MGIC INVESTMENT CORP
Form 10-K
March 01, 2011

FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from ____ to ____

Commission file number 1-10816

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

WISCONSIN (State or other jurisdiction of incorporation or organization)	39-1486475 (I.R.S. Employer Identification No.)
MGIC PLAZA, 250 EAST KILBOURN AVENUE, MILWAUKEE, WISCONSIN (Address of principal executive offices)	53202 (Zip Code)

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

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

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

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

Title of Class:	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes T No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No T

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

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

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

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

Large accelerated filer T   Accelerated filer o

Non-accelerated filer o   Smaller reporting company o

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

State the aggregate market value of the voting common stock held by non-affiliates of the Registrant as of June 30, 2010: Approximately $1.4 billion*

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of February 15, 2011: 201,115,257

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

Document	Part and Item Number of Form 10-K Into Which Incorporated*
Proxy Statement for the 2011 Annual Meeting of Shareholders	Items 10 through 14 of Part III

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

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PART I

Item 1. Business.

A. General

We are a holding company and through wholly owned subsidiaries we are the leading provider of private mortgage insurance in the United States. In 2010, our net premiums written exceeded $1.1 billion and our new insurance written was $12.3 billion. As of December 31, 2010, our primary insurance in force was $191.3 billion and our primary risk in force was $49.0 billion. For further information about our results of operations, see our consolidated financial statements in Item 8. As of December 31, 2010, our principal subsidiary, Mortgage Guaranty Insurance Corporation ("MGIC"), was licensed in all 50 states of the United States, the District of Columbia, Puerto Rico and Guam. During 2010, MGIC wrote new insurance in each of those jurisdictions. We have capitalized MGIC Indemnity Corporation ("MIC") to begin writing new insurance in certain jurisdictions if MGIC no longer meets, and is unable to obtain a waiver of, the minimum capital requirements of those jurisdictions. For more information about the formation of MIC and our plans to utilize it to continue writing new insurance in those jurisdictions, see the risk factor titled "Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis" in Item 1A. In addition to mortgage insurance on first mortgage loans, we, through our subsidiaries, provide lenders with various underwriting and other services and products related to home mortgage lending.

Overview of the Private Mortgage Insurance Industry

We established the private mortgage insurance industry in 1957 to provide a private market alternative to federal government insurance programs. Private mortgage insurance covers losses from homeowner defaults on residential mortgage loans, reducing and, in some instances, eliminating the loss to the insured institution if the homeowner defaults. Private mortgage insurance plays an important role in the housing finance system by expanding home ownership opportunities through helping people purchase homes with less than 20% down payments, especially first time homebuyers. In this annual report, we refer to loans with less than 20% down payments as "low down payment" mortgages or loans. During 2008, 2009 and 2010, approximately $193 billion, $82 billion and $69 billion, respectively, of mortgages were insured by private mortgage insurance companies.

The Federal National Mortgage Association, commonly known as Fannie Mae, and the Federal Home Loan Mortgage Corporation, commonly known as Freddie Mac, purchase residential mortgages from mortgage lenders and investors as part of their governmental mandate to provide liquidity in the secondary mortgage market. In this annual report, we refer to Fannie Mae and Freddie Mac collectively as the "GSEs." The GSEs cannot buy low down payment loans without certain forms of credit enhancement, one of which is private mortgage insurance. Therefore, private mortgage insurance facilitates the sale of low down payment mortgages in the secondary mortgage market to the GSEs. Private mortgage insurance also reduces the regulatory capital that depository institutions are required to hold against low down payment mortgages that they hold as assets.

The GSEs have been the major purchaser of the mortgages underlying flow new insurance written by mortgage insurers. As a result, the private mortgage insurance industry in the U.S. is defined in part by the requirements and practices of the GSEs. These requirements and practices, as well as those of the federal regulators that oversee the GSEs and lenders, impact the operating results and financial performance of companies in the mortgage insurance industry. In September 2008, the Federal Housing Finance Agency ("FHFA") was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The financial reform legislation passed in July 2010 (the "Dodd-Frank Act" or "Dodd-Frank") required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released on February 11, 2011 and while it does not provide any definitive timelines for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. As a result of the matters referred to above, it is uncertain what role the GSEs, Federal Housing Administration ("FHA") and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact on our business is uncertain. Any changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last. See the risk factor titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses" in Item 1A.

