 2020 from 2019 was primarily due to net income during 2020, offset by our repurchases of our common stock and an increase in gross unrealized gains. See Note 13 - "Shareholders' Equity" for further information.

DEBT AT OUR HOLDING COMPANY AND HOLDING COMPANY LIQUIDITY

Debt obligations - holding company

In August, 2020, we issued \$650.0 million aggregate principal amount of 5.25% Notes due in 2028. We used a portion of the proceeds to repurchase \$182.7 million in aggregate principal of our 5.75% Senior notes due in 2023 and \$48.1 million in aggregate principal of our 9% Debentures due 2063.

The 5.75% Notes, 5.25% Notes, and 9% Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. We have no debt obligations due within the next twelve months. As of December 31, 2020, our 5.25% Notes had \$650 million of outstanding principal due in 2028, our 5.75% Notes had \$242.3 million of outstanding principal due in August 2023, and our 9% Debentures had \$208.8 million of outstanding principal due in April 2063. The 9% Debentures are a convertible debt issuance. Subject to certain limitations and restrictions, holders of the 9% Debentures may convert their notes into shares of our common stock at their option prior to certain dates prescribed under the terms of their issuance, in which case our corresponding obligation will be eliminated prior to the scheduled maturity.

In the third quarter of 2020, MGIC distributed to the holding company, as a dividend, its ownership in the 9% Debentures of \$132.7 million. In 2019, the \$132.7 million was an outstanding obligation of our holding company to MGIC.

See Note 7 - "Debt" for further information on our outstanding debt obligations and transactions impacting our consolidated financial statements in 2020 and 2019.

Liquidity analysis - holding company

As of December 31, 2020, and December 31, 2019, we had approximately \$847 million and \$325 million, respectively, in cash and investments at our holding company. These resources are maintained primarily to service our debt interest expense, pay debt maturities, repurchase shares, pay dividends to shareholders, and to settle intercompany obligations. While these assets are held, we generate investment income that serves to offset a portion of our interest expense. Investment income and the payment of dividends from our insurance subsidiaries are the principal sources of holding company cash inflow. MGIC is the principal source of dividends, and their payment is restricted by insurance regulation. Under the PMIERS guidance, any dividend paid by MGIC to our holding company, through June 30, 2021 requires approval by the GSEs. See Note 14 - "Statutory Information" to our consolidated financial statement for additional information about MGIC's dividend restrictions. The payment of dividends from MGIC is also influenced by our view of the appropriate level of excess PMIERS Available Assets to maintain. Raising capital in the public markets is another potential source of holding company liquidity. The ability to raise capital in the public markets is subject to prevailing market conditions, investor demand for the securities to be issued, and our deemed creditworthiness.

Over the next twelve months the principal demand on holding company resources will be interest payments on our 5.75% Notes, 5.25% Notes, and 9% Debentures approximating \$67 million. We believe our holding company has sufficient sources of liquidity to meet its payment obligations for the foreseeable future.

During the first quarter of 2020 and for the full year of 2019, we used approximately \$120 million and \$114 million respectively, of available holding company cash to repurchase shares of our common stock. The repurchase programs may be suspended or discontinued at any time, and in light of the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases, but may resume them in the future. See "Overview - Capital" of this MD&A for a discussion of our share repurchase programs.

We may use additional holding company cash to repurchase additional shares or to repurchase our outstanding debt obligations. Such repurchases may be material, may be made for cash (funded by debt) and/or exchanges for other securities, and may be made in open market purchases (including through 10b5-1 plans), privately negotiated acquisitions or other transactions. See "Overview-Capital" of this MD&A for a discussion of our share repurchase programs.

In 2020 we used \$82 million to pay cash dividends to shareholders. On January 26, 2021, our Board of Directors declared a quarterly cash dividend of \$0.06 per common share to shareholders of record on February 17, 2021, payable on March 3, 2021.

Our holding company cash and investments increased \$522 million in 2020, to \$847 million as of December 31, 2020.

Significant cash and investments *inflows* during the year:

- \$640 million of net proceeds from the issuance of our 5.25% Notes,
- \$390 million of dividends received from MGIC, and
- \$13 million of investment income.

Significant cash *outflows* during the year:

- \$120 million of share repurchase transactions,
- \$82 million in cash dividends paid to shareholders,
- \$198 million in repurchases of our 5.75% Notes,
- \$62 million in repurchases of our 9% Debentures, and
- \$59 million of interest payments on our 5.75% Notes and 9% Debentures, of which approximately \$12 million was paid for the

portion of our 9% Debenture previously owned by MGIC.

The net unrealized gains on our holding company investment portfolio were approximately \$4.7 million at December 31, 2020 and the portfolio had a modified duration of approximately 1.8 years.

Scheduled debt maturities beyond the next twelve months include \$242.3 million of our 5.75% Notes in 2023, \$650 of our 5.25% Notes in 2028, and \$208.8 million of our 9% Debentures in 2063. The principal amount of the 9% Debentures is currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 75.5932 common shares per \$1,000 principal amount of debentures. This represents an initial conversion price of approximately \$13.23 per share. We may redeem the 9% 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 9% Debentures being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds \$17.20 for at least 20 of the 30 trading days preceding notice of the redemption.

See Note 7 – "Debt" to our consolidated financial statements for additional information about the conversion terms of our 9% Debentures and the terms of our indebtedness, including our option to defer interest. The description in Note 7 - "Debt" to our consolidated financial statements is qualified in its entirety by the terms of the notes and debentures. The terms of our 9% Debentures are contained in the Indenture dated as of March 28, 2008, between us and U.S. Bank National Association filed as an exhibit to our Form 10-Q filed with the SEC on May 12, 2008. The terms of our 5.75% Notes are contained in a Supplemental Indenture, dated as of August 5, 2016, between us and U.S. Bank National Association, as trustee, which is included as an exhibit to our 8-K filed with the SEC on August 5, 2016, and in the Indenture dated as of October 15, 2000 between us and the trustee. The terms of our 5.25% Notes are contained in a Supplemental Indenture, dated as of August 12, 2020, between us and U.S. Bank National Association, as trustee, which is included as an exhibit to our 8-K filed with the SEC on August 12, 2020, and in the Indenture dated as of October 15, 2000 between us and the trustee.

Although not anticipated in the near term, we may also contribute funds to our insurance operations to comply with the PMIERS or the State Capital Requirements. See "Overview – Capital" above for a discussion of these requirements. See the discussion of our non-insurance contract underwriting services in Note 17 – "Litigation and Contingencies" to our consolidated financial statements for other possible uses of holding company resources.

DEBT AT SUBSIDIARIES

MGIC is a member of the FHLB. Membership in the FHLB provides MGIC access to an additional source of liquidity via a secured lending facility. MGIC has outstanding a \$155.0 million fixed rate advance from the FHLB. Interest on the advance is payable monthly at a fixed annual rate of 1.91%. The principal of the advance matures on February 10, 2023 but may be prepaid at any time. Such prepayment would be below par if interest rates have risen after the advance was originated, or above par if interest rates have declined. The advance is secured by eligible collateral in the form of pledged securities from the investment portfolio, whose market value must be maintained at a minimum of 102% of the principal balance of the advance.

Capital Adequacy

PMIERS

We operate under each of the GSE's PMIERS. Refer to "Overview - Capital - GSEs" of this MD&A for further discussion of PMIERS.

As of December 31, 2020, MGIC's Available Assets under PMIERS totaled approximately \$5.3 billion, an excess of approximately \$1.8 billion over its Minimum Required Assets; and MGIC is in compliance with the requirements of the PMIERS and eligible to insure loans delivered to or purchased by the GSEs. Maintaining a sufficient level of excess Available Assets will allow MGIC to remain in compliance with the PMIERS financial requirements.

The table below presents the PMIERS capital credit for our reinsurance transactions.

PMIERS - Reinsurance Credit

<i>(In millions)</i>	December 31,	
	2020	2019
QSR Transactions	\$ 1,002	\$ 779
Home Re Transactions	482	513
Total capital credit for Reinsurance Transactions	\$ 1,484	\$ 1,292

Our 2021 QSR transaction terms are generally comparable to our existing QSR transactions and will also provide PMIERS capital credit. The excess of loss agreement entered into in February 2021 will also provide additional PMIERS credit. Refer to Note 9 - "Reinsurance" to our consolidated financial statements for additional information on our reinsurance transactions.

We anticipate our delinquency inventory to remain elevated in 2021 due to the impacts of the COVID-19 pandemic. The PMIERS generally require us to hold significantly more Minimum Required Assets for delinquent loans than for performing loans and the

Minimum Required Assets required to be held increases as the number of payments missed on a delinquent loan increases. For delinquent loans whose initial missed payment occurred on or after March 1, 2020 and prior to April 1, 2021 (the "COVID-19 Crisis Period"), the Minimum Required Assets are generally reduced by 70% for at least three months. The 70% reduction will continue, or be newly applied, for delinquent loans that are subject to a forbearance plan that is granted in response to a financial hardship related to COVID-19, the terms of which are materially consistent with terms of forbearance plans offered by Freddie Mac or Fannie Mae. Under the PMIERS, a forbearance plan on a loan with an initial missed payment occurring during the COVID-19 Crisis Period is assumed to have been granted in response to a financial hardship related to COVID-19. Loans considered to be subject to a forbearance plan include those that are in a repayment plan or loan modification trial period following the forbearance plan.

Forbearance for federally-insured mortgages allows for mortgage payments to be suspended for up to 360 days; an initial forbearance period of up to 180 days and, if requested by the borrower following contact by the servicer, an extension of up to 180 days. The servicer of the loan must begin attempts to contact the borrower no later than 30 days prior to the expiration of any forbearance plan term has expired. If a servicer of a loan is unable to contact the borrower prior to the expiration of the first 180-day forbearance plan term, or, if the forbearance plan reaches its twelve-month anniversary and is not further extended, the forbearance plan will expire. In such case, the 70% reduction in Minimum Required Assets for that loan will no longer be applicable and our Minimum Required Assets will increase.

Based on the date each loan in our delinquency inventory was reported to us as being in forbearance, we estimate that during the first two quarters of 2021, 69% of those will reach their twelve-month anniversary of having been in forbearance and, as a result, their forbearance plans may end.

We expect the GSEs and servicers will provide us with information about the forbearance status for nearly all of the loans in our delinquency inventory, and we believe substantially all reported forbearances are related to COVID-19. While the forbearance information provided by the GSEs refers to delinquent loans in forbearance as of the prior month-end, the information provided by loan servicers may be more current. As a result, in some cases, there may be a delay in our ability to take advantage of the 70% reduction.

We plan to continuously comply with the PMIERS through our operational activities or through the contribution of funds from our holding company,

subject to demands on the holding company's resources, as outlined above.

RISK-TO-CAPITAL

We compute our risk-to-capital ratio on a separate company statutory basis, as well as on a combined insurance operations basis. The risk-to-capital ratio is our net RIF divided by our policyholders' position. Our net RIF includes both primary and pool RIF and excludes risk on policies that are currently in default and for which case loss reserves have been established and the risk covered by reinsurance. The risk amount includes pools of loans with contractual aggregate loss limits and without these limits. Policyholders' position consists primarily of statutory policyholders' surplus (which increases as a result of statutory net income and decreases as a result of statutory net loss and dividends paid), plus the statutory contingency reserve and a portion of the reserves for unearned premiums. The statutory contingency reserve is reported as a liability on the statutory balance sheet. A mortgage insurance company is required to make annual additions to a contingency reserve of approximately 50% of net earned premiums. These contributions must generally be maintained for a period of ten years. However, with regulatory approval a mortgage insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net earned premiums in a calendar year.

The table below presents MGIC's separate company risk-to-capital calculation.

Risk-to-capital - MGIC separate company

<i>(In millions, except ratio)</i>	December 31,	
	2020	2019
RIF - net ⁽¹⁾	\$ 44,511	\$ 44,338
Statutory policyholders' surplus	\$ 1,336	\$ 1,619
Statutory contingency reserve	3,521	2,963
Statutory policyholders' position	\$ 4,857	\$ 4,582
Risk-to-capital	9.2:1	9.7:1

⁽¹⁾ RIF – net, as shown in the table above, is net of reinsurance and exposure on policies currently delinquent (\$2.9 billion at December 31, 2020 and \$1.5 billion at December 31, 2019) and for which case loss reserves have been established.

The table below presents our combined insurance companies' risk-to-capital calculation (which includes a reinsurance affiliate).

Risk-to-capital - Combined insurance companies

<i>(In millions, except ratio)</i>	December 31,	
	2020	2019
RIF - net ⁽¹⁾	\$ 44,868	\$ 44,550
Statutory policyholders' surplus	\$ 1,340	\$ 1,619
Statutory contingency reserve	3,586	3,021
Statutory policyholders' position	\$ 4,926	\$ 4,640
Risk-to-capital	9.1:1	9.6:1

⁽¹⁾ RIF – net, as shown in the table above, is net of reinsurance and exposure on policies currently delinquent (\$2.9 billion at December 31, 2020 and \$1.5 billion at December 31, 2019) and for which case loss reserves have been established.

The 2020 decrease in MGIC's risk-to-capital and our combined insurance companies' risk to capital was due to an increase in statutory policyholders' position, partially offset by an increase in RIF, net of reinsurance. The increase in statutory policyholders' position was primarily due to an increase in statutory contingency reserves, offset by dividends paid to our holding company of \$390 million. The increase in our RIF, net of reinsurance, was due to an increase in our IIF, offset by an increase in our reduction to risk on policies that are currently in default for which loss reserves have been established. Our risk-to-capital ratio will decrease if the percentage increase in capital exceeds the percentage increase in insured risk.

For additional information regarding regulatory capital see Note 14 – "Statutory Information" to our consolidated financial statements as well as our risk factor titled "State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."

Financial Strength Ratings

MGIC financial strength ratings

Rating Agency	Rating	Outlook
Moody's Investors Service	Baa1	Stable
Standard and Poor's Rating Services	BBB+	Negative
A.M. Best	A-	Stable

MAC financial strength ratings

Rating Agency	Rating	Outlook
A.M. Best	A-	Stable

Earlier this year, Standard and Poor's revised its outlook for the U.S. Mortgage Insurers market segment to "negative," due to the risks associated with the COVID-19 pandemic and A.M. Best revised its outlook for the U.S. Mortgage Insurers market segment to "negative," but did not change MGIC's or

Management's Discussion and Analysis

MAC's outlook at that time. For further information about the importance of MGIC's ratings, see our risk factor titled "Competition or changes in our relationships with our customers could reduce our

revenues, reduce our premium yields and / or increase our losses."

Contractual Obligations

The following table summarizes, as of December 31, 2020, the approximate future payments under our contractual obligations and estimated claim payments on established loss reserves.

Contractual obligations

<i>(In millions)</i>	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	2,376.1	70.1	534.3	105.8	1,665.9
Operating lease obligations	1.9	0.8	1.0	0.1	—
Purchase obligations	25.2	19.2	5.0	1.0	—
Other long-term liabilities	880.5	137.5	485.3	257.7	—
Total	3,283.7	227.6	1,025.6	364.6	1,665.9

Our long-term debt obligations as of December 31, 2020 include their related interest and are discussed in Note 7 – "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" above. Our operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 16 – "Leases" to our consolidated financial statements. Purchase obligations consist primarily of agreements to purchase items related to our ongoing infrastructure projects and information technology investments in the normal course of business.

Our other long-term liabilities represent case and LAE loss reserves established to recognize the liability for losses and LAE related to existing delinquencies on insured mortgage loans. The timing of the future claim payments associated with the established case loss reserves was determined primarily based on two key assumptions: the length of time it takes for a notice of delinquency to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge differently than this estimate, in part, due to uncertainty regarding the impact of certain factors, such as impacts from the COVID-19 pandemic, loss mitigation protocols established by servicers and changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation process. See Note 8 – "Loss Reserves" to our consolidated financial statements and "Critical Accounting Policies" below for additional information on our loss reserves. In accordance with GAAP for the mortgage insurance industry, we establish case loss reserves only for delinquent loans. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our consolidated financial statements or in the table above.

Benefit Plans

We have a non-contributory defined benefit pension plan covering substantially all domestic employees, as well as a supplemental executive retirement plan. Retirement benefits are based on compensation and years of service. We maintain plan assets to fund our defined benefit pension plan obligations. We did not have a minimum funding requirement for the defined benefit pension plan for 2020 or 2019 and do not anticipate having a minimum funding requirement in 2021. We have significant discretion in making contributions above those necessary to satisfy the minimum funding requirements. In 2020 and 2019, we voluntarily made contributions totaling \$5.9 million, and \$7.1 million, respectively. We plan to make a voluntary contribution of approximately \$6.2 million to the defined benefit pension plan in 2021. In determining future contributions, we will consider the performance of the plan's investment portfolio, the effects of interest rates on the projected benefit obligation of the plan and our other capital requirements. As of December 31, 2020, we had accrued a liability of \$10.4 million related to our defined benefit pension plan as the projected obligation was in excess of plan assets. The supplemental executive retirement plan benefits are accrued for and are paid from MGIC assets following employee retirements. We plan to pay benefits of approximately \$0.3 million under the supplemental executive retirement plan in 2021.

Our projected benefit obligations under these plans are subject to numerous actuarial assumptions that may change in the future and as a result could substantially increase or decrease our obligations. Plan assets held to pay our defined benefit pension plan obligations are primarily invested in a portfolio of debt securities to preserve capital and to provide monthly cash flows aligned with the liability component of our obligations, with a lesser percentage invested in a mix of equity securities. If the performance of our invested plan assets differs from our expectations, the funded status of the defined benefit pension plan may decline, even with no significant change in the obligations. See Note 11 - "Benefit Plans" to our consolidated financial statements for a complete discussion of these plans and their effect on the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The accounting policies described below require significant judgments and estimates in the preparation of our consolidated financial statements.

LOSS RESERVES

Loss reserves include case reserves, IBNR reserves, and LAE reserves.

Case Reserves

Case reserves are established for estimated insurance losses when notices of delinquency on insured mortgage loans are received. Such loans are referred to as being in out delinquency inventory. For reporting purposes, we consider a loan delinquent when it is two or more payments past due and has not become current or resulted in a claim payment. Even though the accounting standard, ASC 944, regarding accounting and reporting by insurance entities specifically excluded mortgage insurance from its guidance relating to loss reserves, we establish loss reserves using the general principles contained in the insurance standard. However, consistent with industry standards for mortgage insurers, we do not establish loss reserves for future claims on insured loans which are not currently delinquent.

We establish reserves using estimated claim rates and claim severities in estimating the ultimate loss.

The estimated claim rates and claim severities are used to determine the amount we estimate will actually be paid on the delinquent loans as of the reserve date. If a policy is rescinded we do not expect that it will result in a claim payment and thus the rescission generally reduces the historical claim rate used in establishing reserves. In addition, if a loan cures its delinquency, including through a successful loan modification, the cure reduces the historical claim rate used in establishing reserves. To establish reserves, we utilize a reserving model that continually incorporates historical data into the estimated claim rate. The model also incorporates an estimate for the amount of the claim we will pay, or severity. The severity is estimated using the historical percentage of our claims paid compared to our loan exposures, as well as the RIF of the loans currently in default. 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. We review recent trends in the claim rate, severity, levels of defaults by geography and average loan exposure. As a result, the process to determine reserves does not include quantitative ranges of outcomes that are reasonably likely to occur.

The claim rates and claim severities are affected by external events, including actual economic conditions such as changes in unemployment rates, interest rates or housing values, pandemics and natural disasters. Our estimation process does not include a correlation between claim rates and claim severities to projected 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 economic condition cannot be isolated to determine its specific effect on our ultimate paid losses because each economic condition is also influenced by other economic conditions. Additionally, the changes and interactions of these economic conditions are not likely homogeneous throughout the regions in which we conduct business. Each economic condition influences our ultimate paid losses differently, even if apparently similar in nature. Furthermore, changes in economic conditions may not necessarily be reflected in our loss development in the quarter or year in which the changes occur. Actual claim results generally lag changes in economic conditions by at least nine to twelve months.

Our estimates are also affected by any agreements we enter into regarding our claims paying practices, such as the settlement agreements discussed in Note 17 – “Litigation and Contingencies” to our consolidated financial statements.

Our estimate of loss reserves is sensitive to changes in claim rate and claim severity; it is possible that even a relatively small change in our estimated claim rate or severity could have a material impact on reserves and, correspondingly, on our consolidated results of operations even in a stable economic environment. For example, as of December 31, 2020, assuming all other factors remain constant, a \$1,000 increase/decrease in the average severity reserve factor would change the reserve amount by approximately +/- \$16 million. A one percentage point increase/decrease in the average claim rate reserve factor would change the reserve amount by approximately +/- \$34 million. Historically, it has not been uncommon for us to experience variability in the development of the loss reserves through the end of the following year at this level or higher, as shown by the historical development of our loss reserves in the table below:

Historical development of loss reserves

<i>(In thousands)</i>	Losses incurred related to prior years ⁽¹⁾	Reserve at end of prior year
2020	19,604	555,334
2019	(71,006)	674,019
2018	(167,366)	985,635
2017	(231,204)	1,438,813
2016	(147,658)	1,893,402

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

See Note 8 – “Loss Reserves” to our consolidated financial statements for a discussion of recent loss development.

IBNR Reserves

IBNR reserves are established for delinquencies estimated to have occurred prior to the close of an accounting period, but not yet reported to us. Consistent with reserves for reported delinquencies, IBNR reserves are established using estimated claim rates and claim severities for the estimated number of delinquencies not reported. As of December 31, 2020 and 2019, we had IBNR reserves of approximately \$28 million and \$23 million, respectively.

The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrower income and thus their ability to make mortgage payments, and a drop in housing values, that could result in, among other things, greater losses on loans, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance.

LAE Reserves

LAE reserves are established for the estimated costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process.

REVENUE RECOGNITION

When a policy term ends, the primary mortgage insurance written by us is renewable at the insured's option through continued payment of the premium in accordance with the schedule established at the inception of the policy life. We are generally obligated to renew the policies and have no ability to re-underwrite or reprice these policies after issuance. Premiums written on monthly premium policies are earned as coverage is provided. Premiums written on single premium policies and annual premium policies are initially deferred as unearned premium reserve

and earned over the estimated policy life. Premiums written on policies covering more than one year are amortized over the policy life based on historical experience, which includes the anticipated incurred loss pattern. Premiums written on annual premium policies are earned on a monthly pro rata basis. When a policy is cancelled, all premium that is non-refundable is immediately earned. Any refundable premium is returned to the servicer or borrower. Policies may be cancelled by the insured, or due to rescissions or claim payments. When a policy is rescinded, all previously collected premium is returned to the servicer, and when a claim is paid, all premium collected since the date of default is returned. The liability associated with our estimate of premium to be returned is accrued for separately and this liability is included in “Other liabilities” on our consolidated balance sheets. Changes in these liabilities and the actual return of premium affect premiums written and earned.

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

DEFERRED INSURANCE POLICY ACQUISITION COSTS

Costs directly associated with the successful acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs (“DAC”). The deferred costs are net of any ceding commissions received associated with our reinsurance transactions. For each underwriting year of business, these costs are amortized to income in proportion to estimated gross profits over the estimated life of the policies. We utilize anticipated investment income in our calculation. This includes accruing interest on the unamortized balance of DAC. The estimates for each underwriting year are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development.

Because our insurance premiums are earned over time, changes in persistency result in DAC being amortized against revenue over a longer or shorter period of time. However, even a 10% change in persistency would not have a material effect on the amortization of DAC in the subsequent year.

FAIR VALUE MEASUREMENTS**Investment Portfolio**

Fixed income securities. Our fixed income securities are classified as available-for-sale and are reported at fair value. The related unrealized investment gains or losses are, after considering the related tax expense or benefit, recognized as a component of

accumulated other comprehensive income (loss) in shareholders' equity. Realized investment gains and losses on fixed income securities are reported in income based upon specific identification of securities sold, as well as any credit allowance (2020), and any "other than temporary" impairments (2019) recognized in earnings.

Equity securities. Our equity securities reported at fair value are classified as available-for-sale. Equity securities carried at cost, for which the amount approximates fair value, are reported as Other Invested Assets. Realized investment gains and losses on equity securities are reported in income based upon specific identification of securities sold, as well as any change in fair value of equity securities.

Other invested assets. Other invested assets are carried at cost. These assets represent our investment in FHLB stock, which due to restrictions, is required to be redeemed or sold only to the security issuer at par value.

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

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- Level 1 Quoted prices for identical instruments in active markets that we can access. Financial assets using Level 1 inputs primarily include U.S. Treasury securities, money market funds, treasury bills, and certain equity securities.

 - Level 2 Quoted prices for similar instruments in active markets that we can access; 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 instrument. The observable inputs are used in valuation models to calculate the fair value of the instruments. Financial assets using Level 2 inputs primarily include obligations of U.S. government corporations and agencies, corporate bonds, mortgage-backed securities, asset-backed securities, most municipal bonds, and commercial paper.

The independent pricing sources used for our Level 2 investments vary by type of investment. See Note 6 - "Fair Value Measurements" for further information.

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- Level 3 Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable or, from par values due to restrictions on certain securities that require them to be redeemed or sold only to the security issuer at par value. The inputs used to derive the fair value of Level 3 securities reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. Our non-financial assets that are classified as Level 3 securities consist of real estate acquired through claim settlement. The fair value of real estate acquired is the lower of our acquisition cost or a percentage of the appraised value. The percentage applied to the appraised value is based upon our historical sales experience adjusted for current trends.
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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; in approximate order of priority, they are: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including data published in market research publications.

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

Unrealized losses and allowance for credit losses
 Effective January 1, 2020, each quarter we perform reviews of our investments to assess declines in fair value of available-for-sale securities. Any impairment losses on available-for-sale securities are recorded as

an allowance for credit losses, subject to reversal, with realized investment gains and losses. In evaluating whether a credit allowance should be established, we consider several factors including, but not limited to:

- our intent to sell the security or whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis;
- the present value of the discounted cash flows we expect to collect compared to the amortized cost basis of the security;
- failure of the issuer to make scheduled interest or principal payments;
- change in rating below investment grade; and
- adverse conditions specifically related to the security, an industry, or a geographic area.

Based on our evaluation, we will record an OTTI adjustment on a security if we intend to sell the impaired security, if it is more likely than not that we will be required to sell the impaired security prior to recovery of its amortized cost basis, or if the present value of the discounted cash flows we expect to collect is less than the amortized costs basis of the security.

When a security is considered to be impaired, the losses are separated into the portion of the loss that represents the credit loss and the portion that is due to other factors. An allowance for credit losses is recorded, subject to reversal, for the credit loss portion in the statement of operations, while the loss due to other factors is recognized in accumulated other comprehensive loss, net of taxes. A credit loss is determined to exist if the present value of the discounted cash flows, using the security's original yield, expected to be collected from the security is less than the cost basis of the security.

For 2019, our evaluation of whether a decline in fair values is other-than-temporary also included reviewing the extent and duration of the decline. Based on our evaluation, if the fair value of a security is below its amortized cost at the time of our intent to sell, the security is classified as other-than-temporarily impaired and the full amount of the impairment is recognized as a loss in the statement of operations. Otherwise, when a security is considered to be other-than-temporarily impaired, the losses are separated into the portion of the loss that represents the credit loss and the portion that is due to other factors. The credit loss portion is recognized as a loss in the statement of operations, while the loss due to other factors is recognized in accumulated other comprehensive loss, net of taxes. A credit loss is determined to exist if the present value of the discounted cash flows, using the security's original yield, expected to be collected from the security is less than the cost basis of the security. If the security

is determined to be other-than-temporarily-impaired the security is classified as other-than-temporarily impaired and the full amount of the impairment is recognized as a loss in the statement of operations.

Fair Value Option

For the years ended December 31, 2020, 2019, and 2018, we did not elect the fair value option for any financial instruments acquired, or issued, such as our outstanding debt obligations, for which the primary basis of accounting is not fair value.