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The U.S. single-family residential mortgage market has historically experienced long-term growth, including an increase in mortgage debt outstanding every year between 1985, when our principal subsidiary, MGIC, began operations, and 2007. The rate of growth in U.S. residential mortgage debt was particularly strong from 2001 through 2006. In 2007, this growth rate began slowing and, since 2007, U.S. residential mortgage debt has decreased. During the last several years of the period of growth and continuing through 2007, the mortgage lending industry increasingly made home loans at higher loan-to-value ("LTV") ratios, to individuals with higher risk credit profiles and based on less documentation and verification of information regarding the borrower. Beginning in 2007, job creation slowed and the housing markets began slowing in certain areas, with declines in certain other areas. In 2008 and 2009, payroll employment in the U.S. decreased substantially and nearly all geographic areas in the U.S. experienced home price declines. Together, these conditions resulted in significant adverse developments for us and our industry. After earning an average of approximately $580 million annually from 2004 through 2006 and $169 million in the first half of 2007, we had net losses of $1.670 billion for 2007, $525 million for 2008, $1.322 billion for 2009 and $364 million in 2010. In 2008 and 2009, the insurer financial strength rating of MGIC was downgraded a number of times by the rating agencies (although one rating agency changed its ratings outlook for MGIC from negative to positive during 2010). See the risk factor titled "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements" in Item 1A.

Beginning in late 2007, we implemented a series of changes to our underwriting guidelines that are designed to improve the risk profile of our new business. The changes primarily affect borrowers who have multiple risk factors such as a high loan-to-value ratio, a lower FICO score and limited documentation or are financing a home in a market we categorize as higher risk and the changes included the creation of two tiers of "restricted markets." Our underwriting criteria for restricted markets do not allow insurance to be written on certain loans that could be insured if the property were located in an unrestricted market. While we expect our insurance written beginning in the second quarter of 2008 will generate underwriting profits as a result of these underwriting guideline changes, the loans insured from 2006 until the effectiveness of the new guidelines continue to experience significantly higher than historical claim rates and incurred losses. For more information, see the risk factor titled "We have reported net losses for the last four years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability" in Item 1A.

Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future.

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In 2010, the factors that influence our incurred losses were mixed. Although payroll employment increased modestly and the unemployment rate decreased modestly, home prices in most regions continued to decline. For more information, see the risk factor titled "Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves" in Item 1A. Although loan modification programs significantly mitigated our losses in 2010, the number of completed loan modifications declined in the last six months of 2010 compared to the first six months. We expect new loan modifications will only modestly mitigate losses in 2011. For more information, see the risk factor titled "Loan modifications and other similar programs may not continue to provide material benefits to us and our losses on loans that re-default can be higher than what we would have paid had the loan not been modified" in Item 1A. Finally, although our loss reserves as of December 31, 2010 continued to be significantly impacted by expected rescission activity, the impact was less than as of December 31, 2009. We expect that the reduction of our loss reserves due to rescissions will continue to decline because our recent experience indicates new notices in our default inventory have a lower likelihood of being rescinded than those already in the inventory due to their product mix, geographic location and vintage. For more information, see the risk factor titled "We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper" in Item 1A.

The mortgage insurance industry competes with governmental agencies and products designed to eliminate the need to purchase private mortgage insurance. For flow business, we and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies that sponsor government-backed mortgage insurance programs, principally the FHA and, to a lesser degree, the Veterans Administration (the "VA"). During 2010 and 2009, the FHA and VA accounted for approximately 84.4% and 84.6%, respectively, of the total low down payment residential mortgages that were subject to FHA, VA or private mortgage insurance, a substantial increase from an approximately 22.7% market share in 2007, according to statistics reported by Inside Mortgage Finance. The increase in market share of the FHA and VA, coupled with the decrease in the level of mortgage loan originations overall, has led to a decrease in our new insurance written from $76.8 billion in 2007 to $12.3 billion in 2010.

While the combined market share of the FHA and VA remained relatively flat in 2010 compared to 2009, the recent quarterly trend has been positive for the mortgage insurance industry. In the fourth quarter of 2009 and the first quarter of 2010, the combined market share of the FHA and VA was 88.2%. That market share decreased in each of the remaining quarters of 2010 and, by the fourth quarter of 2010, was 81.3%. These decreases may have been influenced by the different rate structures implemented by several mortgage insurers, including MGIC, during 2010 as well as changes to FHA's pricing that became effective in October 2010. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Consolidated Operations – New Insurance Written," in Item 7.

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

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

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

Ÿ Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. A possible restructuring or change in the charters of the GSEs, or a definition of QRM that significantly impacts the volume of low down payment mortgages available to be insured could significantly affect our business. For additional information about this challenge, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Fannie Mae and Freddie Mac" and "— Qualified Residential Mortgages" in Item 7 and the risk factors titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses" and "The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance or if the definition of Qualified Residential Mortgage results in a reduction of the number of low down payment loans available to be insured" in Item 1A.