Glossary of terms and acronyms

/ A

ARMs

Adjustable rate mortgages

ABS

Asset-backed securities

ASC

Accounting Standards Codification

Available Assets

Assets, as designated under the PMIERS, that are readily available to pay claims, and include the most liquid investments

/ B

Book or book year

A group of loans insured in a particular calendar year

BPMI

Borrower-paid mortgage insurance

/ C

CARES Act

The Coronavirus Aid, Relief, and Economic, Security Act enacted on March 27, 2020

CECL

Current expected credit losses covered under ASC 326

CFPB

Consumer Financial Protection Bureau

CLO

Collateralized loan obligations

CMBS

Commercial mortgage-backed securities

COVID-19 Pandemic

An outbreak of the novel coronavirus disease, later named COVID-19, that has spread globally, causing significant adverse effects on populations and economies. The outbreak of COVID-19 was declared a pandemic by the World Health Organization and a national emergency in the United States in March 2020

CRT

Credit risk transfer. The transfer of a portion of mortgage credit risk to the private sector through different forms of transactions and structures

/ D

DAC

Deferred insurance policy acquisition costs

Debt-to-income ("DTI") ratio

The ratio, expressed as a percentage, of a borrower's total debt payments to gross income

Direct

Before giving effect to reinsurance

Delinquent Loan

A loan that is past due on a mortgage payment. A delinquent loan is typically reported to us by servicers when the loan has missed two or more payments. A loan will continue to be reported as delinquent until it becomes current or a claim payment has been made. A delinquent loan is also referred to as a default

/ E

EPS

Earnings per share

/ F

Fannie Mae

Federal National Mortgage Association

FCRA

Fair Credit Reporting Act

FHA

Federal Housing Administration

FHFA

Federal Housing Finance Agency

FHLB

Federal Home Loan Bank of Chicago, of which MGIC is a member

FICO score

A measure of consumer credit risk provided by credit bureaus, typically produced from statistical models by Fair Isaac Corporation utilizing data collected by the credit bureaus

Freddie Mac

Federal Home Loan Mortgage Corporation

/ G

GAAP

Generally Accepted Accounting Principles in the United States

GSEs

Collectively, Fannie Mae and Freddie Mac

/ H**HAMP**

Home Affordable Modification Program

HARP

Home Affordable Refinance Program

Home Re Transactions

Excess-of-loss reinsurance transactions with unaffiliated special purpose insurers domiciled in Bermuda

HOPA

Homeowners Protection Act

HUD

Housing and Urban Development

/ I**IBNR Reserves**

Loss reserves established on loans we estimate are delinquent, but for which the delinquency has not been reported to us

IIF

Insurance in force, which for loans insured by us, is equal to the unpaid principal balance, as reported to us

ILN

Insurance-linked notes

/ L**LAE**

Loss adjustment expenses, which includes the costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process.

Loan-to-value ("LTV") ratio

The ratio, expressed as a percentage, of the dollar amount of the first mortgage loan to the value of the property at the time the loan became insured and does not reflect subsequent housing price appreciation or depreciation. Subordinate mortgages may also be present

Long-term debt:**5.75% Notes**

5.75% Senior Notes due on August 15, 2023, with interest payable semi-annually on February 15 and August 15 of each year

5.25% Notes

5.25% Senior Notes due on August 15, 2028, with interest payable semi-annually on February 15 and August 15 of each year

9% Debentures

9% Convertible Junior Subordinated Debentures due on April 1, 2063, with interest payable semi-annually on April 1 and October 1 of each year

FHLB Advance or the Advance

1.91% Fixed rate advance from the FHLB due on February 10, 2023, with interest payable monthly

Loss ratio

The ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to NPE

Low down payment loans or mortgages

Loans with less than 20% down payments

LPMI

Lender-paid mortgage insurance

/ M**MBS**

Mortgage-backed securities

MD&A

Management's discussion and analysis of financial condition and results of operations

MGIC

Mortgage Guaranty Insurance Corporation, a subsidiary of MGIC Investment Corporation

MAC

MGIC Assurance Corporation, a subsidiary of MGIC

Minimum Required Assets

The minimum amount of Available Assets that must be held under the PMIERS, which is based on an insurer's book of RIF and is calculated from tables of factors with several risk dimensions, reduced for credit given for risk ceded under reinsurance transactions, and subject to a floor of \$400 million

MPP

Minimum Policyholder Position, as required under certain state requirements. The "policyholder position" of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums

Glossary

/ N

N/A

Not applicable for the period presented

NAIC

The National Association of Insurance Commissioners

NIW

New Insurance Written, is the aggregate original principal amount of the mortgages that are insured during a period

N/M

Data, or calculation, deemed not meaningful for the period presented

NPE

The amount of premiums earned, net of premiums assumed and ceded under reinsurance agreements

NPL

Non-performing loan, which is a delinquent loan, at any stage in its delinquency

NPW

The amount of premiums written, net of premiums assumed and ceded under reinsurance agreements

/ O

OCI

Office of the Commissioner of Insurance of the State of Wisconsin

OTTI

Other than temporary impairment

/ P

Persistency

The percentage of our insurance remaining in force from one year prior

PMI

Private Mortgage Insurance (as an industry or product type)

PMIERS

Private Mortgage Insurer Eligibility Requirements issued by each of Fannie Mae and Freddie Mac to set forth requirements that an approved insurer must meet and maintain to provide mortgage guaranty insurance on loans delivered to or acquired by Fannie Mae or Freddie Mac, as applicable

Premium Yield

The ratio of NPE divided by the average IIF outstanding for the period measured

Premium Rate

The contractual rate charged for coverage under our insurance policies

Primary Insurance

Insurance that provides mortgage default protection on individual loans. Primary insurance may be written on a "flow" basis, in which loans are insured in individual, loan-by-loan transactions, or on a "bulk" basis, in which each loan in a portfolio of loans is individually insured in a single bulk transaction

Profit Commission

Payments we receive from reinsurers under each of our quota share reinsurance transactions if the annual loss ratio is below levels specified in the quota share reinsurance transaction

/ Q

QSR Transaction

Quota share reinsurance transaction with a group of unaffiliated reinsurers

2015 QSR

Our QSR transaction that provides coverage on eligible NIW written prior to 2017

2017 QSR

Our QSR transaction that provides coverage on eligible NIW in 2017

2018 QSR

Our QSR transaction that provides coverage on eligible NIW in 2018

2019 QSR

Our QSR transaction that provides coverage on eligible NIW in 2019

2020 QSR

Our QSR transactions that provide coverage on eligible NIW in 2020

Credit Union QSR

Our QSR transaction that provides coverage on eligible NIW from credit union institutions originated from April 1, 2020 through December 31, 2025

QM

A mortgage loan that satisfies the "qualified mortgage" loan characteristics pursuant to the Consumer Financial Protection Bureau's ability-to-

repay under the TILA. Originating a QM loan may provide a lender with legal protection from lawsuits that claim the lender failed to verify a borrower's ability to repay

/ R

RESPA

Real Estate Settlement Procedures Act

RIF

Risk in force, which for an individual loan insured by us, is equal to the unpaid loan principal balance, as reported to us, multiplied by the insurance coverage percentage. RIF is sometimes referred to as exposure

Risk-to-capital

Under certain state regulations, the ratio of RIF, net of reinsurance and exposure on policies currently in default and for which loss reserves have been established, to the level of statutory capital

RMBS

Residential mortgage-backed securities

/ S

State Capital Requirements

Under certain state regulations, the minimum amount of statutory capital relative to risk in force (or similar measure)

/ T

Tax Act

The U.S. tax reform enacted on December 22, 2017 and commonly referred to as the "Tax Cuts and Jobs Act"

TILA

Truth in Lending Act

/ U

Underwriting expense ratio

The ratio, expressed as a percentage, of the underwriting and operating expenses, net and amortization of DAC of our combined insurance operations (which excludes underwriting and operating expenses of our non-insurance subsidiaries) to NPW

Underwriting profit

NPE minus incurred losses and underwriting and operating expenses

USDA

U.S. Department of Agriculture

/ V

VA

U.S. Department of Veterans Affairs

VIE

Variable interest entity

Quantitative and Qualitative Disclosures About Market Risk

Our investment portfolio is essentially a fixed income portfolio and is exposed to market risk. Important drivers of the market risk are credit spread risk and interest rate risk.

Credit spread risk is the risk that we will incur a loss due to adverse changes in credit spreads. Credit spread is the additional yield on fixed income securities above the risk-free rate (typically referenced as the yield on U.S. Treasury securities) that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks.

We manage credit risk via our investment policy guidelines which primarily require us to place our investments in investment grade securities and limit the amount of our credit exposure to any one issue, issuer and type of instrument. Guideline and investment portfolio detail is available in "Business – Section C, Investment Portfolio" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 23, 2021.

Interest rate risk is the risk that we will incur a loss due to adverse changes in interest rates relative to the characteristics of our interest bearing assets.

One of the measures used to quantify this exposure is modified duration. Modified duration measures the price sensitivity of the assets to the changes in spreads. At December 31, 2020, the modified duration of our fixed income investment portfolio was 4.3 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 4.3% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. A discussion of portfolio strategy appears in "Management's Discussion and Analysis – Balance Sheet Review– Investment Portfolio."

Risk Factors

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

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

Risk Factors Relating to the COVID-19 Pandemic ***The COVID-19 pandemic may continue to materially impact our financial results and may also materially impact our business, liquidity and financial condition.***

The COVID-19 pandemic had a material impact on our 2020 financial results. While uncertain, the future impact of the COVID-19 pandemic on the Company’s business, financial results, liquidity and/or financial condition may also be material. The magnitude of the impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the level of unemployment, and the impact of government initiatives and actions taken by Fannie Mae and Freddie Mac (the “GSEs”) (including mortgage forbearance and modification programs) to mitigate the economic harm caused by COVID-19.

The COVID-19 pandemic may continue to impact our business in various ways, including the following, each of which is described in more detail in the remainder of these risk factors:

- Our incurred losses will increase if the number of insured mortgages in our delinquency inventory increases. We establish reserves for insurance losses when delinquency notices are received on loans that are two or more payments past due

and for loans we estimate are delinquent prior to the close of the accounting period but for which delinquency notices have not yet been reported to us (this is often referred to as “IBNR”).

- We may be required to maintain more capital under the private mortgage insurer eligibility requirements (“PMIERS”) of the GSEs, which generally require more capital to be held for delinquent loans than for performing loans and require more capital to be held as the number of payments missed on delinquent loans increases.
- If the number of delinquencies increases, the number of claims that we must pay over time generally increases. In addition, our current estimates of the number of delinquencies for which we will receive claims, and the amount, or severity, of each claim, may increase.
- If the number of purchase and/or refinance mortgage originations decreases, the number of mortgages available for us to insure in the near term may decrease.
- Our access to the reinsurance markets may be limited and the terms under which we are able to secure reinsurance may be less attractive than the terms of our previous transactions.
- Our access to the capital markets may be limited and the terms under which we may access the capital markets may be less attractive than the terms of our previous transactions.
- Our operations may be impacted if our management or other employees are unable to perform their duties as a result of COVID-19-related illnesses.

Risk Factors Relating to the Mortgage Insurance Industry and its Regulation

Downturns in the domestic economy or declines in home prices may result in more homeowners defaulting and our losses increasing, with a corresponding decrease in our returns.

Losses result from events that reduce a borrower’s ability or willingness to make mortgage payments, such as unemployment, health issues, family status, and whether the home of a borrower who defaults on a mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. A deterioration in economic conditions, including an increase in unemployment, generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect home prices, which in turn can influence the

Risk Factors

willingness of borrowers with sufficient resources to make mortgage payments when the mortgage balance exceeds the value of the home. Home prices may decline even absent a deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers' perceptions of the potential for future appreciation, restrictions on and the cost of mortgage credit due to more stringent underwriting standards, higher interest rates, changes to the tax deductibility of mortgage interest, decreases in the rate of household formations, or other factors.

The unemployment rate rose from 3.5% as of December 31, 2019, to 14.7% as of April 30, 2020. It was 6.7% as of December 31, 2020. High levels of unemployment may result in an increasing number of loans in our delinquency inventory and an increasing number of insurance claims; however, the increases are difficult to predict given the uncertainty in the current market environment, including uncertainty about the length and severity of the COVID-19 pandemic; the length of time that measures intended to reduce the transmission of COVID-19 remain in place; effects of forbearance programs enacted by the GSEs, various states and municipalities; and effects of past and future government stimulus programs. Current programs include, among others:

- Payment forbearance on federally-backed mortgages (including those delivered to or purchased by the GSEs) to borrowers experiencing a hardship during the COVID-19 pandemic.
- Additional cash payments to individuals provided for in the Consolidated Appropriations Act signed into law in December 2020.
- For those mortgages that are not subject to forbearance, a suspension of foreclosures and evictions until at least March 31, 2021, on mortgages purchased or securitized by the GSEs.
- Enhanced unemployment payments for pay periods between December 26, 2020 and March 14, 2021.
- An extension of the maximum duration for unemployment benefits, generally through March 14, 2021.
- Employee retention tax credits for certain small businesses.
- "Paycheck Protection Program" to provide small businesses with funds to pay certain payroll and other costs.

Forbearance for federally-insured mortgages allows for mortgage payments to be suspended for up to 360 days; an initial forbearance period of up to 180 days and, if requested by the borrower following contact by the servicer, an extension of up to 180 days. The servicer of the loan must begin attempts to contact the borrower no later than 30 days prior to the expiration of any forbearance plan term and must continue outreach attempts until appropriate contact is made or the forbearance plan term has expired. In certain circumstances, the servicer will be unable to contact the borrower and the forbearance plan will expire after the first 180-day plan. A delinquent loan for which the borrower was unable to be contacted and that is not in a forbearance plan may be more likely to result in a claim than a delinquent loan in a forbearance plan. For loans in a COVID-19 forbearance plan as of February 28, 2021, the plan may be extended for an additional three months, subject to certain limits.

Of our insurance in force written through the first half of 2020, approximately 10.9% was not delivered to or purchased by the GSEs. While servicers of some non-GSE loans may not be required to offer forbearance to borrowers, we allow servicers to apply GSE loss mitigation programs to non-GSE loans. In addition, the Consumer Financial Protection Bureau ("CFPB") requires substantial loss mitigation efforts be made prior to servicers initiating foreclosures, therefore, servicers of non-GSE loans may have an incentive to offer forbearance or deferment.

Historically, forbearance plans have reduced the incidence of our losses on affected loans. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related forbearances on our loss incidence. Of the loans in our delinquency inventory at December 31, 2020, 35,878 were reported to us as in forbearance. Approximately 2,500 loans that had been reported to us as in forbearance as of September 30, 2020, were no longer reported to us as in forbearance as of December 31, 2020, but remained delinquent. Based on the date each loan in our delinquency inventory was reported to us as being in forbearance, we estimate that during the first two quarters of 2021, 69% of those will reach their twelve-month anniversary of having been in forbearance and, unless their forbearance plans are extended, their forbearance plans may end. Whether a loan's delinquency will cure, including through modification, when its forbearance plan ends will depend on the economic circumstances of the borrower at that time. The severity of losses associated with loans whose delinquencies do not cure will depend on economic conditions at that time, including home prices.

We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility.

We must comply with a GSE's PMIERS to be eligible to insure loans delivered to or purchased by that GSE. The PMIERS include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERS require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are generally based on an insurer's book of risk in force and calculated from tables of factors with several risk dimensions, reduced for credit given for risk ceded under reinsurance agreements).

Based on our interpretation of the PMIERS, as of December 31, 2020, MGIC's Available Assets totaled \$5.3 billion, or \$1.8 billion in excess of its Minimum Required Assets. MGIC is in compliance with the PMIERS and eligible to insure loans purchased by the GSEs. Our "Minimum Required Assets" reflect a credit for risk ceded under our reinsurance transactions, which are discussed in our risk factor titled "The mix of business we write affects our Minimum Required Assets under the PMIERS, our premium yields and the likelihood of losses occurring." The calculated credit for excess of loss reinsurance transactions under PMIERS is generally based on the PMIERS requirement of the covered loans and the attachment and detachment point of the coverage, all of which fluctuate over time. PMIERS credit is generally not given for the reinsured risk above the PMIERS requirement. The GSEs have discretion to further limit reinsurance credit under the PMIERS. The total credit for risk ceded under our reinsurance transactions is subject to a modest reduction and is subject to periodic review by the GSEs. There is a risk we will not receive our current level of credit in future periods for ceded risk. In addition, we may not receive the same level of credit under future reinsurance transactions that we receive under existing transactions. If MGIC is not allowed certain levels of credit under the PMIERS, under certain circumstances, MGIC may terminate the reinsurance transactions without penalty.

The PMIERS generally require us to hold significantly more Minimum Required Assets for delinquent loans than for performing loans and the Minimum Required Assets required to be held increases as the number of payments missed on a delinquent loan increases. For delinquent loans whose initial missed payment occurred on or after March 1, 2020 and prior to April 1, 2021 (the "COVID-19 Crisis Period"), the Minimum Required Assets are generally reduced by 70% for at least three months. The 70% reduction will continue, or be newly applied, for delinquent loans that are subject to a forbearance plan that is granted in response to a

financial hardship related to COVID-19, the terms of which are materially consistent with terms of forbearance plans offered by Freddie Mac or Fannie Mae. Under the PMIERS, a forbearance plan on a loan with an initial missed payment occurring during the COVID-19 Crisis Period is assumed to have been granted in response to a financial hardship related to COVID-19. Loans considered to be subject to a forbearance plan include those that are in a repayment plan or loan modification trial period following the forbearance plan. As noted above, if a servicer of a loan is unable to contact the borrower prior to the expiration of the first 180-day forbearance plan term, or if the forbearance plan reaches its twelve-month anniversary and is not further extended, the forbearance plan generally will expire. In such case, the 70% reduction in Minimum Required Assets for that loan will no longer be applicable, our Minimum Required Assets will increase and our excess of Available Assets over Minimum Required Assets will decrease. As of December 31, 2020, application of the 70% reduction decreased our Minimum Required Assets from approximately \$4.2 billion to approximately \$3.5 billion. We do not expect our Minimum Required Assets for the loans in forbearance at December 31, 2020 to increase by the full amount of the reduction upon expiration of the forbearance plans because we expect some loans whose forbearance plans expire to have their delinquencies cured through modification or otherwise.

Despite reducing the Minimum Required Assets for certain delinquent loans by 70%, an increasing number of loan delinquencies caused by the COVID-19 pandemic may cause our Minimum Required Assets to exceed our Available Assets. As of December 31, 2020, there were 57,710 loans in our delinquency inventory, of which 62% were reported to us as being subject to a forbearance plan. We believe substantially all of the reported forbearance plans are COVID-19-related. We are unable to predict the ultimate number of loans that will become delinquent as a result of the COVID-19 pandemic.

If our Available Assets fall below our Minimum Required Assets, we would not be in compliance with the PMIERS. The PMIERS provide a list of remediation actions for a mortgage insurer's non-compliance, with additional actions possible in the GSEs' discretion. At the extreme, the GSEs may suspend or terminate our eligibility to insure loans purchased by them. Such suspension or termination would significantly reduce the volume of our new insurance written ("NIW"); the substantial majority of which is for loans delivered to or purchased by the GSEs. In addition to the increase in Minimum Required Assets associated with delinquent loans, factors that may negatively impact MGIC's ability to continue to comply with the financial requirements of the PMIERS include the following:

Risk Factors

- The GSEs may make the PMIERS more onerous in the future. The PMIERS provide that the factors that determine Minimum Required Assets will be updated periodically, or as needed if there is a significant change in macroeconomic conditions or loan performance. We do not anticipate that the regular periodic updates will occur more frequently than once every two years. The PMIERS state that the GSEs will provide notice 180 days prior to the effective date of updates to the factors; however, the GSEs may amend the PMIERS at any time.
- There may be future implications for PMIERS as a result of changes to the regulatory capital requirements for the GSEs. In November 2020, the Federal Housing Finance Agency (the "FHFA") adopted a rule containing a risk-based capital framework for the GSEs that will increase their capital requirements, effective on the later of (i) the date of termination of the FHFA's conservatorship of the applicable GSE; (ii) sixty days after publication of the adopted rule in the Federal Register; or (iii) any later compliance date provided in a consent order or other transition order applicable to a GSE. The increase in capital requirements may ultimately result in an increase in the Minimum Required Assets required to be held by mortgage insurers.
- Our future operating results may be negatively impacted by the matters discussed in the rest of these risk factors. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby creating a shortfall in Available Assets.

Should capital be needed by MGIC in the future, capital contributions from our holding company may not be available due to competing demands on holding company resources, including for repayment of debt.

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

In accordance with accounting principles generally accepted in the United States, we establish case reserves for insurance losses and loss adjustment expenses only when delinquency notices are received for insured loans that are two or more payments past due and for loans we estimate are delinquent but for which delinquency notices have not yet been received (this is often referred to as "IBNR"). Losses that may occur from loans that are not delinquent are not reflected in our financial statements, except in the case where a premium deficiency exists. A premium deficiency would be recorded if the present value of expected future losses and expenses exceeds the

present value of expected future premiums and already established loss reserves on the applicable loans. As a result, future losses on loans that are not currently delinquent may have a material impact on future results as such losses emerge. As of December 31, 2020, we had established case reserves and reported losses incurred for 57,710 loans in our delinquency inventory and our IBNR reserve totaled \$27 million. Though not reflected in our December 31, 2020 financial results, as of January 31, 2021, our delinquency inventory had decreased to 56,315 loans. The number of loans in our delinquency inventory may increase from that level as a result of the COVID-19 pandemic, including as a result of high unemployment associated with initiatives intended to reduce the transmission of COVID-19. As a result, our losses incurred may increase in future periods. The impact of the COVID-19 pandemic on the number of delinquencies and our losses incurred will be influenced by various factors, including those discussed in our risk factor titled *"The COVID-19 pandemic may continue to materially impact our financial results and may also materially impact our business, liquidity and financial condition."*

Because loss reserve estimates are subject to uncertainties, paid claims may be substantially different than our loss reserves.

When we establish case reserves, we estimate our ultimate loss on delinquent loans by estimating the number of such loans that will result in a claim payment (the "claim rate"), and further estimating the amount of the claim payment (the "claim severity"). Our estimates incorporate anticipated cures, loss mitigation activity, rescissions and curtailments. The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. Our actual claim payments may be substantially different than our loss reserve estimates. Our estimates could be affected by several factors, including a change in regional or national economic conditions, the impact of past and future government initiatives and actions taken by the GSEs to mitigate the economic harm caused by the COVID-19 pandemic (including foreclosure moratoriums and mortgage forbearance and modification programs) and efforts to reduce the transmission of COVID-19, and a change in the length of time loans are delinquent before claims are received. All else being equal, the longer a loan is delinquent before a claim is received, the greater the severity. In light of the uncertainty caused by the COVID-19 pandemic, including the impact of foreclosure moratoriums and forbearance programs, the average time it takes to receive a claim may increase. The change in economic conditions may include changes in unemployment, including prolonged unemployment as a result of the COVID-19 pandemic, which may affect the ability of borrowers to make mortgage payments, and changes in home prices, which may affect the willingness of borrowers

to make mortgage payments when the value of the home is below the mortgage balance. The economic effects of the COVID-19 pandemic may be disproportionately concentrated in certain geographic regions. Information about the geographic dispersion of our insurance in force can be found in our Annual Reports on Form 10-K and our Quarterly Reports on Form 10-Q filed with the SEC. Changes to our claim rate and claim severity estimates could have a material impact on our future results, even in a stable economic environment. Losses incurred generally have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new default notice activity and a lower cure rate; however, the effects of the COVID-19 pandemic affected this pattern in 2020.

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

Alternatives to private mortgage insurance include:

- investors using risk mitigation and credit risk transfer techniques other than private mortgage insurance,
- lenders and other investors holding mortgages in portfolio and self-insuring,
- lenders using Federal Housing Administration ("FHA"), U.S. Department of Veterans Affairs ("VA") and other government mortgage insurance programs, and
- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ("LTV") ratio and a second mortgage with a 10%, 15% or 20% LTV ratio rather than a first mortgage with a 90%, 95% or 100% LTV ratio that has private mortgage insurance.

The GSEs' charters generally require credit enhancement for a low down payment mortgage loan (a loan in an amount that exceeds 80% of a home's value) in order for such loan to be eligible for purchase by the GSEs. Private mortgage insurance generally has been purchased by lenders in primary mortgage market transactions to satisfy this credit enhancement requirement. In 2018, the GSEs initiated secondary mortgage market programs with loan level mortgage default coverage provided by various (re)insurers that are not mortgage insurers governed by PMIERS, and that are not selected by the lenders. These programs, which currently account for a small percentage of the low down payment market, compete with traditional private mortgage insurance and, due to differences in policy terms, they may offer premium rates that are below prevalent single premium lender-paid mortgage insurance ("LPMI") rates. We participate in these

programs from time to time. See our risk factor titled "*Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses*" for a discussion of various business practices of the GSEs that may be changed, including through expansion or modification of these programs.

The GSEs (and other investors) have also used other forms of credit enhancement that did not involve traditional private mortgage insurance, such as engaging in credit-linked note transactions executed in the capital markets, or using other forms of debt issuances or securitizations that transfer credit risk directly to other investors, including competitors and an affiliate of MGIC; using other risk mitigation techniques in conjunction with reduced levels of private mortgage insurance coverage; or accepting credit risk without credit enhancement.

The FHA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 24.4% in the first three quarters of 2020, 28.2% in 2019 and 30.5% in 2018. In the past ten years, the FHA's share has been as low as 24.4% (in the first three quarters of 2020) and as high as 64.5% (in 2010). Factors that influence the FHA's market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; lenders' perceptions of legal risks under FHA versus GSE programs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns expected to be obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to the GSEs for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. The current Presidential Administration appears more likely than the last Administration to reduce the FHA's mortgage insurance premium rates. Such a rate reduction would negatively impact our NIW; however, given the many factors that influence the FHA's market share, it is difficult to predict the impact. In addition, we cannot predict how the factors that affect the FHA's share of new insurance written will change in the future.

The VA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 30.6% in the first three quarters of 2020, 25.2% in 2019 and 22.9% in 2018. In the past ten years, the VA's share has been as low as 15.7% (in 2010) and as high as 30.6% (in the first three quarters of 2020). We believe that the VA's market share has generally been elevated in recent years because of an increase in the number of borrowers that are eligible for the VA's program, which offers 100% LTV ratio loans and charges a one-time funding fee that can be included in the loan amount,

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and because eligible borrowers have opted to use the VA program when refinancing their mortgages.

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

The substantial majority of our NIW is for loans purchased by the GSEs; therefore, the business practices of the GSEs greatly impact our business and they include:

- The GSEs' PMIERS, the financial requirements of which are discussed in our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*
- The capital and collateral requirements for participants in the GSEs' alternative forms of credit enhancement discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*
- The level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters, when private mortgage insurance is used as the required credit enhancement on low down payment mortgages (the GSEs generally require a level of mortgage insurance coverage that is higher than the level of coverage required by their charters; any change in the required level of coverage will impact our new risk written).
- The amount of loan level price adjustments and guaranty fees (which result in higher costs to borrowers) that the GSEs assess on loans that require private mortgage insurance. The GSEs announced an adjustment for certain loans, effective December 1, 2020, and the recently adopted GSE capital framework may lead the GSEs to increase their guaranty fees.
- Whether the GSEs select or influence the mortgage lender's selection of the mortgage insurer providing coverage.
- The underwriting standards that determine which loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans.
- The terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law.

- The programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs.
- The terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase, including limitations on the rescission rights of mortgage insurers.
- The extent to which the GSEs intervene in mortgage insurers' claims paying practices, rescission practices or rescission settlement practices with lenders.
- The maximum loan limits of the GSEs compared to those of the FHA and other investors.

The FHFA has been the conservator of the GSEs since 2008 and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential housing finance system through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change, including through administrative action, in ways that have a material adverse effect on us and that the charters of the GSEs are changed by new federal legislation.