Ÿ Whether we may continue to write insurance on new residential mortgage loans due to actions our regulators or the GSEs could take due to an actual or projected deterioration in our capital position. For additional information about this challenge, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Capital" in Item 7 and our risk factors titled "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements," "We have reported losses for the last four years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability" and "Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis" in Item 1A.

Ÿ Whether we will prevail in proceedings challenging whether our rescissions were proper. For additional information about this challenge see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Rescissions" in Item 7 and our risk factors titled "We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper" and "We are subject to the risk of private litigation and regulatory proceedings" in Item 1A. An adverse outcome in these proceedings would negatively impact our capital position. For more information regarding our capital position, refer to the challenge listed immediately above.

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General Information About Our Company

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

For many years ending in 2008, we had significant investments in two less than majority owned joint ventures, Credit-Based Asset Servicing and Securitization LLC, or "C-BASS," and Sherman Financial Group LLC, or "Sherman." In 2007, we reduced the carrying value of C-BASS to zero. As a result, in 2008, our joint venture income principally consisted of income from Sherman. In August 2008, we sold our entire interest in Sherman to Sherman. Beginning in the fourth quarter of 2008, our results of operations are no longer affected by any joint venture results.

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

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

B. Our Products and Services

Mortgage Insurance

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

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

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

Primary insurance may be written on a flow basis, in which loans are insured in individual, loan-by-loan transactions, or may be written on a bulk basis, in which each loan in a portfolio of loans is individually insured in a single, bulk transaction. New insurance written on a flow basis was $12.3 billion in 2010 compared to $19.9 billion in 2009 and $46.6 billion in 2008. No new insurance for bulk transactions was written in 2010 or 2009, compared to $1.6 billion written in 2008. As noted in “- Bulk Transactions” below, in the fourth quarter of 2007, we stopped writing bulk insurance for mortgage loans included in home equity (or “private label”) securitizations, which are the terms the market uses to refer to securitizations sponsored by firms other than the GSEs or Ginnie Mae, such as Wall Street investment banks. We refer to portfolios of loans we insured through the bulk channel that we knew would serve as collateral in a home equity securitization as “Wall Street bulk transactions.” While we may continue to insure loans on a bulk basis when we believe that the loans will be sold to a GSE or retained by the lender, we expect the volume of any future business written through the bulk channel will be insignificant to us.

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

Primary Insurance and Risk In Force

			December 31,		
	2010	2009	2008	2007	2006
			(In millions)		
Direct Primary Insurance In Force	$191,250	$212,182	$226,955	$211,745	$176,531
Direct Primary Risk In Force	$48,979	$54,343	$58,981	$55,794	$47,079

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

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

For a number of years, the GSEs have had programs under which on certain loans lenders could choose a mortgage insurance coverage percentage that was only the minimum required by their charters, with the GSEs paying a lower price for these loans ("charter coverage"). The GSEs have also had programs under which on certain loans they would accept a level of mortgage insurance above the requirements of their charters but below their standard coverage without any decrease in the purchase price they would pay for these loans ("reduced coverage"). Freddie Mac eliminated its reduced coverage program in 2009. Effective January 1, 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage and in the second quarter of 2010 Fannie Mae eliminated its reduced coverage program. In recent years, a majority of our volume was on loans with GSE standard coverage; almost all of the rest of our volume was on loans with reduced coverage, with only a minor portion of our volume on loans with charter coverage. Beginning in the fourth quarter of 2009, the average coverage percentage of our new insurance written increased. We believe the increased coverage was due in part to the elimination of Fannie Mae's reduced coverage program.

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

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

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

Coverage tends to continue in areas experiencing economic contraction and housing price depreciation. The persistency of coverage in these areas coupled with cancellation of coverage in areas experiencing economic expansion and housing price appreciation can increase the percentage of an insurer's portfolio comprised of loans in economically weak areas. This development can also occur during periods of heavy mortgage refinancing because refinanced loans in areas of economic expansion experiencing property value appreciation are less likely to require mortgage insurance at the time of refinancing, while refinanced loans in economically weak areas not experiencing property value appreciation are more likely to require mortgage insurance at the time of refinancing or not qualify for refinancing at all and thus remain subject to the mortgage insurance coverage.