In 2019, the U.S. Treasury Department ("Treasury") released the "Treasury Housing Reform Plan" (the "Plan"). The Plan recommends administrative and legislative reforms for the housing finance system, with such reforms intended to achieve the goals of ending the conservatorships of the GSEs; increasing competition and participation by the private sector in the mortgage market including by authorizing the FHFA to approve additional guarantors of conventional mortgages in the secondary market, simplifying the qualified mortgage ("QM") rule of the CFPB, transferring risk to the private sector, and eliminating the "GSE Patch" (discussed below); establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. The GSE capital framework adopted in November 2020 establishes a post-conservatorship regulatory capital framework intended to ensure that the GSEs operate in a safe and sound manner. In January 2021, the GSEs' Preferred Stock Purchase Agreements ("PSPAs") were amended to allow the GSEs to continue to retain earnings until they satisfy the requirements of the 2020 GSE capital framework. In addition, a proposed rule issued by the FHFA in December 2020 would require minimum funding requirements and new liquidity standards. The impact of the Plan on private mortgage insurance is unclear. The Plan does not refer to mortgage insurance explicitly; however, it

refers to a requirement for credit enhancement on high LTV ratio loans, which is a requirement of the current GSE charters. The Plan also indicates that the FHFA should continue to support efforts to expand credit risk transfer ("CRT") programs and should encourage the GSEs to continue to engage in a diverse mix of economically sensible CRT programs, including by increasing reliance on institution-level capital (presumably, as distinguished from capital obtained in the capital markets). For more information about CRT programs, see our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*

In December 2020, the CFPB adopted a rule that will eliminate the GSE Patch effective upon the earlier of the GSEs' exit from conservatorship or July 1, 2021. The GSE Patch had expanded the definition of QM under the Truth in Lending Act (Regulation Z) ("TILA") to include mortgages eligible to be purchased by the GSEs, even if the mortgages did not meet the debt-to-income ("DTI") ratio limit of 43% that was included in the standard QM definition. Originating a QM may provide a lender with legal protection from lawsuits that claim the lender failed to verify a borrower's ability to repay. Approximately 20% of our NIW in 2020 was on loans with DTI ratios greater than 43%. However, not all future loans with DTI ratios greater than 43% will be affected by the expiration of the GSE Patch. The new QM definition that becomes effective March 1, 2021, continues to require lenders to consider a borrower's DTI ratio; however, it replaces the DTI ratio cap with a pricing threshold that excludes from the definition of QM a loan whose annual percentage rate ("APR") exceeds the average prime offer rate for comparable loans by 2.25 percentage points or more. We believe less than 2% of our 2020 NIW was on loans whose APR exceeded the maximum to qualify as a QM.

Treasury's Plan indicated that the FHFA and the Department of Housing and Urban Development ("HUD") should develop and implement a specific understanding as to the appropriate roles and overlap between the GSEs and FHA, including with respect to the GSEs' acquisitions of high LTV ratio loans and high DTI ratio loans. In connection with the 2021 amendment to the PSPAs, the GSEs must limit the acquisition of certain loans with multiple higher risk characteristics related to LTV, DTI and credit score, to levels indicated to be their current levels at the time of the amendment.

As a result of the matters referred to above and the change in the Presidential Administration occurring in January 2021, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the residential housing finance system in the future. The timing and impact on our business of any resulting changes is uncertain. Many

of the proposed changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

Reinsurance may not always be available or affordable.

We have in place quota share reinsurance ("QSR") and excess of loss reinsurance ("XOL") transactions providing various amounts of coverage on 88% of our risk in force as of December 31, 2020. Our QSR transactions with unaffiliated reinsurers cover most of our insurance written from 2013 through 2022, and smaller portions of our insurance written prior to 2013 and from 2023 through 2025. The weighted average coverage percentage of our QSR transactions was 23%, based on risk in force as of December 31, 2020. Considering the transaction we entered into in February 2021, our XOL transactions provide excess-of-loss reinsurance coverage for a portion of the risk associated with certain mortgage insurance policies having insurance coverage in force dates from July 1, 2016 through March 31, 2019 and January 1, 2020 through December 31, 2020, all dates inclusive. The XOL transactions were entered into with special purpose insurers that issued notes linked to the reinsurance coverage ("Insurance Linked Notes" or "ILNs"). The reinsurance transactions reduce the tail-risk associated with stress scenarios. As a result, they reduce the capital that we are required to hold to support the risk and they allow us to earn higher returns on our business than we would without them. However, reinsurance may not always be available to us or available on similar terms, the quota share reinsurance transactions subject us to counterparty credit risk, and the GSEs may change the credit they allow under the PMIERS for risk ceded under our reinsurance transactions. If we are unable to obtain reinsurance for NIW, our returns may decrease absent an increase in premium rates. An increase in our premium rates may lead to a decrease in our NIW.

We are subject to comprehensive regulation and other requirements, which we may fail to satisfy.

We are subject to comprehensive regulation, including by state insurance departments. Many regulations are designed for the protection of our insured policyholders and consumers, rather than for the benefit of investors. Mortgage insurers, including MGIC, have in the past been involved in litigation and regulatory actions related to alleged violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act ("RESPA"), and the notice provisions of the Fair Credit Reporting Act ("FCRA"). While these proceedings in the aggregate did not result in material liability for MGIC, there can be no assurance that the outcome of future proceedings, if any, under these laws would not have a material adverse effect on us. To the extent that we are

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construed to make independent credit decisions in connection with our contract underwriting activities, we also could be subject to increased regulatory requirements under the Equal Credit Opportunity Act ("ECOA"), FCRA, and other laws. Under ECOA, examination may also be made of whether a mortgage insurer's underwriting decisions have a disparate impact on persons belonging to a protected class in violation of the law.

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, including payment for the referral of insurance business, premium rates and discrimination in pricing, and minimum capital requirements. The increased use, by the private mortgage insurance industry, of risk-based pricing systems that establish premium rates based on more attributes than previously considered may result in increased state and/or federal scrutiny of premium rates. The increased use of algorithms, artificial intelligence and data and analytics in the mortgage insurance industry may also lead to additional regulatory scrutiny related to other matters such as discrimination in pricing and underwriting, data privacy and access to insurance. For more information about state capital requirements, see our risk factor titled "State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis." For information about regulation of data privacy, see our risk factor titled "We could be adversely affected if personal information on consumers that we maintain is improperly disclosed; our information technology systems are damaged or their operations are interrupted; or our automated processes do not operate as expected." For more details about the various ways in which our subsidiaries are regulated, see "Business - Regulation" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 23, 2021. While we believe our practices are in conformity with applicable laws and regulations, it is not possible to predict the eventual scope, duration or outcome of any reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

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

The factors that may affect the volume of low down payment mortgage originations include the health of the U.S. economy, conditions in regional and local economies and the level of consumer confidence; restrictions on mortgage credit due to more stringent underwriting standards, liquidity issues or risk-retention and/or capital requirements affecting lenders; the level of home mortgage interest rates;

housing affordability; new and existing housing availability; the rate of household formation, which is influenced, in part, by population and immigration trends; homeownership rates; the rate of home price appreciation, which in times of heavy refinancing can affect whether refinanced loans have LTV ratios that require private mortgage insurance; and government housing policy encouraging loans to first-time homebuyers.

A decline in the volume of low down payment home mortgage originations could decrease demand for mortgage insurance and limit our NIW. The COVID-19 pandemic, including the related restrictions on business in many parts of the U.S., its effect on unemployment and consumer confidence, and changing underwriting standards may affect the number of purchase mortgage originations. For other factors that could decrease the demand for mortgage insurance, see our risk factor titled "*The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance.*"

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

The insurance laws of 16 jurisdictions, including Wisconsin, MGIC's domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to its 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 "State Capital Requirements." While they vary among jurisdictions, the most common State Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if (i) the percentage decrease in capital exceeds the percentage decrease in insured risk, or (ii) the percentage increase in capital is less than the percentage increase in insured risk. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position ("MPP"). The "policyholder position" of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums.

At December 31, 2020, MGIC's risk-to-capital ratio was 9.2 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was \$3.2 billion above the required MPP of \$1.7 billion. At December 31, 2020, the risk-to-capital ratio of our combined insurance operations was 9.1 to 1. Our risk-to-capital ratio and MPP reflect full credit for the risk ceded under our quota share reinsurance and excess of loss transactions with unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded under such transactions. If MGIC is

not allowed an agreed level of credit under the State Capital Requirements, MGIC may terminate the reinsurance transactions, without penalty.

The NAIC previously announced plans to revise the State Capital Requirements that are provided for in its Mortgage Guaranty Insurance Model Act. In December 2019, a working group of state regulators released an exposure draft of a revised Mortgage Guaranty Insurance Model Act and a risk-based capital framework to establish capital requirements for mortgage insurers, although no date has been established by which the NAIC must propose revisions to the capital requirements and certain items have not yet been completely addressed by the framework, including the treatment of ceded risk and minimum capital floors. Currently we believe that the PMIERS contain more restrictive capital requirements than the draft Mortgage Guaranty Insurance Model Act in most circumstances.

While MGIC currently meets, and expects to continue to meet, the State Capital Requirements of Wisconsin and all other jurisdictions, it could be prevented from writing new business in the future in all jurisdictions if it fails to meet the State Capital Requirements of Wisconsin, or it could be prevented from writing new business in a particular jurisdiction if it fails to meet the State Capital Requirements of that jurisdiction, and in each case if MGIC does not obtain a waiver of such requirements. It is possible that regulatory action by one or more jurisdictions, including those that do not have specific State Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions. If we are unable to write business in a particular jurisdiction, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the future ability of our insurance operations to meet the State Capital Requirements or the PMIERS may affect its willingness to procure insurance from us. In this regard, see our risk factor titled *"Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or increase our losses."* A possible future failure by MGIC to meet the State Capital Requirements or the PMIERS will not necessarily mean that MGIC lacks sufficient resources to pay claims on its insurance liabilities. While we believe MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force on a timely basis, you should read the rest of these risk factors for information about matters that could negatively affect MGIC's compliance with State Capital Requirements and its claims paying resources, including the effects of the COVID-19 pandemic.

We are susceptible to disruptions in the servicing of mortgage loans that we insure and we rely on third-party reporting for information regarding the mortgage loans we insure.

We depend on reliable, consistent third-party servicing of the loans that we insure. An increase in delinquent loans, including as a result of the COVID-19 pandemic, may result in liquidity issues and operational burdens for servicers. When a mortgage loan that is collateral for a mortgage backed security ("MBS") becomes delinquent, the servicer is usually required to continue to pay principal and interest to the MBS investors, generally for four months, even though the servicer is not receiving payments from borrowers. This may cause liquidity issues for especially non-bank servicers (who service approximately 42.1% of the loans underlying our insurance in force as of December 31, 2020) because they do not have the same sources of liquidity that bank servicers have.

While there has been no disruption in our premium receipts through the end of December 2020, servicers who experience future liquidity issues may be less likely to advance premiums to us on policies covering delinquent loans or to remit premiums on policies covering loans that are not delinquent. Our policies allow us to cancel coverage on loans that are not delinquent if the premiums are not paid within a grace period. However, in response to the COVID-19 pandemic, many states have enacted moratoriums on the cancellation of insurance due to non-payment. The specific provisions of the moratoriums vary from state-to-state. In addition, the GSEs amended the PMIERS to require that mortgage insurers notify the GSEs before coverage is cancelled in specific circumstances and to give the GSEs the opportunity to pay the premium on behalf of the servicer to keep coverage in force.

The increased operational burdens associated with the current numbers of delinquent loans and the potential increase in delinquent loans caused by the COVID-19 pandemic, as well as the possible transfer of servicing resulting from liquidity issues, may cause a disruption in the servicing of delinquent loans and reduce servicers' abilities to undertake mitigation efforts that could help limit our losses.

The information presented in this report and on our website with respect to the mortgage loans we insure is based on information reported to us by third parties, including the servicers and originators of the mortgage loans, and information presented may be subject to lapses or inaccuracies in reporting from such third parties. In many cases, we may not be aware that information reported to us is incorrect until such time as a claim is made against us under the relevant insurance policy. We do not receive monthly information from servicers for single premium policies, and may not be aware that the mortgage

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loans insured by such policies have been repaid. We periodically attempt to determine if coverage is still in force on such policies by asking the last servicer of record or through the periodic reconciliation of loan information with certain servicers. It may be possible that our reports continue to reflect, as active, policies on mortgage loans that have been repaid.

Changes in interest rates, house prices or mortgage insurance cancellation requirements may change the length of time that our policies remain in force.

The premium from a single premium policy is collected upfront and generally earned over the estimated life of the policy. In contrast, premiums from a monthly premium policy are received and earned each month over the life of the policy. In each year, most of our premiums earned are from insurance that has been written in prior years. As a result, the length of time insurance remains in force, which is generally measured by persistency (the percentage of our insurance remaining in force from one year prior), is a significant determinant of our revenues. Future premiums on our monthly premium policies in force represent a material portion of our claims paying resources and a low persistency rate will reduce those future premiums. In contrast, a higher than expected persistency rate will decrease the profitability from single premium policies because they will remain in force longer than was estimated when the policies were written.

Our persistency rate was 60.5% at December 31, 2020, 75.8% at December 31, 2019 and 81.7% at December 31, 2018. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003. Our persistency rate is primarily affected by the level of current mortgage interest rates compared to the mortgage coupon rates on our insurance in force, which affects the vulnerability of the insurance in force to refinancing. Our persistency rate is also affected by the mortgage insurance cancellation policies of mortgage investors along with the current value of the homes underlying the mortgages in the insurance in force.

Pandemics, hurricanes and other natural disasters may impact our incurred losses, the amount and timing of paid claims, our inventory of notices of default and our Minimum Required Assets under PMIERS.

Pandemics and other natural disasters, such as hurricanes, tornadoes, earthquakes, wildfires and floods, or other events related to changing climatic conditions, could trigger an economic downturn in the affected areas, or in areas with similar risks, which could result in a decline in our business and an increased claim rate on policies in those areas. Natural disasters and rising sea levels could lead to a decrease in home prices in the affected areas, or in areas with similar risks, which could result in an

increase in claim severity on policies in those areas. In addition, the inability of a borrower to obtain hazard insurance, or the increased cost of hazard insurance, could lead to an increase in defaults or a decrease in home prices in the affected areas. If we were to attempt to limit our new insurance written in disaster-prone areas, lenders may be unwilling to procure insurance from us anywhere.

Pandemics and other natural disasters could also lead to increased reinsurance rates or reduced availability of reinsurance. This may cause us to retain more risk than we otherwise would retain and could negatively affect our compliance with the financial requirements of the PMIERS.

The PMIERS require us to maintain significantly more "Minimum Required Assets" for delinquent loans than for performing loans; however, the increase in Minimum Required Assets is not as great for certain delinquent loans in areas that the Federal Emergency Management Agency has declared major disaster areas and for certain loans whose borrowers have been affected by COVID-19. An increase in delinquency notices resulting from a pandemic, such as the COVID-19 pandemic, or other natural disaster may result in an increase in "Minimum Required Assets" and a decrease in the level of our excess "Available Assets" which is discussed in our risk factor titled "*We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility.*"

Risk Factors Relating to Our Business Generally

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

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

could adversely affect our results of operations or financial condition. Our premium rates are also based in part on the amount of capital we are required to hold against the insured risk. If the amount of capital we are required to hold increases from the amount we were required to hold when we set the premiums, our returns may be lower than we assumed. For a discussion of the effect of the COVID-19 pandemic on the amount of capital we are required to hold, see our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*

Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and / or increase our losses.

The private mortgage insurance industry is highly competitive and is expected to remain so. We believe we currently compete with other private mortgage insurers based on premium rates, underwriting requirements, financial strength (including based on credit or financial strength ratings), customer relationships, name recognition, reputation, strength of management teams and field organizations, the ancillary products and services provided to lenders and the effective use of technology and innovation in the delivery and servicing of our mortgage insurance products.

Our relationships with our customers, which may affect the amount of our NIW, could be adversely affected by a variety of factors, including if our premium rates are higher than those of our competitors, our underwriting requirements are more restrictive than those of our competitors, or our customers are dissatisfied with our claims-paying practices (including insurance policy rescissions and claim curtailments).

In recent years, much of the competition in the industry has centered on pricing practices which have included: (a) decreased use of standard rate cards; and (b) increased use of (i) "risk-based pricing systems" that use a spectrum of filed rates to allow for formulaic, risk-based pricing based on multiple attributes that may be quickly adjusted within certain parameters, and (ii) customized rate plans, both of which typically have rates lower than the standard rate card. While our increased use of reinsurance over the past several years has helped to mitigate the negative effect of declining premium rates on our returns, refer to our risk factor titled *"Reinsurance may not always be available or affordable"* for a discussion of the risks associated with the availability of reinsurance.

The widespread use of risk-based pricing systems by the private mortgage insurance industry makes it more difficult to compare our rates to those offered by our

competitors. We may not be aware of industry rate changes until we observe that our volume of NIW has changed. In addition, business under customized rate plans is awarded by certain customers for only limited periods of time. As a result, our NIW may fluctuate more than it had in the past. Regarding the concentration of our new business, our top ten customers accounted for approximately 41% and 24% of our NIW, in each of 2020 and 2019, respectively.

We monitor various competitive and economic factors while seeking to balance both profitability and market share considerations in developing our pricing strategies. Premium rates on NIW will change our premium yield (net premiums earned divided by the average insurance in force) over time as older insurance policies run off and new insurance policies with different premium rates are written.

Certain of our competitors have access to capital at a lower cost than we do (including, through off-shore reinsurance vehicles, which are tax-advantaged). As a result, they may be able to achieve higher after-tax rates of return on their NIW compared to us, which could allow them to leverage reduced premium rates to gain market share, and they may be better positioned to compete outside of traditional mortgage insurance, including by participating in alternative forms of credit enhancement pursued by the GSEs discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*

Although the current PMIERS of the GSEs do not require an insurer to maintain minimum financial strength ratings, our financial strength ratings can affect us in the ways set forth below. If we are unable to compete effectively in the current or any future markets as a result of the financial strength ratings assigned to our insurance subsidiaries, our future new insurance written could be negatively affected.

- A downgrade in our financial strength ratings could result in increased scrutiny of our financial condition by the GSEs and/or our customers, potentially resulting in a decrease in the amount of our NIW. In 2020, Standard and Poor's revised its outlook, to "negative," for MGIC and other U.S. mortgage insurers due to the risks associated with the COVID-19 pandemic, and A.M. Best revised its outlook for the U.S. Private Mortgage Insurers market segment to "negative," but has since reaffirmed MGIC's rating with no change.
- Our ability to participate in the non-GSE residential mortgage-backed securities market (the size of which has been limited since 2008, but may grow in the future), could depend on our ability to maintain and improve our investment grade ratings for our insurance subsidiaries. We could

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be competitively disadvantaged with some market participants because the financial strength ratings of our insurance subsidiaries are lower than those of some competitors. MGIC's financial strength rating from A.M. Best is A- (with a stable outlook), from Moody's is Baa1 (with a stable outlook) and from Standard & Poor's is BBB+ (with a negative outlook).

- Financial strength ratings may also play a greater role if the GSEs no longer operate in their current capacities, for example, due to legislative or regulatory action. In addition, although the PMIERS do not require minimum financial strength ratings, the GSEs consider financial strength ratings to be important when using forms of credit enhancement other than traditional mortgage insurance, as discussed in our risk factor titled "*The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance.*" The final GSE capital framework provides more capital credit for transactions with higher rated counterparties, as well as those who are diversified. Although we are currently unaware of a direct impact on MGIC, this could potentially become a competitive disadvantage in the future.

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

Before paying an insurance claim, generally we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage or deny a claim on the loan (both referred to as "rescissions"). In addition, our insurance policies generally provide that we can reduce a claim if the servicer did not comply with its obligations under our insurance policy (such reduction referred to as a "curtailment"). In recent quarters, an immaterial percentage of claims received in a quarter have been resolved by rescissions. In 2020 and 2019, curtailments reduced our average claim paid by approximately 3.6% and 5.0%, respectively. Our loss reserving methodology incorporates our estimates of future rescissions, curtailments, and reversals of rescissions and curtailments. A variance between ultimate actual rescission, curtailment and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

When the insured disputes our right to rescind coverage or curtail claims, we generally engage in discussions in an attempt to settle the dispute. If we are unable to reach a settlement, the outcome of a dispute ultimately may be determined by legal proceedings. Under ASC 450-20, until a loss associated with settlement discussions or legal

proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss. When we determine that a loss is probable and can be reasonably estimated, we record our best estimate of our probable loss. In those cases, until settlement negotiations or legal proceedings are concluded (including the receipt of any necessary GSE approvals), it is reasonably possible that we will record an additional loss. We are currently involved in discussions and/or proceedings with respect to our claims paying practices. Although it is reasonably possible that, when resolved, we will not prevail on all matters, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure where a loss is reasonably possible to be approximately \$40 million. This estimate of maximum exposure is based on currently available information; is subject to significant judgment, numerous assumptions and known and unknown uncertainties; will include an amount for matters for which we have recorded a probable loss until such matters are concluded; will include different matters from time to time; and does not include interest or consequential or exemplary damages.

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.

If our risk management programs are not effective in identifying, or adequate in controlling or mitigating, the risks we face, or if the models used in our businesses are inaccurate, it could have a material adverse impact on our business, results of operations and financial condition.

Our enterprise risk management program, described in "Business - Our Products and Services - Risk Management" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 23, 2021, may not be effective in identifying, or adequate in controlling or mitigating, the risks we face in our business.

We employ proprietary and third party models to project returns, price products (including through our risk-based pricing system), determine the techniques used to underwrite insurance, estimate reserves, generate projections used to estimate future pre-tax income and to evaluate loss recognition testing, evaluate risk, determine internal capital requirements, perform stress testing, and for other uses. These models rely on estimates and projections that are inherently uncertain and may not operate as intended, especially in unprecedented circumstances such as

those surrounding the COVID-19 pandemic, or with respect to emerging risks, such as changing climatic conditions. In addition, from time to time we seek to improve certain models, and the conversion process may result in material changes to assumptions, including those about returns and financial results. The models we employ are complex, which increases our risk of error in their design, implementation or use. Also, the associated input data, assumptions and calculations may not be correct, and the controls we have in place to mitigate that risk may not be effective in all cases. The risks related to our models may increase when we change assumptions and/or methodologies, or when we add or change modeling platforms. We have enhanced, and we intend to continue to enhance, our modeling capabilities. Moreover, we may use information we receive through enhancements to refine or otherwise change existing assumptions and/or methodologies.

We rely on our management team and our business could be harmed if we are unable to retain qualified personnel or successfully develop and/or recruit their replacements.

Our success depends, in part, on the skills, working relationships and continued services of our management team and other key personnel. The unexpected departure of key personnel could adversely affect the conduct of our business. In such event, we would be required to obtain other personnel to manage and operate our business. In addition, we will be required to replace the knowledge and expertise of our aging workforce as our workers retire. In either case, there can be no assurance that we would be able to develop or recruit suitable replacements for the departing individuals; that replacements could be hired, if necessary, on terms that are favorable to us; or that we can successfully transition such replacements in a timely manner. We currently have not entered into any employment agreements with our officers or key personnel. Volatility or lack of performance in our stock price may affect our ability to retain our key personnel or attract replacements should key personnel depart. Without a properly skilled and experienced workforce, our costs, including productivity costs and costs to replace employees may increase, and this could negatively impact our earnings.

In response to the COVID-19 pandemic, the Company activated its business continuity program by transitioning to a virtual workforce model with certain essential activities supported by limited staff in controlled office environments. This transition was made to responsibly provide for the safety of employees and to continue to serve customers across our businesses. We have established a temporary succession plan for each of our key executives, should an executive be unable to perform his or her duties due to a COVID-19 related illness; however, it is

uncertain what impact COVID-19-related illnesses may have on our operations in the future.

The mix of business we write affects our Minimum Required Assets under the PMIERS, our premium yields and the likelihood of losses occurring.

The Minimum Required Assets under the PMIERS are, in part, a function of the direct risk-in-force and the risk profile of the loans we insure, considering LTV ratio, credit score, vintage, Home Affordable Refinance Program ("HARP") status and delinquency status; and whether the loans were insured under lender-paid mortgage insurance policies or other policies that are not subject to automatic termination consistent with the Homeowners Protection Act requirements for borrower-paid mortgage insurance. Therefore, if our direct risk-in-force increases through increases in NIW, or if our mix of business changes to include loans with higher LTV ratios or lower FICO scores, for example, all other things equal, we will be required to hold more Available Assets in order to maintain GSE eligibility.

The minimum capital required by the risk-based capital framework contained in the exposure draft released by the NAIC in December 2019 would be, in part, a function of certain loan and economic factors, including property location, LTV ratio and credit score; general underwriting quality in the market at the time of loan origination; the age of the loan; and the premium rate we charge. Depending on the provisions of the capital requirements when they are released in final form and become effective, our mix of business may affect the minimum capital we are required to hold under the new framework.

The percentage of our NIW from all single-premium policies was 9% in 2020 and 16% in 2019, and has ranged from approximately 9% in 2020 to 19% in 2017. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life.

As discussed in our risk factor titled "*Reinsurance may not always be available or affordable*," we have in place various QSR transactions. Although the transactions reduce our premiums, they have a lesser impact on our overall results, as losses ceded under the transactions reduce our losses incurred and the ceding commissions we receive reduce our underwriting expenses. The effect of the QSR transactions on the various components of pre-tax income will vary from period to period, depending on the level of ceded losses. We also have in place various excess-of-loss ("XOL") reinsurance transactions, under which we cede premiums. Under the XOL reinsurance transactions, for the respective reinsurance coverage periods, we retain the first layer of aggregate losses, and a special

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purpose entity provides second layer coverage up to the outstanding reinsurance coverage amount.

In addition to the effect of reinsurance on our premiums, we expect a decline in our premium yield because an increasing percentage of our insurance in force is from recent book years whose premium rates had been trending lower.

Our ability to rescind insurance coverage became more limited for new insurance written beginning in mid-2012, and it became further limited for new insurance written under our revised master policy that became effective March 1, 2020. These limitations may result in higher losses than would be the case under our previous master policies. In addition, our rescission rights temporarily have become more limited due to accommodations we have made in connection with the COVID-19 pandemic. We have waived our rescission rights in certain circumstances where the failure to make payments was associated with a COVID-19 pandemic-related forbearance.

From time to time, in response to market conditions, we change the types of loans that we insure. We also may change our underwriting guidelines, in part by agreeing with certain approval recommendations from a GSE automated underwriting system. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Our underwriting requirements are available on our website at <http://www.mgic.com/underwriting/index.html>.

Even when home prices are stable or rising, mortgages with certain characteristics have higher probabilities of claims. As of December 31, 2020, mortgages with these characteristics in our primary risk in force included mortgages with LTV ratios greater than 95% (14.7%), mortgages with borrowers having FICO scores below 680 (9.2%), including those with borrowers having FICO scores of 620-679 (7.8%), mortgages with limited underwriting, including limited borrower documentation (1.3%), and mortgages with borrowers having DTI ratios greater than 45% (or where no ratio is available) (13.5%), each attribute as determined at the time of loan origination. Loans with more than one of these attributes accounted for 2.7% of our primary risk in force as of December 31, 2020, and less than one percent of our NIW in 2020 and 1.0% of our NIW in 2019.

From time to time, we change the processes we use to underwrite loans. For example, we may rely on information provided to us by a lender that was obtained from certain of the GSEs' automated appraisal and income verification tools. Those tools may produce results that differ from the results that would have determined using different methods. For example, the appraisal tools may indicate property values that differ from the values that would have

been determined by onsite appraisals. In addition, we continue to further automate our underwriting processes. It is possible that our automated processes result in our insuring loans that we would not otherwise have insured under our prior processes.

Approximately 70.2% of our 2020 NIW (by risk written) was originated under delegated underwriting programs pursuant to which the loan originators had authority on our behalf to underwrite the loans for our mortgage insurance. For loans originated through a delegated underwriting program, we depend on the originators' compliance with our guidelines and rely on the originators' representations that the loans being insured satisfy the underwriting guidelines, eligibility criteria and other requirements. While we have established systems and processes to monitor whether certain aspects of our underwriting guidelines were being followed by the originators, such systems may not ensure that the guidelines were being strictly followed at the time the loans were originated.

The widespread use of risk-based pricing systems by the private mortgage insurance industry (discussed in our risk factor titled "*Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and / or increase our losses*") makes it more difficult to compare our premium rates to those offered by our competitors. We may not be aware of industry rate changes until we observe that our mix of new insurance written has changed and our mix may fluctuate more as a result.

If state or federal regulations or statutes are changed in ways that ease mortgage lending standards and/or requirements, or if lenders seek ways to replace business in times of lower mortgage originations, it is possible that more mortgage loans could be originated with higher risk characteristics than are currently being originated, such as loans with lower FICO scores and higher DTI ratios. Lenders could pressure mortgage insurers to insure such loans, which are expected to experience higher claim rates. Although we attempt to incorporate these higher expected claim rates into our underwriting and pricing models, there can be no assurance that the premiums earned and the associated investment income will be adequate to compensate for actual losses even under our current underwriting requirements.

Our holding company debt obligations materially exceed our holding company cash and investments.

At December 31, 2020, we had approximately \$847 million in cash and investments at our holding company and our holding company's debt obligations were \$1.1 billion in aggregate principal amount, consisting of \$242 million of 5.75% Senior Notes due in 2023 ("5.75% Notes"), \$650 million of 5.25% Senior Notes due 2028 (the 5.25% Notes), and \$209 million of 9% Convertible Junior Subordinated Debentures due in

2063 ("9% Debentures"). Annual debt service on the 5.75% Notes, 5.25% Notes and 9% Debentures outstanding as of December 31, 2020, is approximately \$67 million.

The 5.75% Senior Notes, 5.25% Senior Notes and 9% Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. The payment of dividends from our insurance subsidiaries which, other than investment income and raising capital in the public markets, is the principal source of our holding company cash inflow, is restricted by insurance regulation. In addition, through June 30, 2021, dividends paid by MGIC to our holding company require GSE approval. MGIC is the principal source of dividends, and in the first quarter of 2020 and in the full year 2019, it paid a total of \$390 million and \$280 million, respectively, in dividends of cash and investments to our holding company. We ask the OCI not to object before MGIC pays dividends and, due to the uncertainty surrounding the COVID-19 pandemic, MGIC did not pay a dividend of cash and/or investment securities to the holding company after the first quarter of 2020; however, in the third quarter of 2020, MGIC distributed to the holding company, as a dividend, its ownership in \$133 million of the 9% Debentures, with a fair value of \$167 million. Future dividend payments from MGIC to the holding company will be determined on a quarterly basis in consultation with the board of directors, and after considering any updated estimates about the length and severity of the economic impacts of the COVID-19 pandemic on our business.

In the third quarter of 2020, we issued the 5.25% Senior Notes and used a portion of the proceeds to repurchase \$183 million of our 5.75% Senior Notes and \$48 million of our 9% Debentures. We may, from time to time, repurchase our debt obligations on the open market (including through 10b5-1 plans) or through privately negotiated transactions.

In the first quarter of 2020 and in 2019, we repurchased approximately 9.6 million and 8.7 million shares of our common stock, respectively, using approximately \$120 million and \$114 million of holding company resources, respectively. As of December 31, 2020, we had \$291 million of authorization remaining to repurchase our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in January 2020. Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time. Due to the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases, but may resume them in the future. If any additional capital contributions to our subsidiaries were required, such contributions would decrease our

holding company cash and investments. As described in our Current Report on Form 8-K filed on February 11, 2016, MGIC borrowed \$155 million from the Federal Home Loan Bank of Chicago. This is an obligation of MGIC and not of our holding company.

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

As noted above under our risk factor titled "We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility," although we are currently in compliance with the requirements of the PMIERS, there can be no assurance that we would not seek to issue additional debt capital or to raise additional equity or equity-linked capital to manage our capital position under the PMIERS or for other purposes. Any future issuance of equity securities may dilute your ownership interest in our company. In addition, the market price of our common stock could decline as a result of sales of a large number of shares or similar securities in the market or the perception that such sales could occur.

At December 31, 2020, we had outstanding \$209 million principal amount of 9% Debentures. The principal amount of the 9% Debentures is currently convertible, at the holder's option, at a conversion rate, which is subject to adjustment, of 75.5932 common shares per \$1,000 principal amount of debentures. This represents a conversion price of approximately \$13.23 per share. The payment of dividends by our holding company results in an adjustment to the conversion rate and price, with such adjustment generally deferred until the end of the year.

We may redeem the 9% 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 9% Debentures being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds \$17.20 for at least 20 of the 30 trading days preceding notice of the redemption. We have the right, and may elect, to defer interest payable under the 9% Debentures in the future. If a holder elects to convert its 9% Debentures, the interest that has been deferred on the 9% Debentures being converted is also convertible into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We may elect to pay cash for some or all of the shares issuable upon a conversion of the debentures. For more information about the 9% Debentures, including additional requirements resulting from the deferral of

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interest, see Note 7 – “Debt” to our consolidated financial statements.

For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 4 – “Earnings Per Share” to our consolidated financial statements. As noted above, in the first quarter of 2020 and in 2019, we repurchased shares of our common stock and may do so again in the future. In addition, in the third quarter of 2020, we repurchased a portion of our debt obligations, and may do so again in the future.

The price of our common stock may fluctuate significantly, which may make it difficult for holders to resell common stock when they want or at a price they find attractive.

The market price for our common stock may fluctuate significantly. In addition to the risk factors described herein, the following factors may have an adverse impact on the market price for our common stock: changes in general conditions in the economy, the mortgage insurance industry or the financial markets; announcements by us or our competitors of acquisitions or strategic initiatives; our actual or anticipated quarterly and annual operating results; changes in expectations of future financial performance (including incurred losses on our insurance in force); changes in estimates of securities analysts or rating agencies; actual or anticipated changes in our share repurchase program or dividends; changes in operating performance or market valuation of companies in the mortgage insurance industry; the addition or departure of key personnel; changes in tax law; and adverse press or news announcements affecting us or the industry. In addition, ownership by certain types of investors may affect the market price and trading volume of our common stock. For example, ownership in our common stock by investors such as index funds and exchange-traded funds can affect the stock’s price when those investors must purchase or sell our common stock because the investors have experienced significant cash inflows or outflows, the index to which our common stock belongs has been rebalanced, or our common stock is added to and/or removed from an index (due to changes in our market capitalization, for example).

We could be adversely affected if personal information on consumers that we maintain is improperly disclosed, our information technology systems are damaged or their operations are interrupted, or our automated processes do not operate as expected.

As part of our business, we maintain large amounts of personal information of consumers. Federal and state laws designed to promote the protection of such information require businesses that collect or maintain consumer information to adopt information security

programs, and to notify individuals, and in some jurisdictions, regulatory authorities, of security breaches involving personally identifiable information. Those laws may require free credit monitoring services to be provided to individuals affected by security breaches. While we believe we have appropriate information security policies and systems to prevent unauthorized disclosure, there can be no assurance that unauthorized disclosure, either through the actions of third parties or employees, will not occur. Unauthorized disclosure could adversely affect our reputation, result in a loss of business and expose us to material claims for damages.

We rely on the efficient and uninterrupted operation of complex information technology systems. All information technology systems are potentially vulnerable to damage or interruption from a variety of sources, including by third-party cyber-attacks. Due to our reliance on information technology systems, including ours and those of our customers and third-party service providers, their damage or interruption could severely disrupt our operations, which could have a material adverse effect on our business, business prospects and results of operations.

In response to the COVID-19 pandemic, the Company activated its business continuity program by transitioning to a virtual workforce model with certain essential activities supported by limited staff in controlled office environments. While we continue to maintain our full operations, the virtual workforce model may be more vulnerable to security breaches, damage or disruption.

We are in the process of upgrading certain of our information systems, and transforming and automating certain of our business processes, that have been in place for a number of years and we continue to deploy and enhance our risk-based pricing system. The implementation of these technological and business process improvements, as well as their integration with customer and third-party systems when applicable, is complex, expensive and time consuming. If we fail to timely and successfully implement and integrate the new technology systems, if the third party providers to which we are becoming increasingly reliant do not perform as expected, or if the systems and/or transformed and automated business processes do not operate as expected, it could have an adverse impact on our business, business prospects and results of operations.

Our success depends, in part, on our ability to manage risks in our investment portfolio.

Our investment portfolio is an important source of revenue and is our primary source of claims paying resources. Although our investment portfolio consists mostly of highly-rated fixed income investments, our investment portfolio is affected by general economic

conditions and tax policy, which may adversely affect the markets for credit and interest-rate-sensitive securities, including the extent and timing of investor participation in these markets, the level and volatility of interest rates and credit spreads and, consequently, the value of our fixed income securities. The value of our investment portfolio may also be adversely affected by ratings downgrades, increased bankruptcies and credit spreads widening in distressed industries, such as energy, lodging and leisure, autos, transportation and retail. In addition, the collectability and valuation of our municipal bond portfolio may be adversely affected if state and local municipalities incur increased costs to respond to COVID-19 and receive fewer tax revenues due to adverse economic conditions. Our investment portfolio also includes commercial mortgage-backed securities, collateralized loan obligations, and asset-backed securities, which could be adversely affected by declines in real estate valuations and/or financial market disruption, including a heightened collection risk on the underlying loans. As a result of these matters, we may not achieve our investment objectives and a reduction in the market value of our investments could have an adverse effect on our liquidity, financial condition and results of operations.

For the significant portion of our investment portfolio that is held by MGIC, to receive full capital credit under insurance regulatory requirements and under the PMIERS, we generally are limited to investing in investment grade fixed income securities whose yields reflect their lower credit risk profile. Our investment income depends upon the size of the portfolio and its reinvestment at prevailing interest rates. A prolonged period of low investment yields would have an adverse impact on our investment income as would a decrease in the size of the portfolio.

We structure our investment portfolio to satisfy our expected liabilities, including claim payments in our mortgage insurance business. If we underestimate our liabilities or improperly structure our investments to meet these liabilities, we could have unexpected losses resulting from the forced liquidation of fixed income investments before their maturity, which could adversely affect our results of operations.

The Company may be adversely impacted by the transition from LIBOR as a reference rate.

The United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that after 2021 it would no longer compel banks to submit rate quotations required to calculate LIBOR. However, in December 2020, ICE Benchmark Administration, the administrator of LIBOR, began consulting on its intention to cease publishing after 2021, with respect to USD LIBOR, only the one-week and two-month tenors and, on June 30, 2023, all other USD LIBOR tenors. Efforts are underway to identify and transition

to a set of alternative reference rates. The set of alternative rates includes the Secured Overnight Financing Rate ("SOFR"), which the Federal Reserve Bank of New York began publishing in 2018. Because SOFR is calculated based on different criteria than LIBOR, SOFR and LIBOR may diverge.

While it is not currently possible to determine precisely whether, or to what extent, the replacement of LIBOR would affect us, the implementation of alternative benchmark rates to LIBOR may have an adverse effect on our business, results of operations or financial condition. We have three primary types of transactions that involve financial instruments referencing LIBOR. First, as of December 31, 2020, approximately 5% of the fair value of our investment portfolio consisted of securities referencing LIBOR, none of which reference one-week and two-month tenors. Second, as of December 31, 2020, approximately \$1 billion of our risk in force was on adjustable rate mortgages whose interest is referenced to one-month USD LIBOR. A change in reference rate associated with these loans may affect their principal balance, which may affect our risk-in-force and the amount of Minimum Required Assets we are required to maintain under PMIERS. A change in reference rate may also affect the amount of principal and/or accrued interest we are required to pay in the event of a claim payment. Third, we enter into reinsurance agreements under which our premiums are determined, in part, by the difference between interest payable on the reinsurers' notes which reference one-month USD LIBOR and earnings from a pool of securities receiving interest that may reference LIBOR (in 2020, our total premiums on such transactions were approximately \$20.8 million).

Management's Report on Internal Control Over Financial Reporting

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

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our internal control over financial reporting using the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the consolidated financial statements and effectiveness of internal control over financial reporting as of December 31, 2020, as stated in their report which appears herein.

CHANGES IN INTERNAL CONTROL DURING THE FOURTH QUARTER

There are no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MGIC Investment Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of MGIC Investment Corporation and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations, of comprehensive income, of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report On Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain

reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of loss reserves

As described in Notes 3 and 8 to the consolidated financial statements, the Company establishes reserves to recognize the estimated liability for losses related to reported defaults on insured mortgage loans. As of December 31, 2020, the Company's recorded loss reserves were \$881 million. A significant portion of total loss reserves relate to primary case reserves established for the Company's primary insurance business. Case reserves are established by estimating the number of loans in the 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. The Company's case reserve estimates are established based upon historical experience, including rescissions of policies, curtailments of claims, and loan modification activity. 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; exposure on insured loans; the amount of time between default and claim filing; and curtailments and rescissions.

The principal considerations for our determination that performing procedures relating to the valuation of loss reserves is a critical audit matter are (i) the significant judgment by management when developing their estimate, which in turn led to a high degree of auditor judgment and subjectivity in performing procedures relating to loss reserves; (ii) there was significant auditor effort and judgment in evaluating the audit evidence relating to the significant assumptions, related to the claim rate and claim severity; and (iii) the audit effort included the involvement of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of loss reserves, including controls over the development of significant assumptions related to the claim rate and claim severity. These procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in developing an independent estimate of loss reserves using historical experience and comparing this independent estimate to management's recorded loss reserves to evaluate the reasonableness of the recorded loss reserves. Developing the independent estimate involved testing the completeness, accuracy, and relevance of data provided by management and independently developing assumptions related to the claim rate and claim severity.

/s/ PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
February 23, 2021

We have served as the Company's auditor since 1985.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)	Note	December 31,	
		2020	2019
Assets			
Investment portfolio:	5 / 6		
Fixed income, available-for-sale, at fair value (amortized cost, 2020 - \$6,317,164; 2019 - \$5,562,550)		\$ 6,661,596	\$ 5,737,892
Equity securities, at fair value (cost, 2020 - \$17,522; 2019 - \$17,188)		18,215	17,328
Other invested assets, at cost		3,100	3,100
Total investment portfolio		6,682,911	5,758,320
Cash and cash equivalents		287,953	161,847
Restricted cash and cash equivalents		8,727	7,209
Accrued investment income		49,997	49,705
Reinsurance recoverable on loss reserves	9	95,042	21,641
Reinsurance recoverable on paid losses	9	669	1,521
Premiums receivable		56,044	55,587
Home office and equipment, net		47,144	50,121
Deferred insurance policy acquisition costs		21,561	18,531
Other assets		104,478	105,089
Total assets		\$ 7,354,526	\$ 6,229,571
Liabilities and shareholders' equity			
Liabilities:			
Loss reserves	8	\$ 880,537	\$ 555,334
Unearned premiums		287,099	380,302
Federal Home Loan Bank Advance	7	155,000	155,000
Senior notes	7	879,379	420,867
Convertible junior subordinated debentures	7	208,814	256,872
Other liabilities		244,711	151,962
Total liabilities		2,655,540	1,920,337
Contingencies	17		
Shareholders' equity:			
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2020 - 371,353; 2019 - 371,353; outstanding 2020 - 338,573; 2019 - 347,308)		371,353	371,353
Paid-in capital		1,862,042	1,869,719
Treasury stock (shares at cost 2020 - 32,779; 2019 - 24,045)		(393,326)	(283,196)
Accumulated other comprehensive income, net of tax	10	216,821	72,708
Retained earnings		2,642,096	2,278,650
Total shareholders' equity		4,698,986	4,309,234
Total liabilities and shareholders' equity		\$ 7,354,526	\$ 6,229,571

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	Note	Years Ended December 31,		
		2020	2019	2018
Revenues:				
Premiums written:				
Direct		\$ 1,106,632	\$ 1,124,196	\$ 1,103,332
Assumed		10,837	6,446	271
Ceded	9	(188,727)	(129,334)	(111,341)
Net premiums written		928,742	1,001,308	992,262
Decrease (increase) in unearned premiums		93,201	29,680	(17,100)
Net premiums earned	9	1,021,943	1,030,988	975,162
Investment income, net of expenses	5	154,396	167,045	141,331
Net realized investment gains (losses)	5	13,752	5,306	(1,353)
Other revenue		9,055	10,638	8,708
Total revenues		1,199,146	1,213,977	1,123,848
Losses and expenses:				
Losses incurred, net	8 / 9	364,774	118,575	36,562
Amortization of deferred policy acquisition costs		12,380	12,001	11,932
Other underwriting and operating expenses, net		176,398	182,768	178,211
Loss on debt extinguishment	7	26,736	—	—
Interest expense	7	59,595	52,656	52,993
Total losses and expenses		639,883	366,000	279,698
Income before tax		559,263	847,977	844,150
Provision for income taxes	12	113,170	174,214	174,053
Net income		\$ 446,093	\$ 673,763	\$ 670,097
Earnings per share:				
Basic	4	\$ 1.31	\$ 1.91	\$ 1.83
Diluted		\$ 1.29	\$ 1.85	\$ 1.78
Weighted average common shares outstanding - basic	4	339,953	352,827	365,406
Weighted average common shares outstanding - diluted	4	359,293	373,924	386,078

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(In thousands)</i>	Note	Years Ended December 31,		
		2020	2019	2018
Net income		\$ 446,093	\$ 673,763	\$ 670,097
Other comprehensive income (loss), net of tax:	10			
Change in unrealized investment gains and losses	5	133,616	173,910	(64,646)
Benefit plans adjustment	11	10,497	23,012	(15,767)
Other comprehensive income (loss), net of tax		144,113	196,922	(80,413)
Comprehensive income		\$ 590,206	\$ 870,685	\$ 589,684

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Note	Years Ended December 31,		
		2020	2019	2018
Common stock				
Balance, beginning of year		\$ 371,353	\$ 371,353	\$ 370,567
Net common stock issued under share-based compensation plans		—	—	786
Balance, end of year		371,353	371,353	371,353
Paid-in capital				
Balance, beginning of year		1,869,719	1,862,536	1,850,582
Reacquisition of convertible junior subordinated debentures-equity component	7	(2,673)	—	—
Net common stock issued under share-based compensation plans		—	—	(8,917)
Reissuance of treasury stock, net under share-based compensation plans		(18,807)	(11,715)	—
Equity compensation		13,803	18,898	20,871
Balance, end of year		1,862,042	1,869,719	1,862,536
Treasury stock				
Balance, beginning of year		(283,196)	(175,059)	—
Purchases of common stock	13	(119,997)	(114,126)	(175,059)
Reissuance of treasury stock, net under share-based compensation plans		9,867	5,989	—
Balance, end of year		(393,326)	(283,196)	(175,059)
Accumulated other comprehensive income (loss)				
Balance, beginning of year		72,708	(124,214)	(43,783)
Cumulative effect of financial instruments accounting standard update	3	—	—	(18)
Other comprehensive income (loss)	10	144,113	196,922	(80,413)
Balance, end of year		216,821	72,708	(124,214)
Retained earnings				
Balance, beginning of year		2,278,650	1,647,275	977,160
Cumulative effect of financial instruments accounting standard update	3	—	—	18
Net income		446,093	673,763	670,097
Cash dividends		(82,647)	(42,388)	—
Balance, end of year		2,642,096	2,278,650	1,647,275
Total shareholders' equity		\$ 4,698,986	\$ 4,309,234	\$ 3,581,891

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 446,093	\$ 673,763	\$ 670,097
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and other amortization	57,812	48,784	58,215
Deferred tax expense	27,475	11,096	186,572
Loss on debt extinguishment	26,736	—	—
Net realized investment (gains) losses	(13,752)	(5,306)	1,353
Change in certain assets and liabilities:			
Accrued investment income	(292)	(1,704)	(1,941)
Reinsurance recoverable on loss reserves	(73,401)	11,687	15,146
Reinsurance recoverable on paid losses	852	1,427	924
Premiums receivable	(457)	(497)	(1,045)
Deferred insurance policy acquisition costs	(3,030)	(643)	953
Profit commission receivable	4,586	4,945	(5,479)
Loss reserves	325,203	(118,685)	(311,616)
Unearned premiums	(93,203)	(29,683)	17,051
Return premium accrual	(500)	(11,500)	(22,900)
Current income taxes	6,271	1,057	(77,551)
Other, net	21,916	24,791	14,738
Net cash provided by operating activities	732,309	609,532	544,517
Cash flows from investing activities:			
Purchases of investments	(2,636,972)	(1,394,126)	(1,459,473)
Proceeds from sales of investments	836,851	229,796	370,449
Proceeds from maturity of fixed income securities	1,030,926	748,165	785,175
Net decrease in payables for securities	—	(307)	307
Additions to property and equipment	(3,311)	(5,636)	(14,238)
Net cash used in investing activities	(772,506)	(422,108)	(317,780)
Cash flows from financing activities:			
Proceeds from issuance of senior notes	640,250	—	—
Purchase of senior notes	(179,735)	—	—
Payment of original issue discount - senior notes	(2,969)	—	—
Purchase of convertible junior subordinated debentures	(36,392)	—	—
Payment of original issue discount- convertible junior subordinated debentures	(15,049)	—	—
Cash portion of loss on debt extinguishment	(25,266)	—	—
Repurchase of common stock	(119,997)	(125,766)	(163,419)
Dividends paid	(82,061)	(41,914)	—
Payment of debt issuance costs	(2,020)	—	—
Payment of withholding taxes related to share-based compensation net share settlement	(8,940)	(5,726)	(8,131)
Net cash provided by (used in) financing activities	167,821	(173,406)	(171,550)
Net increase in cash and cash equivalents and restricted cash and cash equivalents	127,624	14,018	55,187
Cash and cash equivalents and restricted cash and cash equivalents at beginning of year	169,056	155,038	99,851
Cash and cash equivalents and restricted cash and cash equivalents at end of year	\$ 296,680	\$ 169,056	\$ 155,038

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 Nature of Business

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC"), is principally engaged in the mortgage insurance business. We provide mortgage insurance to lenders throughout the United States and to government sponsored entities to protect against loss from defaults on low down payment residential mortgage loans. Primary mortgage insurance provides mortgage default protection on individual loans and covers a percentage of the unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure or sale approved by us, of the underlying property. MGIC Assurance Corporation ("MAC") and MGIC Indemnity Corporation ("MIC"), insurance subsidiaries of MGIC, provide insurance for certain mortgages under Fannie Mae and Freddie Mac (the "GSEs") credit risk transfer programs.

Through certain non-insurance subsidiaries, we also provide various services for the mortgage finance industry, such as contract underwriting, analysis of loan originations and portfolios, and mortgage lead generation.

At December 31, 2020, our direct primary insurance in force ("IIF") was \$246.6 billion, which represents the principal balance in our records of all mortgage loans that we insure, and our direct primary risk in force ("RIF") was \$61.8 billion, which represents the IIF multiplied by the insurance coverage percentage.

The substantial majority of our NIW has been for loans purchased by the GSEs. The current private mortgage insurer eligibility requirements ("PMIERS") of the GSEs include financial requirements, as well as business, quality control and certain transactional approval requirements. The financial requirements of the PMIERS require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book of risk in force, calculated from tables of factors with several risk dimensions). Based on our application of the PMIERS, as of December 31, 2020, MGIC's Available Assets are in excess of its Minimum Required Assets; and MGIC is in compliance with the PMIERS and eligible to insure loans purchased by the GSEs.

NOTE 2 Basis of Presentation

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), as codified in the Accounting Standards Codification ("ASC"). Our consolidated financial statements include the accounts of MGIC Investment Corporation and its majority-owned subsidiaries. Intercompany transactions and balances have been eliminated. In accordance with GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain reclassifications to 2019 and 2018 amounts have been made in the accompanying consolidated financial statements to conform to the 2020 presentation.

RECENT DEVELOPMENTS

The COVID-19 pandemic had a material impact on our 2020 financial results. Among other things, the COVID-19 pandemic led to an increase in delinquencies, which increased our capital requirements under PMIERS on those delinquent loans and increased our losses incurred. While uncertain, the future impact of the COVID-19 pandemic on the Company's business, financial results, liquidity and/or financial condition may also be material. The magnitude of the impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the level of unemployment, and the impact of government initiatives and actions taken by Fannie Mae and Freddie Mac (the "GSEs") (including mortgage forbearance and modification programs) to mitigate the economic harm caused by COVID-19.

SUBSEQUENT EVENTS

We have considered subsequent events through the date of this filing. In February 2021, MGIC executed an insurance linked note transaction. In addition, we have agreed to terms on a quota share reinsurance transaction which provides coverage on eligible NIW in 2021 and 2022 (see Note 9 - "Reinsurance").

NOTE 3 Significant Accounting Policies**CASH AND CASH EQUIVALENTS**

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

RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents consists of cash and money market funds held in trusts for the benefit of contractual counterparties under reinsurance agreements.

FAIR VALUE MEASUREMENTS

We carry certain financial instruments at fair value and disclose the fair value of all financial instruments. Our financial instruments carried at fair value are predominantly measured on a recurring basis. Financial instruments measured on a nonrecurring basis are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment).

The fair value of an asset or liability is defined as the price that would be received upon a sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value is based on quoted market prices or inputs, where available. If prices or quotes are not available, fair value is based on valuation models or other valuation techniques that consider relevant transaction characteristics (such as maturity) and use as inputs observable or unobservable market parameters including yield curves, interest rates, volatilities, equity or debt prices, and credit curves. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, as described below.

Valuation process

We use independent pricing sources to determine the fair value of a substantial majority of our financial instruments, which primarily consist of assets in our investment portfolio, but also includes cash and cash equivalents and restricted cash and cash equivalents. A variety of inputs are used; in approximate order of priority, they are: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications.

Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. This model combines all inputs to arrive at a value assigned to each security. Quality controls are performed by the independent pricing sources throughout this process, which include reviewing tolerance reports, trading

information, data changes, and directional moves compared to market moves.

On a quarterly basis, we perform quality controls over values received from the pricing sources which also include reviewing tolerance reports, data changes, and directional moves compared to market moves. We have not made any adjustments to the prices obtained from the independent pricing sources.

Valuation hierarchy

A three-level valuation hierarchy has been established under GAAP for disclosure of fair value measurements. The valuation hierarchy is based on the transparency of inputs to the valuation of a financial instrument as of the measurement date. To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources, as described in "Valuation process," 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.

The three levels are defined as follows:

- Level 1 Quoted prices for identical instruments in active markets that we can access. Financial assets using Level 1 inputs primarily include U.S. Treasury securities, money market funds, treasury bills, and certain equity securities.
- Level 2 Quoted prices for similar instruments in active markets that we can access; 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 instrument. The observable inputs are used in valuation models to calculate the fair value of the instruments. Financial assets using Level 2 inputs primarily include obligations of U.S. government corporations and agencies, corporate bonds, mortgage-backed securities, asset-backed securities, most municipal bonds, and commercial paper.

The independent pricing sources used for our Level 2 investments vary by type of investment. See Note 6 - "Fair Value Measurements" for further information.

- Level 3 Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable or, from par values due to restrictions on certain securities that require them to be redeemed or sold only to the security issuer at par value. The inputs used to derive the fair value of Level 3 securities reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. Our non-financial assets that are classified as Level 3 securities consist of real estate acquired through claim settlement. The fair value of real estate acquired is the lower of our acquisition cost or a percentage of the appraised value. The percentage applied to the appraised value is based upon our historical sales experience adjusted for current trends.

INVESTMENTS

Fixed income securities. Our fixed income securities are classified as available-for-sale and are reported at fair value. The related unrealized investment gains or losses are, after considering the related tax expense or benefit, recognized as a component of accumulated other comprehensive income (loss) in shareholders' equity. Realized investment gains and losses on fixed income securities are reported in income based upon specific identification of securities sold as well as any credit allowance (2020), and any "other than temporary" impairments ("OTTI") (2019).

Equity securities. Equity securities are reported at fair value, except for certain securities that are carried at cost. Equity securities carried at cost are reported as Other invested assets. Realized investment gains and losses on equity securities are reported in income based upon specific identification of securities sold, as well as any change in fair value of equity securities.

Other invested assets. Other invested assets are carried at cost. These assets represent our investment in Federal Home Loan Bank of Chicago ("FHLB") stock, which due to restrictions, is required to be redeemed or sold only to the security issuer at par value.

Unrealized losses and allowance for credit losses

Effective January 1, 2020, each quarter we perform reviews of our investments to assess if declines in fair value of available-for-sale securities are impaired. In evaluating the decline in fair value, we consider several factors including, but not limited to:

- our intent to sell the security or whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis;
- the present value of the discounted cash flows we expect to collect compared to the amortized cost basis of the security;
- failure of the issuer to make scheduled interest or principal payments;
- change in rating below investment grade; and
- adverse conditions specifically related to the security, an industry, or a geographic area.

Based on our evaluation, we will record a realized loss on a security if we intend to sell the impaired security, if it is more likely than not that we will be required to sell the impaired security prior to recovery of its amortized cost basis, or if the present value of the discounted cash flows we expect to collect is less than the amortized cost basis of the security.

When a security is considered to be impaired, the losses are separated into the portion of the loss that

represents the credit loss and the portion that is due to other factors. An allowance for credit losses is recorded, subject to reversal, for the credit loss portion in the statement of operations, while the loss due to other factors is recognized in accumulated other comprehensive loss, net of taxes. A credit loss is determined to exist if the present value of the discounted cash flows, using the security's original yield, expected to be collected from the security is less than the cost basis of the security.

For 2019, our evaluation of whether a decline in fair values is other-than-temporary also includes reviewing the extent and duration of the decline. Based on our evaluation, if the fair value of a security is below its amortized cost at the time of our intent to sell, the security is classified as other-than-temporarily impaired and the full amount of the impairment is recognized as a loss in the statement of operations. Otherwise, when a security is considered to be other-than-temporarily impaired, the losses are separated into the portion of the loss that represents the credit loss and the portion that is due to other factors. The credit loss portion is recognized as a loss in the statement of operations, while the loss due to other factors is recognized in accumulated other comprehensive loss, net of taxes. A credit loss is determined to exist if the present value of the discounted cash flows, using the security's original yield, expected to be collected from the security is less than the cost basis of the security. If the security is determined to be other-than-temporarily-impaired the security is classified as other-than-temporarily impaired and the full amount of the impairment is recognized as a loss in the statement of operations.

HOME OFFICE AND EQUIPMENT

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

Home office and equipment is shown net of accumulated depreciation of \$51.2 million, \$43.0 million and \$38.1 million as of December 31, 2020, 2019 and 2018, respectively. Depreciation expense for the years ended December 31, 2020, 2019 and 2018 was \$6.3 million, \$6.5 million and \$6.0 million, respectively.

DEFERRED INSURANCE POLICY ACQUISITION COSTS

Costs directly associated with the successful acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs ("DAC"). The deferred costs

are net of any ceding commissions received associated with our reinsurance agreements. For each underwriting year of business, these costs are amortized to income in proportion to estimated gross profits over the estimated life of the policies. We utilize anticipated investment income in our calculation. This includes accruing interest on the unamortized balance of DAC. The estimates for each underwriting year are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development.

LOSS RESERVES

Case reserves and loss adjustment expenses ("LAE") reserves are established when notices of delinquency on insured mortgage loans are received. Such loans are referred to as being in our delinquency inventory. For reporting purposes, we consider a loan delinquent when it is two or more payments past due and has not become current or resulted in a claim payment. Even though the accounting standard, ASC 944, regarding accounting and reporting by insurance entities specifically excludes mortgage insurance from its guidance relating to loss reserves, we establish loss reserves using the general principles contained in the insurance standard. However, consistent with industry standards for mortgage insurers, we do not establish case reserves for future claims on insured loans which are not currently delinquent.

Case reserves are established by estimating the number of loans in our inventory of delinquent loans that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. Our case reserve estimates are established based upon historical experience, including rescissions of policies, curtailments of claims, and loan modification activity. Adjustments to reserve estimates are reflected in the financial statements in the years in which the adjustments are made. The liability for reinsurance assumed is based on information provided by the ceding companies.

Incurred but not reported ("IBNR") reserves are established for delinquencies estimated to have occurred prior to the close of an accounting period, but not yet reported to us. Consistent with reserves for reported delinquencies, IBNR reserves are also established using estimated claim rates and claim severities.

LAE reserves are established for the estimated costs of settling claims, including legal and other expenses, and general expenses of administering the claims settlement process.

Loss reserves are ceded to reinsurers under our reinsurance agreements. (See Note 8 – "Loss Reserves" and Note 9 – "Reinsurance.")

PREMIUM DEFICIENCY RESERVE

After our loss reserves are initially established, we perform premium deficiency tests using our best estimate assumptions as of the testing date. Premium deficiency reserves are established, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premium and already established reserves. Products are grouped for premium deficiency testing purposes based on similarities in the way the products are acquired, serviced and measured for profitability.

REVENUE RECOGNITION

We write policies which are guaranteed renewable contracts at the insured's option on a monthly, single, or annual premium basis. We have no ability to re-underwrite or reprice these contracts. Premiums written on monthly premium policies are earned as coverage is provided. Premiums written on single premium policies and annual premium policies are initially deferred as unearned premium reserve and earned over the estimated policy life. Premiums written on policies covering more than one year are amortized over the estimated policy life based on historical experience, which includes the anticipated incurred loss pattern. Premiums written on annual premium policies are earned on a monthly pro rata basis. When a policy is cancelled for a reason other than rescission or claim payment, all premium that is non-refundable is immediately earned. Any refundable premium is returned to the servicer or borrower. When a policy is cancelled due to rescission, all previously collected premium is returned to the servicer and when a policy is cancelled because a claim is paid, premium collected since the date of delinquency is returned. The liability associated with our estimate of premium to be returned is accrued for separately and included in "Other liabilities" on our consolidated balance sheets. Changes in this liability, and the actual return of premiums for all periods, affects premiums written and earned.

Effective, January 1, 2020, we assess whether a credit loss exists for our premium receivable. In determining if a credit loss allowance is required for premium receivable, consideration is given to the life of the premium receivable asset, areas of potential credit loss, and forward-looking predictive indicators. Any estimated credit loss would be immediately recognized.

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

INCOME TAXES

Deferred income taxes are provided under the liability method, which recognizes the future tax effects of temporary differences between amounts reported in the consolidated financial statements and the tax bases of these items. The estimated tax effects are computed at the enacted federal statutory income tax rate. Changes in tax laws, rates, regulations, and policies or the final determination of tax audits or examinations, could materially affect our estimates and can be significant to our operating results. We evaluate the realizability of the deferred tax assets based on the weight of all available positive and negative evidence. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

The recognition of a tax position is determined using a two-step approach. The first step applies a more-likely-than-not threshold for recognition and derecognition. The second step measures the tax position as the greatest amount of benefit that is cumulatively greater than 50% likely to be realized. When evaluating a tax position for recognition and measurement, we presume that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. We recognize interest accrued and penalties related to unrecognized tax benefits in our provision for income taxes.

Federal tax law permits mortgage guaranty insurance companies to deduct from taxable income, subject to certain limitations, the amounts added to contingency loss reserves that are recorded for regulatory purposes. The amounts we deduct must generally be included in taxable income in the tenth subsequent year. The deduction is allowed only to the extent that we purchase and hold U.S. government non-interest-bearing tax and loss bonds in an amount equal to the tax benefit attributable to the deduction. We account for these purchases as a payment of current federal income tax. (See "Note 12 - Income Taxes.")

BENEFIT PLANS

We have a non-contributory defined benefit pension plan covering substantially all domestic employees, as well as a supplemental executive retirement plan. Retirement benefits are based on compensation and years of service. Effective January 1, 2019, all participants, regardless of hire or rehire date, earn benefits using a cash balance formula. Participants hired or rehired prior to January 1, 2014, earned benefits under a traditional formula through December 31, 2018, which calculated a pension credit for each year of eligible service. Under the cash balance formula, participants' accounts are credited each year with an employer contribution and interest. The employer contribution is a percentage of eligible earnings based on the participant's age on January 1,

2019. We recognize these retirement benefit costs over the period during which employees render the service that qualifies them for benefits. Our policy is to fund pension cost as required under the Employee Retirement Income Security Act of 1974.

We offer both medical and dental benefits for retired domestic employees, their eligible spouses and dependents until the retiree reaches the age of 65. Under the plan retirees pay a premium for these benefits. We accrue the estimated costs of retiree medical and dental benefits over the period during which employees render the service that qualifies them for benefits. (See Note 11 – “Benefit Plans.”)

REINSURANCE

Loss reserves are reported before taking credit for amounts ceded under reinsurance agreements. Ceded loss reserves are reflected as “Reinsurance recoverable on loss reserves.” Amounts due from reinsurers on paid claims are reflected as “Reinsurance recoverable on paid losses.” Ceded premiums payable are included in “Other liabilities.” Profit commissions are included with “Premiums written – Ceded” and ceding commissions are included with “Other underwriting and operating expenses, net.” We remain liable for all insurance ceded. (See Note 9 – “Reinsurance.”)

Quarterly, we assess the credit risk associated with our reinsurance recoverable. Effective January 1, 2020 if an estimated credit loss is expected to occur over the remaining life of reinsurance recoverable, it is immediately recorded to income. In assessing whether a credit allowance should be established, we consider several factors including, but not limited to the credit ratings of individual reinsurers, investor reports for our Home Re Transactions, collateral held in trust accounts in which MGIC is the sole beneficiary, and aging of outstanding reinsurance recoverable balances.

Assumed reinsurance is based on information received from the ceding company.

SHARE-BASED COMPENSATION

We have certain share-based compensation plans. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period which generally corresponds to the vesting period. Awards under our plans generally vest over periods ranging from one to three years. (See Note 15 – “Share-based Compensation Plans.”)

EARNINGS PER SHARE

Basic earnings per share (“EPS”) is calculated by dividing net income by the weighted average number of shares of common stock outstanding. The computation of basic EPS includes as “participating securities” an immaterial number of unvested share-

based compensation awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, under the “two-class” method. Our participating securities are composed of vested restricted stock and restricted stock units (“RSUs”) with non-forfeitable rights to dividends. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common stock equivalents. We calculate diluted EPS using the treasury stock method and if-converted method. Under the treasury stock method, diluted EPS reflects the potential dilution that could occur if our unvested restricted stock units result in the issuance of common stock. Under the if-converted method, diluted EPS reflects the potential dilution that could occur if our 9% Debentures result in the issuance of common stock. The determination of potentially issuable shares does not consider the satisfaction of the conversion requirements and the shares are included in the determination of diluted EPS as of the beginning of the period, if dilutive. For purposes of calculating basic and diluted EPS, vested restricted stock and RSUs are considered outstanding.

RELATED PARTY TRANSACTIONS

In 2020, MGIC Reinsurance Corporation of Wisconsin, a subsidiary of MGIC, merged with MGIC. There were no related party transactions during 2019 or 2018.

RECENT ACCOUNTING AND REPORTING DEVELOPMENTS

Accounting standards effective in 2020, or early adopted, and relevant to our financial statements

Measurement of Credit Losses on Financial Instruments: ASU 2016-13

Effective January 1, 2020, we adopted ASC 326, Financial Instruments - Credit Losses (“CECL”). This new standard replaced the incurred loss impairment methodology with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under CECL, allowances are established by incorporating the forecast of future economic conditions into our loss estimate unless such forecast is not reasonable and supportable, in which case we revert to historical loss experience. Application of the CECL model impacts our reinsurance recoverables and premium receivable. ASC 326 also replaced the OTTI model with an impairment allowance model, subject to reversal, for available-for-sale investments, which are measured at fair value. Our mortgage insurance policies are outside the scope of ASC 326. The new guidance is not prescriptive about certain aspects of estimating expected credit losses, including the specific methodology to use, and therefore requires significant judgment in application. Applying ASC 326, we have determined that an allowance for credit losses related to our premium receivables and reinsurance recoverables was not necessary as of

Notes

December 31, 2020. At December 31, 2020, we established an allowance for credit losses for available-for-sale securities of \$49 thousand. We continue to apply the previous guidance to 2019 and prior periods.

Changes to the Disclosure Requirements for Fair Value Measurement: ASU 2018-13

Effective January 1, 2020, we adopted FASB guidance that changes the disclosure requirements for fair value measurements. The updated guidance removed the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The updated guidance requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The adoption of the updated guidance did not have a material effect on our consolidated financial statement disclosures.

Changes to the Disclosure Requirements for Defined Benefit Plans: ASU 2018-14

In August 2018, the FASB issued amendments to modify the disclosure requirements for defined benefit plans. The updated guidance removed the requirements to identify amounts that are expected to be reclassified out of accumulated other comprehensive income and recognized as components of net periodic benefit cost in the coming year and the effects of a one-percentage-point change in assumed health care cost trend rates on service and interest cost and on the postretirement benefit obligation. The updated guidance added disclosures for the weighted-average interest crediting rates for cash balance plans and other plans with interest crediting rates and explanations for significant gains and losses related to changes in the benefit obligation for the period. Early adoption is permitted. An entity should apply the amendments on a retrospective basis to all periods presented. The adoption of this guidance did not have a material impact to our consolidated financial statement disclosures.

Prospective Accounting Standards

Table 2.1 shows the relevant new amendments to accounting standards, which are not yet effective or adopted.

Standard / Interpretation

Table 2.1

Amended Standards		Effective date
ASC 321, 323, 815	Investments <ul style="list-style-type: none"> • ASU 2020-01 - Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) 	January 1, 2021
ASC 740	Income Taxes <ul style="list-style-type: none"> • ASU 2019-12 - Simplifying the Accounting for Income Taxes 	January 1, 2021
ASC 310-20	Receivables <ul style="list-style-type: none"> • ASU 2020-08 - Codification Improvements to Subtopic 310-20, Receivables - Nonrefundable Fees and Other Costs 	January 1, 2021
ASC 470, 815	Debt <ul style="list-style-type: none"> • ASU 2020-06 - Debt with conversion and other options (Topic 470), derivatives and hedging - contracts in entity's own equity (Topic 815) 	January 1, 2022

Clarification of Accounting for Equity Securities: ASU 2020-01

In January 2020, the FASB issued guidance which clarifies certain interactions of accounting for equity securities under Topic 321, under the equity method of accounting in Topic 323, and accounting for certain forward contracts and purchased options in Topic 815. The amendment clarifies the consideration of observable transactions before applying or discounting the equity method of accounting. The updated guidance is effective for annual periods beginning after December 15, 2020, including interim periods within those annual periods. We have evaluated the impacts the adoption of this guidance will have on our consolidated financial statements, and determined it will not have a material impact.

Simplifying the Accounting for Income Taxes: ASU 2019-12

In December 2019, the FASB issued guidance which simplifies Accounting for Income Taxes (Topic 740). The ASU intends to reduce complexity through clarification and amendments of existing guidance. The updated guidance is effective for annual periods beginning after December 15, 2020, including interim periods within those annual periods. We have evaluated the impacts the adoption of this guidance will have on our consolidated financial statements, and determined it will not have a material impact.

Codification Improvements to Subtopic 310-20, Receivables - Nonrefundable Fees and Other Costs: ASU 2020-08

In October 2020, the FASB issued amendments to the codification that clarifies the accounting guidance for Accounting Standards Update No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. FASB standard 2017-08 shortened the amortization period for certain purchased callable debt securities held at a premium by requiring that entities amortize the premium associated with those callable debt securities within the scope of paragraph 310-20-25-33 to the earliest call date and clarified the FASB's intent that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of paragraph 310-20-35-33 for each reporting period. This guidance clarifies the issuer of a callable debt security should utilize the next call date versus the earliest call date in amortizing premium. The updated guidance is effective for annual periods beginning after December 15, 2020, including interim periods within those annual periods. We have evaluated the impacts the adoption of this guidance

will have on our consolidated financial statements, and determined it will not have a material impact.

Accounting for Convertible Instruments and Contracts in an Entity's Own Equity: ASU 2020-06

In August 2020, the FASB issued guidance that simplifies the accounting for certain financial instruments with characteristics of liabilities and equity. It also includes amendments to EPS guidance. The updated guidance reduces the number of accounting models for convertible debt instruments and convertible preferred stock. This ASU eliminates the cash conversion and the beneficial conversion models, which will make more instruments eligible for the fair value option. As a result of these changes, more convertible instruments will be reported as a single unit on the balance sheet. The updated guidance also includes updates to the EPS calculation. The ASU requires companies to use the if-converted method, assume share settlement when settlement can be in cash or in shares, use an average market price for the period if the number of shares is based on an entity's share price, and use the weighted average shares from each quarter to calculate the year to date weighted average shares. The ASU also includes improvements to the disclosures for convertible instruments and EPS. The updated guidance is effective for annual periods beginning after December 15, 2021. Early adoption is permitted for fiscal years beginning after December 15, 2020. The ASU requires adoption to be applied retrospectively or using a modified retrospective basis. We are currently evaluating the impacts the adoption of this guidance will have on our consolidated financial statement disclosures and whether we would early adopt.

NOTE 4 Earnings Per Share

Table 4.1 reconciles basic and diluted EPS amounts:

Earnings per share

Table 4.1

<i>(In thousands, except per share data)</i>	Years Ended December 31,		
	2020	2019	2018
Basic earnings per share:			
Net income	\$ 446,093	\$ 673,763	\$ 670,097
Weighted average common shares outstanding - basic	339,953	352,827	365,406
Basic earnings per share	\$ 1.31	\$ 1.91	\$ 1.83
Diluted earnings per share:			
Net income	\$ 446,093	\$ 673,763	\$ 670,097
Interest expense, net of tax ⁽¹⁾ :			
9% Debentures	17,004	18,264	18,264
Diluted income available to common shareholders	\$ 463,097	\$ 692,027	\$ 688,361
Weighted-average shares - basic	339,953	352,827	365,406
Effect of dilutive securities:			
Unvested restricted stock units	1,589	2,069	1,644
9% Debentures	17,751	19,028	19,028
Weighted average common shares outstanding - diluted	359,293	373,924	386,078
Diluted income per share	\$ 1.29	\$ 1.85	\$ 1.78

⁽¹⁾ Interest expense for the years ended December 31, 2020, 2019 and 2018 has been tax effected at a rate of 21%.

For the years ended December 31, 2020, 2019, and 2018, all of our then outstanding 9% Debentures are reflected in diluted earnings per share using the "if-converted" method. Under this method, if dilutive, the common stock related to the outstanding 9% Debentures is assumed issued as of the beginning of the reporting period and the related interest expense, net of tax, is added back to earnings in calculating diluted EPS.

NOTE 5 Investments**FIXED INCOME SECURITIES**

Our fixed income securities consisted of the following as of December 31, 2020 and 2019:

Details of fixed income investment securities by category as of December 31, 2020

<i>(In thousands)</i>	Amortized Cost	Allowance for Expected Credit Loss	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 264,531	\$ —	\$ 1,164	\$ (2)	\$ 265,693
Obligations of U.S. states and political subdivisions	2,083,568	—	166,557	(256)	2,249,869
Corporate debt securities	2,690,860	—	155,156	(1,728)	2,844,288
ABS	203,807	(49)	2,946	(18)	206,686
RMBS	425,532	—	6,472	(838)	431,166
CMBS	312,572	—	16,055	(1,125)	327,502
CLOs	310,616	—	566	(692)	310,490
Debt securities issued by foreign sovereign governments	4,485	—	224	—	4,709
Other Investments ⁽¹⁾	21,193	—	—	—	21,193
Total fixed income securities	\$ 6,317,164	\$ (49)	\$ 349,140	\$ (4,659)	\$ 6,661,596

Details of fixed income investment securities by category as of December 31, 2019

<i>(In thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 195,176	\$ 1,237	\$ (210)	\$ 196,203
Obligations of U.S. states and political subdivisions	1,555,394	99,328	(857)	1,653,865
Corporate debt securities	2,711,910	76,220	(3,008)	2,785,122
ABS	227,376	2,466	(178)	229,664
RMBS	271,384	429	(3,227)	268,586
CMBS	274,234	5,531	(779)	278,986
CLOs	327,076	33	(1,643)	325,466
Total fixed income securities	\$ 5,562,550	\$ 185,244	\$ (9,902)	\$ 5,737,892

⁽¹⁾ Consists of short-term commercial paper with original maturities greater than ninety days.

The increase in gross unrealized gains and the decrease in gross unrealized losses in our fixed income securities from December 31, 2019 to December 31, 2020 were primarily caused by declines in interest rates during that period.

We had \$14.1 million and \$13.9 million of investments at fair value on deposit with various states as of December 31, 2020 and 2019, respectively, due to regulatory requirements of those states' insurance departments. In connection with our insurance and reinsurance activities, we are required to maintain assets in trusts for the benefit of contractual counterparties. The fair value of the investments on deposit in these trusts was \$165.9 million and \$88.9 million at December 31, 2020 and 2019, respectively.

Notes

Table 5.2 compares the amortized cost and fair values of fixed income securities, by contractual maturity, as of December 31, 2020. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. Because most mortgage and asset-backed securities provide for periodic payments throughout their lives, they are listed separately in the table.

Fixed income securities maturity schedule

Table 5.2	December 31, 2020	
	Amortized Cost	Fair Value
<i>(In thousands)</i>		
Due in one year or less	\$ 390,510	\$ 393,286
Due after one year through five years	1,945,158	2,033,183
Due after five years through ten years	1,280,760	1,402,640
Due after ten years	1,448,209	1,556,643
	5,064,637	5,385,752
ABS	203,807	206,686
RMBS	425,532	431,166
CMBS	312,572	327,502
CLOs	310,616	310,490
Total as of December 31, 2020	\$ 6,317,164	\$ 6,661,596

Proceeds from the sale of fixed income securities classified as available-for-sale were \$803.4 million, \$228.1 million, and \$365.6 million during the years ended December 31, 2020, 2019, and 2018, respectively. Gross gains of \$21.3 million, \$7.1 million, and \$0.7 million and gross losses of \$8.8 million, \$3.5 million, and \$3.8 million were realized on those sales during the years ended December 31, 2020, 2019, and 2018, respectively.

We recorded \$0.3 million of realized losses for the year ended December 31, 2020 related to our intent to sell certain securities. We also recorded a credit allowance of \$49 thousand for the year ended December 31, 2020.

For the years ended December 31, 2019, and 2018, we recorded \$0.1 million and \$1.8 million of OTTI losses in earnings, respectively.

EQUITY SECURITIES

The cost and fair value of investments in equity securities as of December 31, 2020 and December 31, 2019 are shown in tables 5.3a and 5.3b below.

Details of equity investment securities as of December 31, 2020

Table 5.3a	Cost	Gross gains	Gross losses	Fair Value
<i>(In thousands)</i>				
Equity securities	17,522	695	(2)	18,215

Details of equity investment securities as of December 31, 2019

Table 5.3b	Cost	Gross gains	Gross losses	Fair Value
<i>(In thousands)</i>				
Equity securities	17,188	154	(14)	17,328

Proceeds from the sale of equity securities were \$25.7 million and \$1.7 million during the years ended December 31, 2020 and 2019, respectively. Gross gains of \$1.8 million and \$1.6 million were realized on those sales during the year ended December 31, 2020 and 2019, respectively. Gross losses of \$0.4 million and zero were realized on those sales during the year ended December 31, 2020 and 2019, respectively. For the year ended December 31, 2020 and December 31, 2019, we recognized \$0.6 million and \$0.2 million of net gains on equity securities still held as of December 31, 2020 and December 31, 2019, respectively, which are reported in Net realized investment (losses) gains on our consolidated statements of operations.

OTHER INVESTED ASSETS

Other invested assets consists of an investment in Federal Home Loan Bank ("FHLB") stock that is carried at cost, which due to its nature approximates fair value. Ownership of FHLB stock provides access to a secured lending facility, and our current FHLB Advance amount is secured by eligible collateral whose fair value is maintained at a minimum of 102% of the outstanding principal balance of the FHLB Advance. As of December 31, 2020, that collateral consisted of fixed income securities included in our total investment portfolio, and cash and cash equivalents, with a total fair value of \$163.9 million.

UNREALIZED INVESTMENT LOSSES

Tables 5.4a and 5.4b below summarize, for all available-for-sale investments in an unrealized loss position as of December 31, 2020 and 2019, the aggregate fair value and gross unrealized losses by the length of time those securities have been continuously in an unrealized loss position. Gross unrealized losses on our available-for-sale investments amounted to \$5 million and \$10 million as of December 31, 2020 and 2019, respectively. The fair value amounts reported in tables 5.4a and 5.4b below are estimated using the process described in Note 6 - "Fair Value Measurements" to these consolidated financial statements.

Unrealized loss aging for securities by type and length of time as of December 31, 2020

(In thousands)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 2,690	\$ (2)	\$ —	\$ —	\$ 2,690	\$ (2)
Obligations of U.S. states and political subdivisions	31,416	(256)	—	—	31,416	(256)
Corporate debt securities	44,968	(1,728)	—	—	44,968	(1,728)
ABS	14,929	(18)	—	—	14,929	(18)
RMBS	98,409	(773)	3,566	(65)	101,975	(838)
CMBS	13,212	(789)	2,799	(336)	16,011	(1,125)
CLOs	95,287	(261)	73,904	(431)	169,191	(692)
Total	\$ 300,911	\$ (3,827)	\$ 80,269	\$ (832)	\$ 381,180	\$ (4,659)

Unrealized loss aging for securities by type and length of time as of December 31, 2019

(In thousands)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 57,301	\$ (200)	\$ 5,806	\$ (10)	\$ 63,107	\$ (210)
Obligations of U.S. states and political subdivisions	74,859	(847)	6,957	(10)	81,816	(857)
Corporate debt securities	221,357	(2,847)	43,505	(161)	264,862	(3,008)
ABS	21,542	(118)	3,851	(60)	25,393	(178)
RMBS	105,443	(461)	110,452	(2,766)	215,895	(3,227)
CMBS	62,388	(728)	11,852	(51)	74,240	(779)
CLOs	81,444	(225)	196,988	(1,418)	278,432	(1,643)
Total	\$ 624,334	\$ (5,426)	\$ 379,411	\$ (4,476)	\$ 1,003,745	\$ (9,902)

Based on current facts and circumstances, we believe the unrealized losses as of December 31, 2020 presented in table 5.4a above are not indicative of the ultimate collectability of the current amortized cost of the securities. We believe the gross unrealized losses are primarily attributable to widening credit spreads over risk free rates, as a result of economic and market uncertainties arising from the COVID-19 pandemic, which includes demand shocks in multiple sectors that originated in 2020. We also rely upon estimates of several credit and non-credit factors in our review and evaluation of individual investments to determine whether a credit impairment exists. At December 31, 2020 we recorded an allowance for expected credit losses of \$49 thousand.

Notes

The unrealized losses in all categories of our investments as of December 31, 2019 were primarily caused by changes in interest rates between the time of purchase and the respective year end. There were 109 and 217 securities in an unrealized loss position as of December 31, 2020 and 2019, respectively. As of December 31, 2020, the fair value as a percent of amortized cost of the securities in an unrealized loss position was 99% and approximately 27% of the securities in an unrealized loss position were backed by the U.S. Government.

We report accrued investment income separately from fixed income, available-for-sale securities, and we have determined an allowance for credit losses for accrued investment income is not required. Accrued investment income is written off through net realized investment gains (losses) if, and at the time, the issuer of the security defaults or is expected to default on payments

The source of net investment income is shown in table 5.5 below.

Net investment income

	2020	2019	2018
Fixed income securities	\$ 157,065	\$ 165,523	\$ 140,539
Equity securities	620	406	228
Cash equivalents	1,648	4,444	3,423
Other	275	974	816
Investment income	159,608	171,347	145,006
Investment expenses	(5,212)	(4,302)	(3,675)
Net investment income	\$ 154,396	\$ 167,045	\$ 141,331

The change in unrealized gains (losses) of investments is shown in table 5.6 below.

Change in unrealized gains (losses)

	2020	2019	2018
Fixed income securities	\$ 169,135	\$ 220,139	\$ (81,834)
Equity securities	—	—	—
Change in unrealized gains/losses	\$ 169,135	\$ 220,139	\$ (81,834)

NOTE 6 Fair Value Measurements

The following describes the valuation methodologies generally used by the independent pricing sources, or by us, to measure financial instruments at fair value, including the general classification of such financial instruments pursuant to the valuation hierarchy.

Level 1 measurements

- Fixed income securities: Consist of primarily U.S. Treasury securities with valuations derived from quoted prices for identical instruments in active markets that we can access.
- Equity securities: Consist of actively traded, exchange-listed equity securities with valuations derived from quoted prices for identical assets in active markets that we can access.
- Cash Equivalents: Consists of money market funds and treasury bills with valuations derived from quoted prices for identical assets in active markets that we can access. The remaining instruments in this category are valued using market data for comparable instruments and are classified as Level 2.

Level 2 measurements

- Fixed income securities:
Corporate Debt & U.S. Government and Agency Bonds are valued by surveying the dealer community, obtaining relevant trade data, benchmark quotes and spreads and incorporating this information into the valuation process.

Obligations of U.S. States & Political Subdivisions are valued by tracking, capturing, and analyzing quotes for active issues and trades reported via the Municipal Securities Rulemaking Board records. Daily briefings and reviews of current economic conditions, trading levels, spread relationships, and the slope of the yield curve provide further data for evaluation.

Residential Mortgage-Backed Securities ("RMBS") are valued by monitoring interest rate movements, and other pertinent data daily. Incoming market data is enriched to derive spread, yield and/or price data as appropriate, enabling known data points to be extrapolated for valuation application across a range of related securities.

Commercial Mortgage-Backed Securities ("CMBS") are valued using techniques that reflect market participants' assumptions and maximize the use of relevant observable inputs including quoted prices for similar assets, benchmark yield curves and market corroborated inputs. Evaluation uses regular reviews of the inputs for securities covered, including executed trades, broker quotes, credit information, collateral attributes and/or cash flow waterfall as applicable.

Asset-Backed Securities ("ABS") are valued using spreads and other information solicited from market buy-and-sell-side sources, including primary and secondary dealers, portfolio managers, and research analysts. Cash flows are generated for each tranche, benchmark yields are determined, and deal collateral performance and tranche level attributes including trade activity, bids, and offers are applied, resulting in tranche specific prices.

Collateralized loan obligations ("CLO") are valued by evaluating manager rating, seniority in the capital structure, assumptions about prepayment, default and recovery and their impact on cash flow generation. Loan level net asset values are determined and aggregated for tranches and as a final step prices are checked against available recent trade activity.

Other Investments. These securities primarily consist of commercial paper which are valued using market data for comparable instruments of similar maturity and average yield.

Level 3 measurements

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

Notes

RECURRING FAIR VALUE MEASUREMENTS

Assets carried at fair value included those listed, by hierarchy level, in the following tables as of December 31, 2020 and 2019:

Assets carried at fair value by hierarchy level as of December 31, 2020

<i>(In thousands)</i>	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 265,693	\$ 149,339	\$ 116,354	\$ —
Obligations of U.S. states and political subdivisions	2,249,869	—	2,249,869	—
Corporate debt securities	2,844,288	—	2,844,288	—
ABS	206,686	—	206,686	—
RMBS	431,166	—	431,166	—
CMBS	327,502	—	327,502	—
CLOs	310,490	—	310,490	—
Debt foreign government	4,709	—	4,709	—
Other Investments ⁽¹⁾	21,193	—	21,193	—
Total fixed income securities	6,661,596	149,339	6,512,257	—
Equity securities	18,215	18,215	—	—
Cash Equivalents	288,941	275,668	13,273	—
Real estate acquired ⁽²⁾	1,092	—	—	1,092
Total	\$ 6,969,844	\$ 443,222	\$ 6,525,530	\$ 1,092

Assets carried at fair value by hierarchy level as of December 31, 2019

<i>(In thousands)</i>	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 196,203	\$ 34,240	\$ 161,963	\$ —
Obligations of U.S. states and political subdivisions	1,653,865	—	1,653,865	—
Corporate debt securities	2,785,122	—	2,785,122	—
ABS	229,664	—	229,664	—
RMBS	268,586	—	268,586	—
CMBS	278,986	—	278,986	—
CLOs	325,466	—	325,466	—
Total fixed income securities	5,737,892	34,240	5,703,652	—
Equity securities	17,328	17,328	—	—
Cash Equivalents	164,693	164,693	—	—
Real estate acquired ⁽²⁾	7,252	—	—	7,252
Total	\$ 5,927,165	\$ 216,261	\$ 5,703,652	\$ 7,252

⁽¹⁾ Consists of commercial paper included in "Investment Portfolio: Fixed income" with original maturities greater than ninety days.

⁽²⁾ Real estate acquired through claim settlement, which is held for sale, is reported in "Other assets" on the consolidated balance sheets.

Certain financial instruments, including insurance contracts, are excluded from fair value disclosure requirements. The carrying values of cash and cash equivalents (Level 1) and accrued investment income (Level 2) approximated their fair values.

RECONCILIATIONS OF LEVEL 3 ASSETS

For assets measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the years ended December 31, 2020 and 2019 is shown in tables 6.2a and 6.2b below. There were no losses included in earnings for the years ended December 31, 2020 and 2019 attributable to the change in unrealized losses on assets still held at the end of each applicable year.

Fair value roll-forward for financial instruments classified as Level 3 for the year ended December 31, 2020

Table 6.2a (In thousands)	Debt Securities	Real Estate Acquired
Balance at December 31, 2019	\$	\$ 7,252
Total realized/unrealized gains (losses):		
Included in earnings and reported as losses incurred, net	—	660
Acquisitions	—	8,609
Sales	—	(15,429)
Balance at December 31, 2020	\$	\$ 1,092

Fair value roll-forward for financial instruments classified as Level 3 for the year ended December 31, 2019

Table 6.2b (In thousands)	Debt Securities	Real Estate Acquired
Balance at December 31, 2018	\$ 13	\$ 14,535
Total realized/unrealized gains (losses):		
Included in earnings and reported as losses incurred, net	—	(476)
Acquisitions	—	24,204
Sales	(13)	(31,011)
Balance at December 31, 2019	\$	\$ 7,252

Additional fair value disclosures related to our investment portfolio are included in Note 5 – “Investments.”

FINANCIAL LIABILITIES NOT CARRIED AT FAIR VALUE

Other invested assets include an investment in FHLB stock that is carried at cost, which due to restrictions that require it to be redeemed or sold only to the security issuer at par value, approximates fair value. The fair value of other invested assets is categorized as Level 2.

Financial liabilities include our outstanding debt obligations. The fair values of our 5.75% Notes, 5.25% Notes, and 9% Debentures were based on observable market prices. The fair value of the FHLB Advance was estimated using cash flows discounted at current incremental borrowing rates for similar borrowing arrangements, and in all cases they are categorized as Level 2. See Note 7 - “Debt” for a description of the financial liabilities in table 6.3.

Table 6.3 compares the carrying value and fair value of our financial liabilities disclosed, but not carried, at fair value as of December 31, 2020 and 2019.

Financial liabilities not carried at fair value

Table 6.3 (In thousands)	December 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Other invested assets	\$ 3,100	\$ 3,100	\$ 3,100	\$ 3,100
Financial liabilities				
FHLB Advance	\$ 155,000	\$ 160,865	\$ 155,000	\$ 156,422
5.75% Notes	240,597	261,752	420,867	471,827
5.25% Notes	638,782	696,449	—	—
9% Debentures	208,814	273,569	256,872	346,289
Total financial liabilities	\$ 1,243,193	\$ 1,392,635	\$ 832,739	\$ 974,538

The 5.75% Notes, 5.25% Notes, and 9% Debentures are obligations of our holding company, MGIC Investment Corporation.

NOTE 7 Debt**DEBT OBLIGATIONS**

Table 7.1 shows the carrying value of our long-term debt obligations as of December 31, 2020 and 2019.

Long-term debt obligations

Table 7.1

(In millions)	December 31,	
	2020	2019
FHLB Advance - 1.91%, due February 2023	\$ 155.0	\$ 155.0
5.75% Notes, due August 2023 (par value: \$242.3 million)	240.6	420.9
5.25% Notes, due August 2028 (par value: \$650 million)	638.8	—
9% Debentures, due April 2063	208.8	256.9
Long-term debt, carrying value	\$ 1,243.2	\$ 832.8

The 5.75% Senior Notes ("5.75% Notes"), 5.25% Senior Notes ("5.25% Notes") and 9% Convertible Junior Subordinated Debentures ("9% Debentures") are obligations of our holding company, MGIC Investment Corporation. The Federal Home Loan Bank Advance ("FHLB Advance") is an obligation of MGIC.

2020 Transactions

In August 2020, we issued \$650 million aggregate principal amount of 5.25% Notes, which are due in 2028 and received net proceeds, after the deduction of underwriting fees, of \$640.3 million. In addition to underwriting fees, we incurred approximately \$2.0 million of other expenses associated with the issuance of these notes.

We repurchased \$182.7 million in aggregate principal amount of our 5.75% notes at a purchase price of \$197.8 million, plus accrued interest, using proceeds from the 5.25% Notes issuance. The excess of the purchase price over the carrying value, plus the write-off of unamortized issuance costs on the par value, is reflected as a loss on debt extinguishment of \$16.5 million on our consolidated statement of operations.

We repurchased \$48.1 million in aggregate principal amount of our 9% Debentures at a purchase price of \$61.6 million, plus accrued interest, using proceeds from the 5.25% Notes issuance. The repurchase of 9% Debentures resulted in a \$10.2 million loss on debt extinguishment on our consolidated statement of operations; a reduction in our shareholders' equity of \$2.7 million related to the reacquisition of the equity component of the 9% Debentures; and a reduction in our potentially dilutive shares by approximately 3.6 million shares.

The net proceeds from the 5.25% Notes issuance were used, in part, as (i) cash consideration to purchase \$182.7 million of our 5.75% Notes, and (ii) cash consideration to purchase \$48.1 million of our 9% Debentures. The balance of the proceeds remains at the holding company.

FHLB Advance

MGIC borrowed \$155.0 million in the form of a fixed rate advance from the Federal Home Loan Bank of Chicago ("Advance"). Interest on the Advance is payable monthly at an annual rate, fixed for the term of the Advance, of 1.91%. The principal of the Advance matures on February 10, 2023. MGIC may prepay the Advance at any time. Such prepayment would be below par if interest rates have risen after the Advance was originated, or above par if interest rates have declined. The Advance is secured by eligible collateral whose market value must be maintained at 102% of the principal balance of the Advance. MGIC provided eligible collateral from its investment portfolio.

5.25% Notes

Interest on the 5.25% Notes is payable semi-annually on February 15 and August 15. Prior to August 15, 2023, we may redeem the 5.25% Notes at an amount equal to the sum of (a) the greater of: (i) the sum of the principal amount and the make-whole amount; and (ii) 102.625% of principal; and (b) accrued and unpaid interest. The make-whole amount is the excess of: (1) the present value of the remaining principal, premium and interest payments that would be payable with respect to the note if such note were redeemed on August 15, 2023 (at 102.625% of principal), computed using a discount rate equal to the treasury rate specified in the notes, plus 50 basis points, over (2) the outstanding principal amount of such note.

On and after August 15, 2023, we may redeem the notes at 102.625% of principal; on or after August 15, 2024, we may redeem the notes at 101.313% of principal; and on or after August 15, 2025, we may redeem the notes at 100% of principal; in each case, plus accrued and unpaid interest.

The 5.25% Notes have covenants customary for securities of this nature, including customary events of default and further provide that the trustee or holders of at least 25% in aggregate principal amount of the outstanding 5.25% Notes may declare them immediately due and payable upon the occurrence of certain events of default after the expiration of the applicable

grace period. In addition, in the case of an event of default arising from certain events of bankruptcy, insolvency or reorganization relating to the Company or any of its significant subsidiaries, the 5.25% Notes will become due and payable immediately. This description is not intended to be complete in all respects and is qualified in its entirety by the terms of the 5.25% Notes, including their covenants and events of default. We were in compliance with all covenants as of December 31, 2020.

5.75% Notes

Interest on the 5.75% Notes is payable semi-annually on February 15 and August 15 of each year. We have the option to redeem these notes, in whole or in part, at any time or from time to time prior to maturity at a redemption price equal to the greater of (i) 100% of the aggregate principal amount of the notes to be redeemed and (ii) the make-whole amount, which is the sum of the present values of the remaining scheduled payments of principal and interest discounted at the treasury rate defined in the notes plus 50 basis points and accrued interest.

The 5.75% Notes have covenants customary for securities of this nature, including customary events of default, and further provide that the trustee or holders of at least 25% in aggregate principal amount of the outstanding 5.75% Notes may declare them immediately due and payable upon the occurrence of certain events of default after the expiration of the applicable grace period. In addition, in the case of an event of default arising from certain events of bankruptcy, insolvency or reorganization relating to the Company or any of its significant subsidiaries, the 5.75% Notes will become due and payable immediately. This description is not intended to be complete in all respects and is qualified in its entirety by the terms of the 5.75% Notes, including their covenants and events of default. We were in compliance with all covenants as of December 31, 2020.

9% Debentures

The 9% Debentures are currently convertible, at the holder's option, at a conversion rate, which is subject to adjustment, of 75.5932 common shares per \$1,000 principal amount of the 9% Debentures at any time prior to the maturity date. This represents a conversion price of approximately \$13.23 per share. If a holder elects to convert their 9% Debentures, deferred interest, if any, owed on the 9% 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.

The 9% Debentures include a conversion feature that allows us, at our option, to make a cash payment to converting holders in lieu of issuing shares of

common stock upon conversion of the 9% Debentures. We may redeem the 9% 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 9% Debentures being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds \$17.20 for at least 20 of the 30 trading days preceding notice of the redemption.

Interest on the 9% 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 10 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.

When interest on the 9% 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 9% 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.

This description is not intended to be complete in all respects and is qualified in its entirety by the terms of the 9% Debentures, including their covenants and events of default. We were in compliance with all covenants at December 31, 2020. The 9% Debentures rank junior to all of our existing and future senior indebtedness.

INTEREST PAYMENTS

Interest payments were \$54.3 million during 2020, \$50.8 million during 2019, and \$51.3 million during 2018.

NOTE 8

Loss Reserves

As described in Note 3 – “Summary of Significant Accounting Policies – Loss Reserves,” We establish case reserves and loss adjustment expenses (“LAE”) reserves on delinquent loans that were reported to us as two or more payments past due and have not become current or resulted in a claim payment. Case 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.

IBNR reserves are established for estimated losses from delinquencies we estimate have occurred prior to the close of an accounting period, but have not yet been reported to us. IBNR reserves are also established using estimated claim rates and claim severities

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; exposure on insured loans; the amount of time between delinquency and claim filing; and curtailments and rescissions. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic

conditions, including unemployment and the continued impact of the COVID-19 pandemic, leading to a reduction in borrowers’ income and thus their ability to make mortgage payments, the impact of past and future government initiatives and actions taken by the GSEs (including mortgage forbearance programs and foreclosure moratoriums), and a drop in housing values which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Loss reserves in future periods will also be dependent on the number of loans reported to us as delinquent.

Changes to our estimates could result in a material impact to our consolidated results of operations and financial position, even in a stable economic environment. It is reasonably possible that given the uncertainty of the impacts of the COVID 19 pandemic, our reserve estimate may continue to be impacted.

In considering the potential sensitivity of the factors underlying our estimate of loss reserves, it is possible that even a relatively small change in our estimated claim rate or severity could have a material impact on loss reserves and, correspondingly, on our consolidated results of operations even in a stable economic environment. For example, as of December 31, 2020, assuming all other factors remain constant, a \$1,000 increase/decrease in the average severity reserve factor would change the loss reserve amount by approximately +/- \$16 million. A one percentage point increase/decrease in the average claim rate reserve factor would change the loss reserve amount by approximately +/- \$34 million.

LOSSES INCURRED

The “Losses incurred” section of table 8.1 below shows losses incurred on delinquencies that occurred in the current year and in prior years. The amount of losses incurred relating to delinquencies that occurred in the current year represents the estimated amount to be ultimately paid on such delinquencies. The amount of losses incurred relating to delinquencies that occurred in prior years represents the difference between the actual claim rate and severity associated with those delinquencies resolved in the current year compared to the estimated claim rate and severity at the prior year-end, as well as a re-estimation of amounts to be ultimately paid on delinquencies continuing from the end of the prior year. This re-estimation of the claim rate and severity is the result of our review of current trends in the delinquency inventory, such as percentages of delinquencies that have resulted in a claim, the amount of the claims relative to the average loan exposure, changes in the relative level of delinquencies by geography and changes in average loan exposure.

Losses incurred on delinquencies that occurred in the current year increased in 2020 compared to 2019 due to an increase in the new delinquency notices reported and IBNR reserve estimates, due to the impact of the COVID-19 pandemic. Given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related delinquencies and forbearances on our loss incidence.

Losses incurred on delinquencies that occurred in the current year decreased in 2019 compared to 2018 primarily due to a decrease in the number of new delinquencies, net of cures, as well as a decrease in the estimated claim rate on recently reported delinquencies.

LOSSES PAID

The "Losses paid" section of table 8.1 below shows the amount of losses paid on delinquencies that occurred in the current year and losses paid on delinquencies that occurred in prior years. For several years, the average time it took to receive a claim associated with a delinquency had increased significantly from our historical experience of approximately twelve months. This was, in part, due to

new loss mitigation protocols established by servicers and to changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation processes. In recent quarters, before the second quarter of 2020, we had begun to experience a decline in the average time it takes servicers to process foreclosures, which had reduced the average time to receive a claim associated with new delinquencies that do not cure. All else being equal, the longer the period between delinquency and claim filing, the greater the severity.

In light of the uncertainty caused by the COVID-19 pandemic, specifically the foreclosure moratoriums and forbearance plans, the average time it takes to receive a claim may increase.

Premium refunds

Our estimate of premiums to be refunded on expected claim payments is accrued for separately in "Other liabilities" on our consolidated balance sheets and approximated \$30 million each at December 31, 2020 and 2019.

Table 8.1 provides a reconciliation of beginning and ending loss reserves for each of the past three years:

Development of loss reserves

Table 8.1 (In thousands)	2020	2019	2018
Reserve at beginning of year	\$ 555,334	\$ 674,019	\$ 985,635
Less reinsurance recoverable	21,641	33,328	48,474
Net reserve at beginning of year	533,693	640,691	937,161
Losses incurred:			
Losses and LAE incurred in respect of delinquent notices received in:			
Current year	345,170	189,581	203,928
Prior years ⁽¹⁾	19,604	(71,006)	(167,366)
Total losses incurred	364,774	118,575	36,562
Losses paid:			
Losses and LAE paid in respect of delinquent notices received in:			
Current year	3,069	4,018	7,298
Prior years	109,923	235,551	327,743
Reinsurance terminations	(20)	(13,996)	(2,009)
Total losses paid	112,972	225,573	333,032
Net reserve at end of year	785,495	533,693	640,691
Plus reinsurance recoverables	95,042	21,641	33,328
Reserve at end of year	\$ 880,537	\$ 555,334	\$ 674,019

⁽¹⁾ A positive number for prior year loss development indicates a deficiency of prior year reserves. A negative number for prior year losses incurred indicates a redundancy of prior year loss reserves. See table 8.2 below for more information about prior year loss development.

Notes

Table 8.2 below shows the development of reserves in 2020, 2019 and 2018 for previously received delinquencies.

Reserve development on previously received delinquencies

Table 8.2 (In thousands)	2020	2019	2018
(Decrease) in estimated claim rate on primary delinquencies	\$ (2,536)	\$ (111,848)	\$ (212,738)
Increase (decrease) in estimated severity on primary delinquencies	13,535	(434)	28,528
Change in estimates related to pool reserves, LAE reserves, reinsurance and other	8,605	41,276	16,844
Total prior year loss development ⁽¹⁾	\$ 19,604	\$ (71,006)	\$ (167,366)

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

For the year ended December 31, 2020, we experienced adverse development on previously received delinquencies primarily related to severity and adjustments to LAE reserves. For the years ended December 31, 2019 and 2018, we experienced favorable development on previously received delinquencies. This development was, in part, due to the resolution of approximately 69% and 73% for the years ended December 31, 2019 and 2018, respectively, of the prior year delinquency inventory, with improved cure rates. During 2019 and 2018, cure activity on loans that were delinquent twelve months or more was significantly higher than our previous estimates. During 2019, the favorable development was offset by adjustments to LAE reserves and amounts paid in settlement of disputes for claim paying practices. See Note 17 – “Litigation and Contingencies.” The favorable development for the year ended 2018 was offset, in part, by an increase in the estimated severity on previously reported delinquencies remaining in the delinquency inventory.

DELINQUENT INVENTORY

A roll-forward of our primary delinquent inventory for the years ended December 31, 2020, 2019, and 2018 appears in table 8.3 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 transfers of servicing between loan servicers.

Primary delinquency inventory roll-forward

Table 8.3	2020	2019	2018
Beginning delinquent inventory	30,028	32,898	46,556
New Notices	106,099	54,239	54,448
Cures	(76,107)	(52,035)	(60,511)
Paid claims	(2,245)	(4,267)	(5,750)
Rescissions and denials	(65)	(168)	(267)
Other items removed from inventory	—	(639)	(1,578)
Ending delinquent inventory	57,710	30,028	32,898

COVID-19 Activity

New delinquency notices increased in 2020 because of the impacts of the COVID-19 pandemic, including the high level of unemployment and economic uncertainty resulting from measures to reduce the

transmission of COVID-19. In the last half of 2020, we experienced an increase in cures associated with our COVID-19 new delinquency notices. Government initiatives and actions taken by the GSEs provide for payment forbearance on mortgages to borrowers experiencing hardship during the COVID-19 pandemic. These forbearance plans generally allow for mortgage payments to be suspended for up to 360 days: an initial forbearance period of up to 180 days and, if requested by the borrower, an extension of up to 180 days. For loans in a COVID-19 forbearance plan as of February 28, 2021, the plan may be extended for an additional three months, subject to certain limits.

Other items removed from inventory

During 2019 and 2018 our losses paid included amounts paid upon commutation of coverage on policies. The impacts of the commutations of coverage on policies and/or settlements were as follows:

- 2019 - 639 notices removed from delinquent inventory with an amount paid of \$30 million,
- 2018 - 1,578 notices removed from delinquent inventory with an amount paid of \$50 million.

In 2019, our losses paid included \$23.5 million paid in connection with settlements of disputes concerning our claims paying practices.

Aging of delinquent inventory

Historically as a delinquency ages it becomes more likely to result in a claim.

The number of consecutive months that a borrower has been delinquent is shown in table 8.4 below.

Primary delinquency inventory - consecutive months delinquent

	December 31,		
	2020	2019	2018
3 months or less	11,542	9,447	9,829
4 - 11 months	34,620	9,664	9,655
12 months or more ⁽¹⁾	11,548	10,917	13,414
Total	57,710	30,028	32,898
3 months or less	20 %	32 %	30 %
4 - 11 months	60 %	32 %	29 %
12 months or more	20 %	36 %	41 %
Total	100 %	100 %	100 %
Primary claims received inventory included in ending delinquent inventory	159	538	809

⁽¹⁾ Approximately 31%, 36%, and 38% of the delinquent inventory that has been delinquent for 12 consecutive months or more has been delinquent for at least 36 consecutive months as of December 31, 2020, 2019 and 2018, respectively.

The increase in delinquency inventory that is 4-11 consecutive months delinquent is primarily due to the number of new delinquency notices received in the second quarter of 2020 resulting from the impacts of the COVID-19 pandemic. This was partially offset by an increase in cures in the third and fourth quarter of 2020.

POOL INSURANCE DEFAULT INVENTORY

Pool insurance default inventory was 680 at December 31, 2020, 653 at December 31, 2019, and 859 at December 31, 2018.

CLAIMS PAYING PRACTICES

Our loss reserving methodology incorporates our estimates of future rescissions. A variance between ultimate actual rescission rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses. For information about discussions and legal proceedings with customers with respect to our claims paying practices, see Note 17 – “Litigation and Contingencies.”

NOTE 9 Reinsurance

Our consolidated financial statements reflect the effects of assumed and ceded reinsurance transactions. Assumed reinsurance refers to the acceptance of certain insurance risks that other insurance companies have underwritten. Ceded reinsurance involves transferring certain insurance risks (along with the related earned premiums) we have underwritten to other insurance companies who agree to share these risks. The purpose of ceded reinsurance is to protect us, at a cost, against losses arising from our mortgage guaranty policies covered by the agreement and to manage our capital requirements under PMIERS. Reinsurance is currently placed on a quota share and excess of loss basis, but we also have immaterial captive reinsurance agreements that remain in effect through December 31, 2020.

Table 9.1 below shows the effect of all reinsurance agreements on premiums earned and losses incurred as reflected in the consolidated statements of operations.

Reinsurance

<i>(In thousands)</i>	Years ended December 31,		
	2020	2019	2018
Premiums earned:			
Direct	\$1,199,824	\$1,155,240	\$1,084,748
Assumed	10,848	5,085	1,805
Ceded	(188,729)	(129,337)	(111,391)
Net premiums earned	1,021,943	1,030,988	975,162
Losses incurred:			
Direct	442,194	130,100	43,060
Assumed	555	(125)	331
Ceded	(77,975)	(11,400)	(6,829)
Net losses incurred	\$ 364,774	\$ 118,575	\$ 36,562

QUOTA SHARE REINSURANCE

We have entered into quota share reinsurance ("QSR") agreements with panels of third-party reinsurers to cede a fixed quota share percentage on premiums earned and received and losses incurred on insurance covered by the transactions. We receive the benefit of a ceding commission equal to 20% of premiums ceded before profit commission. We also receive the benefit of a profit commission through a reduction of

premiums we cede. The profit commission varies inversely with the level of losses on a "dollar for dollar" basis and can be eliminated at annual loss ratios higher than we have experienced on our QSR agreements.

Each of our QSR agreements typically have annual loss ratio caps of 300% and lifetime loss ratios of 200%.

Table 9.2 below provides additional detail regarding our QSR agreements.

Reinsurance

Table 9.2

Quota Share Contract	Policy Year	Quota Share %	Annual Loss Ratio to Exhaust Profit Commission ⁽¹⁾	Contractual Termination Date
2015 QSR	Prior to 2017	15.0%	68.0%	December 31, 2031
2017 QSR	2017	30.0%	60.0%	December 31, 2028
2018 QSR	2018	30.0%	62.0%	December 31, 2029
2019 QSR	2019	30.0%	62.0%	December 31, 2030
2020 QSR - 1 Year	2020	12.5%	62.0%	December 31, 2031
2020 QSR - 2 Year	2020 - 2021	17.5%	62.0%	December 31, 2032
Credit Union QSR ⁽²⁾	2020-2025	65.0%	50.0%	December 31, 2039

⁽¹⁾ We will receive a profit commission provided the annual loss ratio on loans covered under the transaction remains below this ratio.

⁽²⁾ Eligible credit union business written before 2020 was covered by our 2019 and prior QSR Transactions.

We have agreed to terms with a group of unaffiliated reinsurers for a reinsurance transaction with an effective date of January 1, 2021 with a similar structure to our existing QSR transactions that will cover most of our NIW in 2021 (with an additional 12.5% quota share) and 2022 (with a 15% quota share). Generally, we will receive an annual profit commission provided the annual loss ratio on the loans covered under the transaction remain below 57.5%.

We can elect to terminate the quota share reinsurance agreements under specified scenarios without penalty upon prior written notice, including if we will receive less than 90% (80% for the Credit Union QSR Transaction) of the full credit amount under the PMIERS, full financial statement credit or full credit under applicable regulatory capital requirements for the risk ceded in any required calculation period. Early termination of the QSR agreements can also be elected by us for a fee, or under specified scenarios for no fee upon prior written notice.

Table 9.3 provides additional detail regarding optional termination dates and optional reductions to our quota share percentage. The optional reduction to the quota share percentage would give us an option to reduce our quota share percentage from the original percentage as shown in table 9.2.

Reinsurance

Table 9.3

Quota Share Contract	Optional Termination Date ⁽¹⁾	Optional Quota Share % Reduction Date ⁽²⁾	Quota Share % Reduction
2015 QSR	June 30, 2021	NA	NA
2017 QSR	December 31, 2021	NA	NA
2018 QSR	December 31, 2021	NA	NA
2019 QSR	December 31, 2021	July 1, 2020	25% or 20%
2020 QSR - 1 Year	December 31, 2022	July 1, 2021	10.5% or 8%
2020 QSR - 2 Year	December 31, 2023	July 1, 2021	14.5% or 12%

⁽¹⁾ We can elect early termination of the QSR agreement beginning on this date, and bi-annually thereafter for the 2015 QSR, 2019 QSR, and 2020 QSR. Early termination of the 2018 QSR can be elected annually after this date.

⁽²⁾ We can elect to reduce the quota share percentage beginning on this date, and bi-annually thereafter.

Table 9.4 provides a summary of our quota share reinsurance agreements for 2020, 2019, and 2018.

Quota share reinsurance

Table 9.4

<i>(In thousands)</i>	Years ended December 31,		
	2020	2019	2018
Ceded premiums written and earned, net of profit commission	\$ 167,930	\$ 111,550	\$ 108,337
Ceded losses incurred	78,012	11,395	6,543
Ceding commissions ⁽¹⁾	48,077	48,793	51,201
Profit commission	72,452	139,179	147,667

⁽¹⁾ Ceding commissions are reported within Other underwriting and operating expenses, net on the consolidated statements of operations.

Ceded premiums written and earned, net of profit commission, increased in 2020 due to the decrease in profit commission. The decrease in profit commission was a result of higher ceded losses incurred, primarily due to an increase in the delinquency inventory due to the impacts of the COVID-19 pandemic.

We terminated a portion of our 2015 QSR Transaction effective June 30, 2019 and entered into an amended quota share reinsurance agreement with certain participants from the existing reinsurance panel that effectively reduces the quota share cede rate from 30% to 15% on the remaining eligible insurance. During the second quarter of 2019, we incurred a termination fee of \$6.8 million, which was paid to participants of the reinsurance panel that are not participating in the amended 2015 QSR Transaction.

Under the terms of our QSR Transactions currently in effect, reinsurance premiums, ceding commission and profit commission are settled net on a quarterly basis. The reinsurance premium due after deducting the related ceding commission and profit commission is reported within "Other liabilities" on the consolidated balance sheets.

The reinsurance recoverable on loss reserves was \$95.0 million as of December 31, 2020 and \$21.6 million as of December 31, 2019. The reinsurance recoverable balance is secured by funds on deposit from the reinsurers, the amount of which is based on the funding requirements of PMIERS. Each of the reinsurers under our quota share reinsurance agreements described above has an insurer financial strength rating of A- or better (or a comparable rating) by Standard and Poor's Rating Services, A.M. Best, Moody's, or a combination of the three. An allowance for credit losses was not required for 2020.

EXCESS OF LOSS REINSURANCE

We have aggregate excess of loss reinsurance agreements ("Home Re Transactions") with unaffiliated special purpose insurers domiciled in Bermuda ("Home Re Entities"). For the reinsurance coverage periods, we retain the first layer of the respective aggregate losses, and a Home Re special purpose entity will then provide second layer coverage up to the outstanding reinsurance coverage amount. We retain losses in excess of the outstanding reinsurance coverage amount. The aggregate excess of loss reinsurance coverage decreases over a ten-year period, subject to certain conditions, as the underlying covered mortgages amortize or are repaid, or mortgage insurance losses are paid.

A "Trigger Event" has occurred on each our outstanding ILN transactions. On the 2018 and 2019 ILN transactions a "Trigger Event" has occurred because the reinsured principal balance of loans that were reported 60 or more days delinquent exceeded 4% of the total reinsured principal balance of loans under each transaction. A "Trigger Event" has occurred on our 2020 ILN transaction because the credit enhancement of the most senior tranche is less than the target credit enhancement. While the "Trigger Event" is in effect, payment of principal on the related notes will be suspended and the reinsurance coverage available to MGIC under the transactions will not be reduced by such principal payments.

MGIC has rights to terminate the Home Re Transactions under certain circumstances. The Home Re entities financed the coverages by issuing mortgage insurance-linked notes ("ILNs") to unaffiliated investors in an aggregate amount equal to the initial reinsurance coverage amounts. The ILNs each have ten-year legal maturities and are non-recourse to any assets of MGIC or affiliates. The proceeds of the ILNs, which were deposited into reinsurance trusts for the benefit of MGIC, will be the source of reinsurance claim payments to MGIC and principal repayments on the ILNs.

Notes

Table 9.5 provides a summary of our excess of loss reinsurance agreements as of December 31, 2020, December 31, 2019 and December 31, 2018.

Excess of Loss Reinsurance

Table 9.5

(In thousands)

	Home Re 2020-1, Ltd.	Home Re 2019-1, Ltd.	Home Re 2018-1, Ltd.
Issue Date	October, 2020	May 1, 2019	October 1, 2018
Policy Inforce Dates	January 1, 2020 - July 31, 2020	January 1, 2018 - March 31, 2019	July 1, 2016 - December 31, 2017
Termination Option Date ⁽¹⁾	October 25, 2030	May 25, 2026	October 25, 2025
Initial First Layer Retention	275,283	185,730	168,691
Initial Excess of Loss Reinsurance Coverage	412,917	315,739	318,636
2020			
Remaining First Layer Retention	275,283	184,514	166,005
Remaining Excess of Loss Reinsurance Coverage	412,917	208,146	218,343
2019			
Remaining First Layer Retention	—	185,636	167,779
Remaining Excess of Loss Reinsurance Coverage	—	271,021	260,957
2018			
Remaining First Layer Retention	—	—	168,691
Remaining Excess of Loss Reinsurance Coverage	—	—	318,636

⁽¹⁾ We have the right to terminate the excess-of-loss reinsurance agreements under certain circumstances and on any payment date on or after the respective termination option date.

In February 2021, MGIC entered into a \$398.8 million excess-of-loss reinsurance agreement (executed through an insurance linked note transaction) that covers policies with inforce dates from August 1, 2020 through December 31, 2020.

The reinsurance premiums ceded to each Home Re Entity are composed of coverage, initial expense and supplemental premiums. The coverage premiums are generally calculated as the difference between the amount of interest payable by the Home Re Entity on the unpaid portion of the ILNs it issued to raise funds to collateralize its reinsurance obligations to us, and the investment income collected on the collateral assets. The amount of monthly reinsurance coverage premium ceded will fluctuate due to changes in one-month LIBOR, (or the fallback reference rate, as applicable) and changes in money market rates that affect investment income collected on the assets in the reinsurance trust. As a result, we concluded that each reinsurance agreement contains an embedded derivative that is accounted for separately as a freestanding derivative. The fair values of the derivatives at December 31, 2020 and December 31, 2019, were not material to our consolidated balance sheet, and the change in fair values during the year ended December 31, 2020 and December 31, 2019 were not material to our consolidated statements of operations. Total ceded premiums were \$20.8 million, \$17.6 million, and \$2.8 million for the years ended

December 31, 2020, December 31, 2019 and December 31, 2018, respectively.

At the time the Home Re Transactions were entered into, we concluded that each Home Re Entity is a variable interest entity ("VIE"). A VIE is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make sufficient decisions relating to the entity's operations through voting rights or do not substantively participate in gains and losses of the entity. Given that MGIC (1) does not have the unilateral power to direct the activities that most significantly affect each Home Re Entity's economic performance and (2) does not have the obligation to absorb losses or the right to receive benefits of each Home Re Entity, consolidation of neither Home Re Entity is required.

We are required to disclose our maximum exposure to loss, which we consider to be an amount that we could be required to record in our statements of operations, as a result of our involvement with the VIEs under our Home Re Transactions. As of December 31, 2020, December 31, 2019 and December 31, 2018, we did not have material exposure to the VIEs as we have no investment in the VIEs and had no reinsurance claim payments due from either VIE under our reinsurance agreements. We are unable to determine the timing or extent of

claims from losses that are ceded under the reinsurance agreements. The VIE assets are deposited in reinsurance trusts for the benefit of MGIC that will be the source of reinsurance claim payments to MGIC. The purpose of the reinsurance trusts is to provide security to MGIC for the obligations of the VIEs under the reinsurance agreements. The trustee of the reinsurance trusts, a recognized provider of corporate trust services, has established segregated accounts within the reinsurance trusts for the benefit of MGIC, pursuant to the trust agreements. The trust agreements are governed by, and construed in accordance with, the laws of the State of New York. If the trustee of the reinsurance trusts failed to distribute claim payments to us as provided in the reinsurance trusts, we would incur a loss related to our losses ceded under the reinsurance agreements and deemed unrecoverable. We are also unable to determine the impact such possible failure by the trustee to perform pursuant to the reinsurance trust agreements may have on our consolidated financial statements. As a result, we are unable to quantify our maximum exposure to loss related to our involvement with the VIEs. MGIC has certain termination rights under the reinsurance agreements should its claims not be paid. We consider our exposure to loss from our reinsurance agreements with the VIEs to be remote.

The reinsurance trust agreements provide that the trust assets may generally only be invested in certain money market funds that (i) invest at least 99.5% of their total assets in cash or direct U.S. federal government obligations, such as U.S. Treasury bills, as well as other short-term securities backed by the full faith and credit of the U.S. federal government or issued by an agency of the U.S. federal government, (ii) have a principal stability fund rating of "AAAm" by S&P or a money market fund rating of "Aaa-mf" by Moody's as of the Closing Date and thereafter maintain any rating with either S&P or Moody's, and (iii) are permitted investments under the applicable credit for reinsurance laws and applicable PMIERS credit for reinsurance requirements.

The assets of the Home Re Entities provide capital credit under the PMIERS financial requirements (see Note 1 - "Nature of Business"). A decline in the assets available to pay claims would reduce the capital credit available to MGIC.

Table 9.6 presents the total assets of Home Re Entities as of December 31, 2020, December 31, 2019 and December 31, 2018.

Home Re Entities total assets

Table 9.6

(In thousands)

Home Re Entity	Total VIE Assets	
<u>December 31, 2020</u>		
Home Re 2018-01 Ltd.	\$	218,343
Home Re 2019-01 Ltd.	\$	208,146
Home Re 2020-01 Ltd.	\$	412,917
<u>December 31, 2019</u>		
Home Re 2018-01 Ltd.	\$	269,451
Home Re 2019-01 Ltd.	\$	283,150
<u>December 31, 2018</u>		
Home Re 2018-01 Ltd.	\$	318,636

NOTE 10 Other Comprehensive Income (Loss)

The pretax components of our other comprehensive income (loss) and related income tax (expense) benefit for the years ended December 31, 2020, 2019 and 2018 are included in table 10.1 below.

Components of other comprehensive income (loss)

Table 10.1 (In thousands)	2020	2019	2018
Net unrealized investment gains (losses) on securities without an allowance for credit losses	\$ 169,135	\$ 220,139	\$ (81,834)
Income tax (expense) benefit	(35,519)	(46,229)	17,188
Net of taxes	133,616	173,910	(64,646)
Net changes in benefit plan assets and obligations	13,288	29,129	(19,958)
Income tax (expense) benefit	(2,791)	(6,117)	4,191
Net of taxes	10,497	23,012	(15,767)
Total other comprehensive income (loss)	182,423	249,268	(101,792)
Total income tax expense, net	(38,310)	(52,346)	21,379
Total other comprehensive income, net of tax	\$ 144,113	\$ 196,922	\$ (80,413)

The pretax and related income tax benefit (expense) components of the amounts reclassified from our accumulated other comprehensive income (loss) ("AOCI", "AOCL") to our consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 are included in table 10.2 below.

Reclassifications from Accumulated Other Comprehensive Income (Loss)

Table 10.2 (In thousands)	2020	2019	2018
Reclassification adjustment for net realized gains (losses) included in net income ⁽¹⁾	\$ 13,862	\$ 3,637	\$ (7,037)
Income tax (expense) benefit	(2,912)	(763)	1,477
Net of taxes	10,950	2,874	(5,560)
Reclassification adjustment related to benefit plan assets and obligations ⁽²⁾	(15,968)	(8,097)	(2,232)
Income tax benefit	3,353	1,701	469
Net of taxes	(12,615)	(6,396)	(1,763)
Total reclassifications	(2,106)	(4,460)	(9,269)
Total income tax benefit, net	441	938	1,946
Total reclassifications, net of tax	\$ (1,665)	\$ (3,522)	\$ (7,323)

⁽¹⁾ (Decreases) increases Net realized investment gains on the consolidated statements of operations.

⁽²⁾ Decreases (increases) Other underwriting and operating expenses, net on the consolidated statements of operations.

A roll-forward of AOCI (AOCL) for the years ended December 31, 2020, 2019, and 2018, including amounts reclassified from AOCI (AOCL), is included in table 10.3 below.

Roll-forward of Accumulated Other Comprehensive Income (Loss)

Table 10.3

<i>(In thousands)</i>	Net unrealized gains and losses on available-for-sale securities		Net benefit plan assets and obligations recognized in shareholders' equity		Total AOCL
Balance, December 31, 2017, net of tax	\$	29,275	\$	(73,058)	\$ (43,783)
Cumulative effect of adopting the accounting standard update for financial instruments		(18)		—	(18)
Other comprehensive income (loss) before reclassifications		(70,206)		(17,530)	(87,736)
Less: Amounts reclassified from AOCL		(5,560)		(1,763)	(7,323)
Balance, December 31, 2018, net of tax		(35,389)		(88,825)	(124,214)
Other comprehensive income (loss) before reclassifications		176,784		16,616	193,400
Less: Amounts reclassified from AOCL		2,874		(6,396)	(3,522)
Balance, December 31, 2019, net of tax		138,521		(65,813)	72,708
Other comprehensive income (loss) before reclassifications		144,566		(2,118)	142,448
Less: Amounts reclassified from AOCL		10,950		(12,615)	(1,665)
Balance, December 31, 2020, net of tax	\$	272,137	\$	(55,316)	216,821

NOTE 11 Benefit Plans

We have a non-contributory defined benefit pension plan covering substantially all domestic employees, as well as a supplemental executive retirement plan. We also offer both medical and dental benefits for retired domestic employees, their eligible spouses and dependents under a postretirement benefit plan. The following tables 11.1, 11.2, and 11.3 provide the components of aggregate annual net periodic benefit cost for each of the years ended December 31, 2020, 2019, and 2018 and changes in the benefit obligation and the funded status of the pension, supplemental executive retirement and other postretirement benefit plans as recognized in the consolidated balance sheets as of December 31, 2020 and 2019.

Components of net periodic benefit cost

Table 11.1

<i>(In thousands)</i>	Pension and Supplemental Executive Retirement Plans			Other Postretirement Benefits		
	12/31/2020	12/31/2019	12/31/2018	12/31/2020	12/31/2019	12/31/2018
1. Company Service Cost	\$ 7,342	\$ 8,345	\$ 10,530	\$ 1,263	\$ 1,345	\$ 1,160
2. Interest Cost	13,036	15,705	15,095	832	1,130	834
3. Expected Return on Assets	(22,139)	(19,466)	(22,250)	(7,407)	(5,785)	(6,359)
4. Other Adjustments	—	—	—	—	—	—
Subtotal	(1,761)	4,584	3,375	(5,312)	(3,310)	(4,365)
5. Amortization of:						
a. Net Transition Obligation/(Asset)	—	—	—	—	—	—
b. Net Prior Service Cost/(Credit)	(247)	(281)	(351)	51	(34)	(4,104)
c. Net Losses/(Gains)	6,578	8,412	6,937	(783)	—	(250)
Total Amortization	6,331	8,131	6,586	(732)	(34)	(4,354)
6. Net Periodic Benefit Cost	4,570	12,715	9,961	(6,044)	(3,344)	(8,719)
7. Cost of settlements	10,369	1,933	—	—	—	—
8. Total Expense for Year	\$ 14,939	\$ 14,648	\$ 9,961	\$ (6,044)	\$ (3,344)	\$ (8,719)

Notes

Development of funded status

Table 11.2

(In thousands)	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Actuarial Value of Benefit Obligations				
1. Measurement Date	12/31/2020	12/31/2019	12/31/2020	12/31/2019
2. Accumulated Benefit Obligation	\$ 423,305	\$ 412,939	\$ 28,714	\$ 27,496

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

1. Projected Benefit Obligation	\$ (423,713)	\$ (413,350)	\$ (28,714)	\$ (27,496)
2. Plan Assets at Fair Value	411,245	402,691	119,024	99,590
3. Funded Status - Overfunded/Asset	N/A	N/A	\$ 90,310	\$ 72,094
4. Funded Status - Underfunded/Liability	(12,468)	(10,659)	N/A	N/A

Accumulated other comprehensive (income) loss

Table 11.3

(In thousands)	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
1. Net Actuarial (Gain)/Loss	\$ 98,899	\$ 99,826	\$ (30,565)	\$ (18,005)
2. Net Prior Service Cost/(Credit)	(988)	(1,237)	2,673	2,724
3. Net Transition Obligation/(Asset)	—	—	—	—
4. Total at Year End	\$ 97,911	\$ 98,589	\$ (27,892)	\$ (15,281)

The amortization of gains and losses resulting from actual experience different from assumed experience or changes in assumptions including discount rates is included as a component of Net Periodic Benefit Cost/(Income) for the year. The gain or loss in excess of a 10% corridor is amortized by the average remaining service period of participating employees expected to receive benefits under the plan.

Table 11.4 shows the changes in the projected benefit obligation for 2020 and 2019.

Change in projected benefit / accumulated benefit

Table 11.4

(In thousands)	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
1. Benefit Obligation at Beginning of Year	\$ 413,350	\$ 376,153	\$ 27,496	\$ 28,085
2. Company Service Cost	7,342	8,345	1,263	1,345
3. Interest Cost	13,036	15,705	832	1,130
4. Plan Participants' Contributions	—	—	425	382
5. Net Actuarial (Gain)/Loss	36,196	47,113	660	(2,075)
6. Benefit Payments from Fund ⁽¹⁾	(40,260)	(30,829)	(1,975)	(826)
7. Benefit Payments Directly by Company	(5,953)	(3,105)	—	—
8. Plan Amendments	2	(5)	—	—
9. Other Adjustment	—	—	13	(545)
10. Settlement (Gain)/Loss	—	(27)	—	—
11. Benefit Obligation at End of Year	\$ 423,713	\$ 413,350	\$ 28,714	\$ 27,496

⁽¹⁾ Includes lump sum payments of \$27.5 million and \$18.5 million in 2020 and 2019, respectively, from our pension plan to eligible participants, which were former employees with vested benefits.

The increase in our pension and supplemental executive retirement plans obligation in 2020 compared to 2019 was primarily due to a decrease in the discount rate used to calculate the obligation partially offset by benefits

paid from the fund. Table 11.7 below includes the actuarial assumptions used to calculate the benefit obligations of our plans for 2020 and 2019.

Tables 11.5 and 11.6 shows the changes in the fair value of the net assets available for plan benefits, and changes in other comprehensive income (loss) during 2020 and 2019.

Change in plan assets

Table 11.5

(In thousands)	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
1. Fair Value of Plan Assets at Beginning of Year	\$ 402,691	\$ 359,719	\$ 99,590	\$ 77,762
2. Company Contributions	12,453	10,205	—	—
3. Plan Participants' Contributions	—	—	425	382
4. Benefit Payments from Fund	(40,260)	(30,829)	(1,975)	(826)
5. Benefit Payments paid directly by Company	(5,953)	(3,105)	—	—
6. Actual Return on Assets	42,314	70,262	21,409	22,654
7. Other Adjustment	—	(3,561)	(425)	(382)
8. Fair Value of Plan Assets at End of Year	\$ 411,245	\$ 402,691	\$ 119,024	\$ 99,590

Change in accumulated other comprehensive income (loss) ("AOCI")

Table 11.6

(In thousands)	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
1. AOCI in Prior Year	\$ 98,589	\$ 108,808	\$ (15,281)	\$ 3,629
2. Increase/(Decrease) in AOCI				
a. Recognized during year - Prior Service (Cost)/Credit	247	281	(51)	34
b. Recognized during year - Net Actuarial (Losses)/Gains	(16,948)	(8,412)	782	—
c. Occurring during year - Prior Service Cost	2	(5)	—	—
d. Occurring during year - Net Actuarial Losses/(Gains)	16,021	(150)	(13,342)	(18,944)
e. Occurring during year - Net Settlement Losses/(Gains)	—	(1,933)	—	—
3. AOCI in Current Year	\$ 97,911	\$ 98,589	\$ (27,892)	\$ (15,281)

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

Notes

Actuarial assumptions

Table 11.7

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<u>Weighted-Average Assumptions Used to Determine Benefit Obligations at year end</u>				
1. Discount Rate	2.75 %	3.45 %	2.35 %	3.20 %
2. Rate of Compensation Increase	3.00 %	3.00 %	N/A	N/A
3. Cash balance interest crediting rate	2.50 %	3.20 %	N/A	N/A
<u>Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for Year</u>				
1. Discount Rate	3.30 %	4.40 %	3.20 %	4.25 %
2. Expected Long-term Return on Plan Assets	5.75 %	5.75 %	7.50 %	7.50 %
3. Rate of Compensation Increase	3.00 %	3.00 %	N/A	N/A
<u>Assumed Health Care Cost Trend Rates at year end</u>				
1. Health Care Cost Trend Rate Assumed for Next Year	N/A	N/A	6.00 %	6.00 %
2. Rate to Which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate)	N/A	N/A	5.00 %	5.00 %
3. Year That the Rate Reaches the Ultimate Trend Rate	N/A	N/A	2024	2024

In selecting a discount rate, we performed a hypothetical cash flow bond matching exercise, matching our expected pension plan and postretirement medical plan cash flows, respectively, against a selected portfolio of high quality corporate bonds. The modeling was performed using a bond portfolio of noncallable bonds with at least \$50 million outstanding. The average yield of these hypothetical bond portfolios was used as the benchmark for determining the discount rate. In selecting the expected long-term rate of return on assets, we considered the average rate of earnings expected on the classes of funds invested or to be invested to provide for the benefits of these plans. This included considering the trusts' targeted asset allocation for the year and the expected returns likely to be earned over the next 20 years.

The year-end asset allocations of the plans are shown in table 11.8 below.

Plan assets

Table 11.8

	Pension Plan		Other Postretirement Benefits	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
1. Equity Securities	21 %	23 %	100 %	100 %
2. Debt Securities	79 %	77 %	— %	— %
3. Total	100 %	100 %	100 %	100 %

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

- Level 1 Quoted prices for identical instruments in active markets that we can access. Financial assets using Level 1 inputs include equity securities, mutual funds, money market funds, certain U.S. Treasury securities and exchange traded funds ("ETFs").
- 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 instrument. The observable inputs are used in valuation models to calculate the fair value of the instruments. Financial assets using Level 2 inputs include certain municipal, corporate and foreign bonds, obligations of U.S. government corporations and agencies, and pooled equity accounts.

To determine the fair value of securities in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been used. 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 used by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. In addition, on a quarterly basis, we perform quality controls over values received from the pricing source (the "Trustee") which include comparing values to other independent pricing sources. In addition, we review annually the Trustee's auditor's report on internal controls in order to determine that their controls around valuing securities are operating effectively. We have not made any adjustments to the prices obtained from the independent sources.

Tables 11.9a and 11.9b set forth by level, within the fair value hierarchy, the pension plan assets and related accrued investment income at fair value as of December 31, 2020 and 2019. There were no securities that used Level 3 inputs.

Pension plan assets at fair value as of December 31, 2020

Table 11.9a (In thousands)	Level 1	Level 2	Total
Domestic Mutual Funds	\$ 4,842	\$ —	\$ 4,842
Corporate Bonds	—	231,190	231,190
U.S. Government Securities	26,407	—	26,407
Municipal Bonds	—	32,891	32,891
Foreign Bonds	—	33,368	33,368
Pooled Equity Accounts	—	82,547	82,547
Total Assets at fair value	\$ 31,249	\$ 379,996	\$ 411,245

Pension plan assets at fair value as of December 31, 2019

Table 11.9b (In thousands)	Level 1	Level 2	Total
Domestic Mutual Funds	\$ 7,325	\$ —	\$ 7,325
Corporate Bonds	—	203,684	203,684
U.S. Government Securities	32,166	2,511	34,677
Municipal Bonds	—	38,998	38,998
Foreign Bonds	—	34,024	34,024
Pooled Equity Accounts	—	83,983	83,983
Total Assets at fair value	\$ 39,491	\$ 363,200	\$ 402,691

The pension plan has implemented a strategy to reduce risk through the use of a targeted funded ratio. The liability driven component is key to the asset allocation. The liability driven component seeks to align the duration of the fixed income asset allocation with the expected duration of the plan liabilities or benefit payments. Overall asset allocation is dynamic and specifies target allocation weights and ranges based on the funded status.

An improvement in funded status results in the de-risking of the portfolio, allocating more funds to fixed income and less to equity. A decline in funded status would result in a higher allocation to equity. The maximum equity allocation is 40%.

Notes

The equity investments use combinations of mutual funds, ETFs, and pooled equity account structures focused on the following strategies:

Strategy	Objective	Investment types
Return seeking growth	Funded ratio improvement over the long term	<ul style="list-style-type: none"> Global quality growth Global low volatility
Return seeking bridge	Downside protection in the event of a declining equity market	<ul style="list-style-type: none"> Enduring asset Durable company

The fixed income objective is to preserve capital and to provide monthly cash flows for the payment of plan liabilities. Fixed income investments can include government, government agency, corporate, mortgage-backed, asset-backed, and municipal securities, and other classes of bonds. The duration of the fixed income portfolio has an objective of being within one year of the duration of the accumulated benefit obligation. The fixed income investments have an objective of a weighted average credit of A3/A-/A- by Moody's, S&P, and Fitch, respectively.

Tables 11.10a and 11.10b set forth the other postretirement benefits plan assets at fair value as of December 31, 2020 and 2019. All are Level 1 assets.

Other postretirement benefits plan assets at fair value as of December 31, 2020

Table 11.10a (In thousands)	Level 1	
Domestic Mutual Funds	\$	91,454
International Mutual Funds		27,570
Total Assets at fair value	\$	119,024

Other postretirement benefits plan assets at fair value as of December 31, 2019

Table 11.10b (In thousands)	Level 1	
Domestic Mutual Funds	\$	77,640
International Mutual Funds		21,950
Total Assets at fair value	\$	99,590

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

- Total return should exceed growth in the Consumer Price Index by 5.75% annually
- Achieve competitive investment results

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

	Minimum	Maximum
Equities (long only)	70 %	100 %
Real estate	0 %	15 %
Commodities	0 %	10 %
Fixed income/Cash	0 %	10 %

Given the long term nature of this portfolio and the lack of any immediate need for significant cash flow, it is anticipated that the equity investments will consist of growth stocks and will typically be at the higher end of the allocation ranges above.

Investment in international mutual funds is limited to a maximum of 30% of the equity range. The allocation as of December 31, 2020 included 3% that was primarily invested in equity securities of emerging market countries and another 20% was invested in securities of companies primarily based in Europe and the Pacific Basin.

Tables 11.12 and 11.13 show the current and estimated future contributions and benefit payments.

Company contributions

Table 11.12 (In thousands)	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2020		12/31/2020	
<u>Company Contributions for the Year Ending:</u>				
1. Current	\$	12,453	\$	—
2. Current + 1		6,200		—

Benefits payments - total**Table 11.13**

<i>(In thousands)</i>	Pension and Supplemental Executive Retirement Plans	Other Postretirement Benefits
	12/31/2020	12/31/2020
<u>Actual Benefit Payments for the Year Ending:</u>		
1. Current	\$ 46,213	\$ 1,975
<u>Expected Benefit Payments for the Year Ending:</u>		
2. Current + 1	30,082	1,765
3. Current + 2	29,929	1,995
4. Current + 3	30,076	2,157
5. Current + 4	29,567	2,241
6. Current + 5	28,852	2,357
7. Current + 6 - 10	135,830	10,916

PROFIT SHARING AND 401(K)

We have a profit sharing and 401(k) savings plan for employees. At the discretion of the Board of Directors, we may make a contribution to the plan of up to 5% of each participant's eligible compensation. We provide a matching 401(k) savings contribution for employees of 100% up to the first 4% contributed. We recognized expenses related to these plans of \$8.0 million, \$7.4 million and \$6.0 million in 2020, 2019 and 2018, respectively.

NOTE 12 Income Taxes

Net deferred tax (liabilities) assets, included on the Consolidated Balance Sheet at December 31, 2020 and 2019 as a component of Other liabilities and Other assets, respectively, are as follows:

Deferred tax assets and liabilities

Table 12.1		
<i>(In thousands)</i>	2020	2019
Total deferred tax assets	\$ 38,443	\$ 63,533
Total deferred tax liabilities	(98,485)	(57,791)
Net deferred tax (liability) asset	\$ (60,042)	\$ 5,742

Table 12.2 includes the components of the net deferred tax (liability) asset as of December 31, 2020 and 2019.

Deferred tax components**Table 12.2**

<i>(In thousands)</i>	2020	2019
Unearned premium reserves	\$ 23,163	\$ 30,487
Benefit plans	(13,977)	(10,790)
Loss reserves	3,542	2,175
Unrealized appreciation in investments	(72,341)	(36,822)
Mortgage investments	—	8,359
Deferred compensation	6,776	9,270
AMT credit carryforward	—	8,303
Other, net	(7,205)	(5,240)
Net deferred tax (liability) asset	\$ (60,042)	\$ 5,742

We believe that all gross deferred tax assets at December 31, 2019 and 2020 are fully realizable and no valuation allowance has been established.

If the federal income tax rate increases, our net deferred tax liability or asset would increase. In addition, we would set up a deferred tax liability related to tax and loss bonds for the difference in the new federal income tax rate and the 21% federal income tax rate at which the tax and loss bonds were purchased.

Table 12.3 summarizes the components of the provision for (benefit from) income taxes:

Provision for (benefit from) income taxes

Table 12.3			
<i>(In thousands)</i>	2020	2019	2018
Current Federal	\$ 85,574	\$ 162,911	\$(16,272)
Deferred Federal	28,244	11,860	185,598
Other	(648)	(557)	4,727
Provision for income taxes	\$ 113,170	\$ 174,214	\$ 174,053

The CARES Act provides financial relief to individuals and businesses in the form of loans, grants, and tax changes, among other types of assistance. The tax changes in the CARES Act did not materially impact our financial results.

Current federal income tax payments were \$79.6 million, \$158.3 million, and \$12.2 million in 2020, 2019 and 2018, respectively. At December 31, 2020 we owned \$271.0 million of tax and loss bonds.

Table 12.4 reconciles the federal statutory income tax rate to our effective tax provision rate.

Effective tax rate reconciliation

Table 12.4	2020	2019	2018
Federal statutory income tax rate	21.0 %	21.0 %	21.0 %
Additional income tax benefit related to IRS litigation	— %	— %	(0.3)%
Tax exempt municipal bond interest	(0.9)%	(0.6)%	(0.7)%
Other, net	0.1 %	0.1 %	0.6 %
Effective tax rate	20.2 %	20.5 %	20.6 %

The Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for 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").

In 2018, we finalized an agreement with the IRS to settle all issues in the examinations and related U.S. Tax Court case. As a result of our settlement, we made federal tax and interest payments of \$14.8 million during 2018. We also made state tax and interest payments of \$36.8 million during 2018. The impact of the agreed upon settlement was previously reflected in our consolidated statements of operations.

We have not recorded any uncertain tax positions during 2019 and 2020 and have no unrecognized tax benefits at December 31, 2019 and December 31, 2020. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. The statute of limitations related to the consolidated federal income tax return is closed for all years prior to 2016.

NOTE 13 Shareholders' Equity

CHANGE IN ACCOUNTING PRINCIPLE

As of January 1, 2018, the updated guidance of "Recognition and Measurement of Financial Assets and Financial Liabilities" became effective. The application of this guidance resulted in an immaterial cumulative effect adjustment to our 2018 beginning accumulated other comprehensive (loss) income and retained earnings to recognize unrealized gains on equity securities.

SHARE REPURCHASE PROGRAM

During the first quarter of 2020 we repurchased approximately 9.6 million shares of our common stock at a weighted average cost per share of \$12.47, which included commissions. We may repurchase up to an additional \$291 million of our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in January 2020.

During 2019, we repurchased approximately 8.7 million shares of our common stock at a weighted average cost per share of \$13.13, which included commissions. As of December 31, 2019, the authorized share repurchase program had approximately \$111 million remaining.

During 2018, we repurchased approximately 16.0 million shares of our common stock at a weighted average cost per share of \$10.95, which included commissions. As of December 31, 2018, the authorized share repurchase program had approximately \$25 million remaining.

Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time, and in light of the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases, but may resume them in the future.

Cash dividends

In 2020, we paid quarterly cash dividends of \$0.06 per share to shareholders which totaled \$82.6 million. On January 26, 2021, the Board of Directors declared a quarterly cash dividend to holders of the company's common stock of \$0.06 per share payable on March 3, 2021, to shareholders of record at the close of business on February 17, 2021.

NOTE 14 Statutory Information**STATUTORY ACCOUNTING PRINCIPLES**

The statutory financial statements of our insurance companies are presented on the basis of accounting principles prescribed, or practices permitted, by the Office of the Commissioner of Insurance of the State of Wisconsin (the "OCI"), which has adopted the National Association of Insurance Commissioners ("NAIC") Statements of Statutory Accounting Principles ("SSAP") as the basis of its statutory accounting principles. In converting from statutory to GAAP, typical adjustments include deferral of policy acquisition costs, the inclusion of net unrealized holding gains or losses in shareholders' equity relating to fixed income securities, and the inclusion of statutory non-admitted assets.

In addition to the typical adjustments from statutory to GAAP, mortgage insurance companies are required to maintain contingency loss reserves equal to 50% of premiums earned under SSAP and principles prescribed by the OCI. Such amounts cannot be withdrawn for a period of ten years except as permitted by insurance regulations. With regulatory approval, a mortgage guaranty insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net premiums earned in a calendar year. For the year ended 2020, MGIC's withdrew \$30.4 million from its contingency reserve. Changes in contingency loss reserves impact the statutory statement of operations. Contingency loss reserves are not reflected as liabilities under GAAP and changes in contingency loss reserves do not impact the GAAP statements of operations.

As a mortgage guaranty insurer, we are eligible for a tax deduction, subject to certain limitations, under Section 832(e) of the IRC for amounts required by state law or regulation to be set aside in statutory contingency reserves. The deduction is allowed only to the extent that we purchase tax and loss bonds ("T&L Bonds") in an amount equal to the tax benefit derived from deducting any portion of our statutory contingency reserves. Under statutory accounting practices, purchases of T&L Bonds are accounted for as investments. Under GAAP, purchases of T&L Bonds are accounted for as a payment of current taxes.

The statutory net income loss, policyholders' surplus and contingency reserve liability of the insurance subsidiaries of our holding company are shown in table 14.1 below. The surplus amounts included in the following table are the combined policyholders' surplus of our insurance operations as utilized in our risk-to-capital calculations.

Statutory financial information of insurance subsidiaries

Table

(In thousands)	As of and for the Years Ended December 31,		
	2020	2019	2018
Statutory net income	\$ 65,201	\$ 305,857	\$ 375,484
Statutory policyholder surplus	1,339,509	1,619,069	1,683,058
Contingency reserve	3,585,864	3,021,055	2,442,996

For the years ended December 31, 2020, 2019, and 2018 there were no surplus contributions made to MGIC or distributions from other insurance subsidiaries to us. Dividends paid by MGIC are shown in table 14.2 below.

Surplus contributions and dividends of insurance subsidiaries

Table 14.2

(In thousands)	Years Ended December 31,		
	2020	2019	2018
Dividends paid by MGIC to the parent company ⁽¹⁾	\$ 390,000	280,000	220,000

⁽¹⁾ Dividends paid in cash and/or investment securities. Also in 2020, MGIC distributed to the holding company, as a dividend, its ownership in the 9% Debentures held at an amortized cost of \$139.5 million.

STATUTORY CAPITAL REQUIREMENTS

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 RIF (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the "State Capital Requirements" and, together with the GSE Financial Requirements, the "Financial Requirements." While they vary among jurisdictions, the most common State Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if (i) the percentage decrease in capital exceeds the percentage decrease in insured risk, or (ii) the percentage increase in capital is less than the percentage increase in insured risk. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position ("MPP"). The "policyholder position" of a mortgage insurer is its net

worth or surplus, contingency reserve, and a portion of the reserves for unearned premiums.

At December 31, 2020, MGIC's risk-to-capital ratio was 9.2 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements and its policyholder position was \$3.2 billion above the required MPP of \$1.7 billion. The calculation of our risk-to-capital ratio and MPP reflect credit for the risk ceded under our reinsurance transactions. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the financial requirements of the PMIERS, MGIC may terminate the reinsurance agreements, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these financial statement footnotes for information about matters that could negatively affect such compliance.

At December 31, 2020, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 9.1 to 1.

The NAIC has previously announced plans to revise the State Capital Requirements that are provided for in its Mortgage Guaranty Insurance Model Act. In December 2019, a working group of state regulators released an exposure draft of a revised Mortgage Guaranty Insurance Model Act and a risk-based capital framework to establish capital requirements for mortgage insurers, although no date has been established by which the NAIC must propose revisions to the capital requirements and certain items have not yet been completely addressed by the framework, including the treatment of ceded risk and minimum capital floors. Currently we believe that the PMIERS contain more restrictive capital requirements than the draft Mortgage Guaranty Insurance Model Act in most circumstances.

While MGIC currently meets, and expects to continue to meet, the State Capital Requirements of Wisconsin and all other jurisdictions, it could be prevented from writing new business in the future in all jurisdictions if it fails to meet the State Capital Requirements of Wisconsin, or it could be prevented from writing new business in a particular jurisdiction if it fails to meet the State Capital Requirements of that jurisdiction and in each case MGIC does not obtain a waiver of such requirements. It is possible that regulatory action by one or more jurisdictions, including those that do not have specific State Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions. If we are unable to write business in all jurisdictions, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the future ability of our

insurance operations to meet the State Capital Requirements or the PMIERS may affect its willingness to procure insurance from us. A possible future failure by MGIC to meet the State Capital Requirements or the PMIERS will not necessarily mean that MGIC lacks sufficient resources to pay claims on its insurance liabilities. While we believe MGIC has sufficient claims paying resources to meet its claim obligations on its IIF on a timely basis, you should read the rest of these financial statement footnotes for information about matters that could negatively affect MGIC's claims paying resources, including the effects of the COVID-19 pandemic.

DIVIDEND RESTRICTIONS

During 2020, MGIC paid \$390 million in cash and/or investment security dividends to our holding company. In the third quarter of 2020, MGIC distributed to the holding company, as a dividend, its ownership in the 9% Debentures held at an amortized cost of \$139.5 million, which was non-admitted for statutory reporting.

MGIC is subject to statutory regulations as to payment of dividends. The maximum amount of dividends that MGIC may pay in any twelve-month period without regulatory approval by the OCI is the lesser of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years. Before making any dividend payments in 2021, we will notify the OCI to ensure it does not object.

Under the PMIERS guidance, any dividend paid by MGIC to our holding company, through June 30, 2021, requires GSE approval.

The OCI recognizes only statutory accounting principles prescribed, or practices permitted, by the State of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company. The OCI has adopted certain prescribed accounting practices that differ from those found in other states. Specifically, Wisconsin domiciled companies record changes in the contingency reserves through the income statement as a change in underwriting deduction. As a result, in periods in which MGIC is increasing contingency reserves, statutory net income is reduced. For the year ended December 31, 2020, MGIC's increase in contingency reserves was \$559 million and statutory net loss was \$643 million. As of December 31, 2020, MGIC's statutory policyholders' surplus was \$1,336 million. MGIC's statutory net loss includes a realized

loss of \$692 million resulting from its merger with MGIC Reinsurance Corporation of Wisconsin. This is eliminated on the consolidated statement of operations.

NOTE 15 Share-based Compensation Plans

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

We have an omnibus incentive plan that was adopted on April 23, 2020. When the 2020 plan was adopted, no further awards could be made under our previous 2015 plan. The purpose of the 2020 plan is to motivate and incentivize performance by, and to retain the services of, key employees and non-employee directors through receipt of equity-based and other incentive awards under the plan. The maximum number of shares of stock that can be awarded under the 2020 plan is 11.0 million. Awards issued under the plan that are subsequently forfeited will not count against the limit on the maximum number of shares that may be issued under the plan. The 2020 plan provides for the award of stock options, stock appreciation rights, restricted stock and restricted stock units, as well as cash incentive awards. No awards may be granted after April 23, 2030 under the 2020 plan. The vesting provisions of options, restricted stock and restricted stock units are determined at the time of grant. Awards forfeited under the 2015 plan after April 23, 2020 will increase the 2020 plan's limit of shares available for future grant. At December 31, 2020, 11.1 million shares were available for future grant under the 2020 plan. The excess of available shares for future grant above the maximum number of shares that may be issued under the 2020 plan is the result of awards under the 2015 plan being forfeited subsequent to April 23, 2020.

The compensation cost that has been charged against income for share-based plans was \$13.8 million, \$18.9 million, and \$20.9 million for the years ended December 31, 2020, 2019 and 2018, respectively. The related income tax benefit recognized for share-based plans was \$1.7 million, \$2.7 million, and \$3.0 million for the years ended December 31, 2020, 2019, and 2018, respectively.

Table 15.1 summarizes restricted stock or restricted stock unit (collectively called "restricted stock") activity during 2020.

Restricted stock

Table	15.1	Weighted Average Grant Date Fair Market Value	Shares
Restricted stock outstanding at December 31, 2019	\$	12.81	4,150,394
Granted		13.62	1,672,060
Vested		11.67	(1,564,843)
Forfeited		13.24	(118,368)
Restricted stock outstanding at December 31, 2020	\$	13.57	4,139,243

At December 31, 2020, the 4.1 million shares of restricted stock outstanding consisted of 3.1 million shares that are subject to performance conditions ("performance shares") and 1.0 million shares that are subject only to service conditions ("time vested shares"). The weighted-average grant date fair value of restricted stock granted during 2019 and 2018 was \$11.92 and \$15.69, respectively. The fair value of restricted stock granted is the closing price of the common stock on the New York Stock Exchange on the date of grant or previous trading day if the Exchange is closed on the date of grant. The total fair value of restricted stock vested during 2020, 2019 and 2018 was \$20.4 million, \$13.7 million, and \$19.1 million, respectively.

As of December 31, 2020, there was \$25.8 million of total unrecognized compensation cost related to non-vested share-based compensation agreements granted under the plans. Of this total, \$19.8 million of unrecognized compensation costs relate to performance shares and \$5.9 million relates to time vested shares. A portion of the unrecognized costs associated with the performance shares may or may not be recognized in future periods, depending upon whether or not the performance and service conditions are met. The cost associated with the time vested shares is expected to be recognized over a weighted-average period of 1.7 years.

NOTE 16 Leases

We lease data processing equipment and autos under operating leases that expire during the next four years. Generally, rental payments are fixed.

Table 16.1 shows minimum the future operating lease payments as of December 31, 2020.

Table 16.1	
<i>(In thousands)</i>	Amount
2021	\$ 836
2022	687
2023	311
2024	81
2025 and thereafter	—
Total	\$ 1,915

Total lease expense under operating leases was \$1.9 million in 2020, \$2.1 million in 2019, and \$1.9 million in 2018.

NOTE 17 Litigation and Contingencies

Before paying an insurance claim, generally we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage or deny a claim on the loan (both referred to as "rescissions"). In addition, our insurance policies generally provide that we can reduce a claim if the servicer did not comply with its obligations under our insurance policy (such reduction referred to as a "curtailment"). In recent quarters, an immaterial percentage of claims received in a quarter have been resolved by rescissions. In 2020 and 2019, curtailments reduced our average claim paid by approximately 3.6% and 5.0%, respectively.

Our loss reserving methodology incorporates our estimates of future rescissions, curtailments, and reversals of rescissions and curtailments. A variance between ultimate actual rescission, curtailment, and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

When the insured disputes our right to rescind coverage or curtail claims, we generally engage in discussions in an attempt to settle the dispute. If we are unable to reach a settlement, the outcome of a dispute ultimately may be determined by legal proceedings.

Under ASC 450-20, until a loss associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we

consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss. When we determine that a loss is probable and can be reasonably estimated, we record our best estimate of our probable loss. In those cases, until settlement negotiations or legal proceedings are concluded (including the receipt of any necessary GSE approvals), it is reasonably possible that we will record an additional loss. We are currently involved in discussions and/or proceedings with respect to our claims paying practices. Although it is reasonably possible that, when all of these matters are resolved, we will not prevail on all matters, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure where a loss is reasonably possible to be approximately \$40 million. This estimate of maximum exposure is based upon currently available information; is subject to significant judgment, numerous assumptions and known and unknown uncertainties; will include an amount for matters for which we have recorded a probable loss until such matters are concluded; will include different matters from time to time; and does not include interest or consequential or exemplary damages.

Mortgage insurers, including MGIC, have in the past been involved in litigation and regulatory actions related to alleged violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act ("RESPA") and the notice provisions of the Fair Credit Reporting Act ("FCRA"). While these proceedings in the aggregate did not result in material liability for MGIC, there can be no assurance that the outcome of future proceedings, if any, under these laws would not have a material adverse effect on us. To the extent that we are construed to make independent credit decisions in connection with our contract underwriting activities, we also could be subject to increased regulatory requirements under the Equal Credit Opportunity Act ("EEOA"), FCRA, and other laws. Under ECOA, examination may also be made of whether a mortgage insurer's underwriting decisions have a disparate impact on persons belonging to a protected class in violation of the law.

Through a non-insurance subsidiary, we utilize our underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of the contract underwriting activities, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to its customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was

performed. The related contract underwriting remedy expense for each of the years ended December 31, 2020, 2019, and 2018, was immaterial to our consolidated financial statements.

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.

NOTE 18 Unaudited Quarterly Financial Data

Unaudited quarterly financial data - current year:

Table: 18.1a 2020: (In thousands, except per share data)	Quarter				Full
	First	Second	Third	Fourth	Year
Net premiums earned	\$ 260,901	\$ 243,562	\$ 256,113	\$ 261,367	\$ 1,021,943
Investment income, net of expenses	41,347	39,679	37,252	36,118	154,396
Realized gains (losses)	1,891	6,701	2,259	2,901	13,752
Other revenue	2,754	4,026	380	1,895	9,055
Loss incurred, net	60,956	217,374	40,686	45,758	364,774
Underwriting and other expenses, net	57,698	60,111	64,253	66,311	248,373
Loss on debt extinguishment	—	—	26,736	—	26,736
Provision for income tax	38,434	2,436	33,518	38,782	113,170
Net income	149,805	14,047	130,811	151,430	446,093
Income per share ^{(a) (b)} :					
Basic	0.44	0.04	0.39	0.45	1.31
Diluted	0.42	0.04	0.38	0.44	1.29

Unaudited quarterly financial statements - prior year:

Table: 18.1b 2019: (In thousands, except per share data)	Quarter				Full
	First	Second	Third	Fourth	Year
Net premiums earned	\$ 249,762	\$ 247,102	\$ 267,857	\$ 266,267	\$ 1,030,988
Investment income, net of expenses	40,585	42,423	42,715	41,322	167,045
Realized gains (losses)	(526)	307	4,205	1,320	5,306
Other revenue	1,830	2,485	3,606	2,717	10,638
Loss incurred, net	39,064	21,836	33,985	23,690	118,575
Underwriting and other expenses, net	61,650	59,270	61,278	65,227	247,425
Provision for income tax	38,996	43,433	46,186	45,599	174,214
Net income	151,941	167,778	176,934	177,110	673,763
Income per share ^{(a) (b)} :					
Basic	0.43	0.47	0.50	0.51	1.91
Diluted	0.42	0.46	0.49	0.49	1.85

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

(b) In periods where convertible debt instruments are dilutive to earnings per share the "if-converted" method of computing diluted EPS requires an interest expense adjustment, net of tax, to net income available to shareholders. See Note 4 - "Earnings Per Share" for further discussion on our calculation of diluted EPS.

Directors

MGIC Investment Corporation

Analisa M. Allen

Information Technology Consultant
Gerson Lehrman Group
Former CIO of Data & Analytics
JP Morgan Chase's Consumer Bank

Daniel A. Arrigoni

Former President & Chief Executive Officer
U.S. Bank Home Mortgage Corp.
Home loan originator and servicer

C. Edward Chaplin

Former President & CFO
MBIA Inc.
Provider of financial guarantee insurance

Curt S. Culver

Chairman
Former Chief Executive Officer
MGIC Investment Corporation

Jay C. Hartzell

President
University of Texas at Austin

Timothy A. Holt

Former Senior Vice President & Chief Investment Officer
Aetna, Inc.
Diversified health care benefits company

Kenneth M. Jastrow, II

Corporate Director & Private Investor
Former Chairman & Chief Executive Officer
Temple-Inland Inc.
Paper & forest products company with financial services and real estate interests

Jodeen A. Kozlak

Founder and CEO
Kozlak Capital Partners, LLC
Former Senior Vice President of Human Resources
Alibaba Group
Multinational Conglomerate

Michael E. Lehman

Interim Chief Operating Officer of the School of Business
University of Wisconsin

Melissa B. Lora

Former President
Taco Bell International
Restaurant company

Timothy J. Mattke

Chief Executive Officer
MGIC Investment Corporation

Gary A. Poliner

Former President
Northwestern Mutual Life Ins. Co.
Financial services company

Sheryl L. Sculley

Former City Manager (CEO)
City of San Antonio

Mark M. Zandi

Chief Economist
Moody's Analytics, Inc.
Risk measurement and management firm

Officers

MGIC Investment Corporation

Chief Executive Officer

Timothy J. Mattke

President and Chief Operating Officer

Salvatore A. Miosi

Executive Vice Presidents

Nathaniel H. Colson
Chief Financial Officer

Paula C. Maggio

General Counsel and Secretary

Vice Presidents

Nathan R. Abramowski
Treasurer

Heidi A. Heyrman
Assistant Secretary

Brian M. Remington
Assistant Secretary

Julie K. Sperber

Controller & Chief Accounting Officer

Martha F. Tsuchihashi
Assistant Secretary

Officers

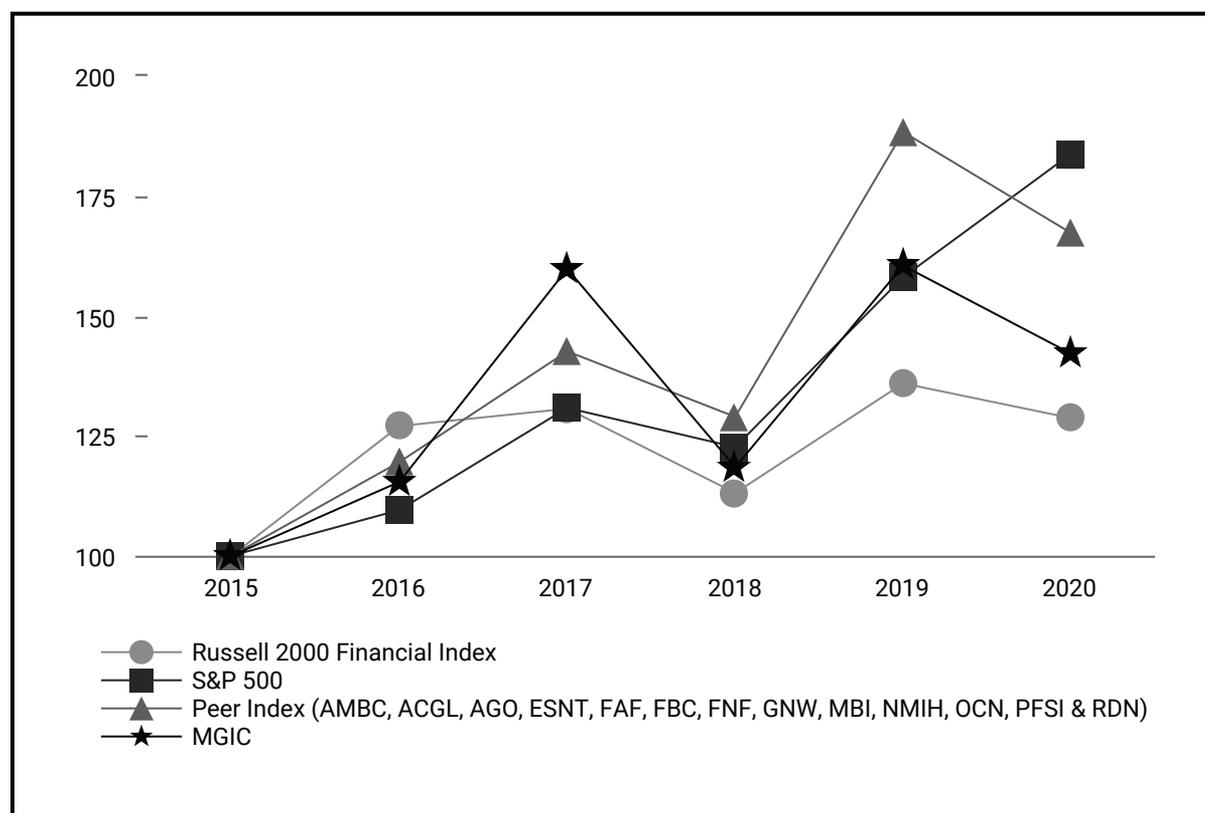
Mortgage Guaranty Insurance Corporation

Chief Executive Officer Timothy J. Mattke	Luis A. Contreras <i>National Accounts</i>	Christopher T. Perry <i>Sales</i>
President and Chief Operating Officer Salvatore A. Miosi	Geoffrey F. Cooper <i>Product Development</i>	Tara E. Radmann <i>Business Automation</i>
Executive Vice Presidents Nathaniel H. Colson <i>Chief Financial Officer</i>	Margaret M. Crowley <i>Marketing and Customer Experience</i>	Brian M. Remington <i>Loss Mitigation, Assistant General Counsel and Assistant Secretary</i>
James J. Hughes <i>Sales and Business Development</i>	Dean D. Dardzinski <i>Managing Director</i>	David H. Schroeder <i>Claims & Policy Servicing</i>
Paula C. Maggio <i>General Counsel and Secretary</i>	Stephen M. Dempsey <i>Managing Director</i>	John R. Schroeder <i>Corporate Development</i>
Steven M. Thompson <i>Chief Risk Officer</i>	Mary L. Elkins <i>Systems Development</i>	Bryan D. Specht <i>Underwriting & Customer Care</i>
Senior Vice Presidents Annette M. Adams <i>Chief Human Resources Officer</i>	Daniel J. Garcia-Velez <i>Business Development</i>	Julie K. Sperber <i>Controller and Chief Accounting Officer</i>
Robert J. Candelmo <i>Chief Information Officer</i>	Heidi A. Heyrman <i>Regulatory Relations, Assistant General Counsel and Assistant Secretary</i>	Paul A. Spiroff <i>Finance</i>
Sean A. Dilweg <i>Government Relations</i>	Dianna L. Higgins <i>Internal Audit</i>	Jennifer M. Steffens <i>Credit Policy and Analytics</i>
Michael J. Zimmerman <i>Investor Relations</i>	Michael E. Jacobson <i>Product Strategy</i>	Martha F. Tsuchihashi <i>Securities Law, Assistant General Counsel and Assistant Secretary</i>
Vice Presidents Nathan R. Abramowski <i>Treasurer</i>	Gary J. Johnson <i>Data Science</i>	Sean R. Valcamp <i>Chief Technology Officer</i>
Terry A. Aikin <i>Managing Director</i>	Mark J. Krauter <i>National Accounts</i>	Kathleen E. Valenti <i>Chief Compliance Officer</i>
Robert K. Bates <i>Sales Strategy</i>	Michael L. Kull <i>Managing Director</i>	Jennifer A. Westphal <i>Chief Information Security Officer</i>
Jane S. Coleman <i>National Accounts</i>	Elyse M. Mitchell <i>National Accounts</i>	Jerry L. Wormmeester <i>National Accounts</i>
	Stacey B. Murphy <i>Talent and Total Rewards</i>	

Performance Graph

The graph below compares the cumulative total return on (a) our Common Stock, (b) a composite peer group index selected by us, (c) the Russell 2000 Financial Services Index and (d) the S&P 500.

Our peer group index consists of the peers against which we analyzed our 2020 executive compensation: Ambac Financial Group, Inc., Arch Capital Group Ltd., Assured Guaranty Ltd., Essent Group Ltd., Fidelity National Financial Inc., First American Financial Corp., Flagstar Bancorp Inc., Genworth Financial Inc., MBIA Inc., NMI Holdings Inc., Ocwen Financial Corp., PennyMac Financial Services Inc. and Radian Group. The criteria considered when selecting this peer group included whether the company: 1) is a mortgage insurer, or direct competitor; 2) has significant exposure to residential real estate; 3) is in an industry in which we compete for talent; and 4) is reasonably similar in size to us, in terms of revenues and market capitalization.



	2015	2016	2017	2018	2019	2020
Russell 2000 Financial Index	100	127	131	113	136	129
S&P 500	100	110	131	123	158	184
Peer Index (AMBC, ACGL, AGO, ESNT, FAF, FBC, FNF, GNW, MBI, NMIH, OCN, PFSI & RDN)	100	120	143	129	188	167
MGIC	100	115	160	118	160	142

Shareholder Information

The Annual Meeting

The Annual Meeting of Shareholders of MGIC Investment Corporation will be held on April 29, 2021, at 10:00 a.m. Central time, via webcast at:

www.virtualshareholdermeeting.com/MTG2021.

10-K Report

Copies of the Annual Report on Form 10-K for the year ended December 31, 2020, filed with the Securities and Exchange Commission, are available without charge to shareholders on request from:

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

The Annual Report on Form 10-K referred to above includes as exhibits certifications from the Company's Chief Executive Officer and Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act. Following the 2020 Annual Meeting of Shareholders, the Company's Chief Executive Officer submitted a Written Affirmation to the New York Stock Exchange that he was not aware of any violation by the Company of the corporate governance listing standards of Exchange.

Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
800-937-5449

Corporate Headquarters

MGIC Plaza
270 East Kilbourn Avenue
Milwaukee, Wisconsin 53202

Mailing Address

P. O. Box 488
Milwaukee, Wisconsin 53201

Shareholder Services

(414) 347-6596

MGIC Stock

MGIC Investment Corporation Common Stock is listed on the New York Stock Exchange under the symbol MTG. At March 12, 2021, 339,248,595 shares of our common stock were entitled to vote.

The payment of dividends is subject to the discretion of our Board and will depend on many factors, including our operating results, financial condition and capital position. See Note 7 - "Debt" to our consolidated financial statements for dividend restrictions that apply when we elect to defer interest on our Convertible Junior Subordinated Debentures.

The Company is a holding company and the payment of dividends from its insurance subsidiaries is restricted by insurance regulations. For a discussion of these restrictions, see Note 14 - "Statutory Information, Dividend Restrictions" to our consolidated financial statements.

As of March 12, 2021, the number of shareholders of record was 246. In addition, we estimate that there are approximately 40,250 beneficial owners of shares held by brokers and fiduciaries.

MGIC Investment Corporation

MGIC Plaza

Milwaukee, WI 53202

mtg.mgic.com

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