The percentage of primary risk written with respect to loans representing refinances was 28.0% in 2010, compared to 36.0% in 2009 and 21.9% in 2008. When a borrower refinances a mortgage loan insured by us by paying it off in full with the proceeds of a new mortgage that is also insured by us, the insurance on that existing mortgage is cancelled, and insurance on the new mortgage is considered to be new primary insurance written. Therefore, continuation of our coverage from a refinanced loan to a new loan results in both a cancellation of insurance and new insurance written. When a lender and borrower modify a loan rather than replace it with a new one, or enter into a new loan pursuant to a loan modification program, our insurance continues without being cancelled, assuming that we consent to the modification or new loan. As a result, such modifications or new loans, including those modified under the Home Affordable Refinance Program, are not included in our new insurance written.

In addition to varying with the coverage percentage, our premium rates for insurance vary depending upon the perceived risk of a claim on the insured loan and thus take into account, among other things, the loan-to-value ratio, whether the loan is a fixed payment loan or a non-fixed payment loan (a non-fixed payment loan is referred to in the home mortgage lending industry as an adjustable rate mortgage), the mortgage term and whether the property is the borrower's primary residence. Historically, only our premium rates for A-, subprime loans and certain other loans varied based on the location of the borrower's credit score within a range of credit scores. In general, in this annual report we classify as "A-" loans that have FICO credit scores between 575 and 619 and we classify as "subprime" loans that have FICO credit scores of less than 575. However, in this annual report we classify loans without complete documentation as "reduced documentation" loans regardless of FICO credit score rather than as prime, "A-" or "subprime" loans, although as discussed in footnote 4 to the table titled "Default Statistics for the MGIC Book" in " — Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation — Defaults" below, certain "doc waiver" GSE loans are included as "full doc" loans by us in accordance with industry practice. A FICO credit score is a score based on a borrower's credit history generated by a model developed by Fair Isaac and Company. During 2010, we began pricing our new insurance written considering, among other things, the borrower's credit score ("credit-tiered pricing"). We made these rate changes to be more competitive with insurance programs offered by the FHA. These rate changes have resulted in lower premiums being charged for a substantial majority of our new insurance written. However, beginning in the fourth quarter of 2009, the average coverage percentage of our new insurance written increased. We believe the increased coverage was due in part to the elimination of Fannie Mae's reduced coverage program as discussed above. Because we charge higher premiums for higher coverages, the effect of lower premium rates under our new pricing plan has been mitigated by the increase in premiums due to higher coverages.

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

The borrower's mortgage loan instrument may require the borrower to pay the mortgage insurance premium. Our industry refers to loans having this requirement as "borrower paid." If the borrower is not required to pay the premium, then the premium is paid by the lender, who may recover the premium through an increase in the note rate on the mortgage or higher origination fees. Our industry refers to loans in which the premium is paid by the lender as "lender paid." Most of our primary insurance in force and new insurance written, other than through bulk transactions, is borrower paid mortgage insurance. New insurance written through bulk transactions was generally paid for by the securitization vehicles or investors that hold the mortgages, and the mortgage note rate generally does not reflect the premium for the mortgage insurance. In February 2008, Freddie Mac and Fannie Mae informed us and the rest of our industry that they were reviewing the appropriateness of all mortgage insurers' lender-paid insurance premium rates. We are uncertain of the status of these reviews.

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

During each of the last three years, the monthly premium plan represented more than 85% of our new insurance written. The annual and single premium plans represented the remaining new insurance written.

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

We are currently not issuing new commitments for pool insurance and expect that the volume of any future pool business will be insignificant to us. We wrote no new pool risk in 2010, compared to $4 million in 2009 and $145 million in 2008. New pool risk written during 2008 was primarily comprised of risk associated with loans delivered to the GSEs and loans made under state housing finance programs. Our direct pool risk in force was $2.7 billion ($1.2 billion on pool policies with aggregate loss limits and $1.5 billion on pool policies without aggregate loss limits) at December 31, 2010, compared to $3.4 billion ($1.5 billion on pool policies with aggregate loss limits and $1.9 billion on pool policies without aggregate loss limits) at December 31, 2009 and $4.3 billion ($1.8 billion on pool policies with aggregate loss limits and $2.5 billion on pool policies without aggregate loss limits) at December 31, 2008. In previous filings, we also disclosed the estimated risk amount that would credit enhance the pool policies with no aggregate loss limits to an 'AA' level based on a rating agency model. We did not renew our subscription to this model and, as a result, no longer provide estimates of this amount.

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

In the fourth quarter of 2007, we stopped writing bulk insurance for loans included in Wall Street bulk transactions. These securitizations represented approximately 41% of our new insurance written for bulk transactions during 2007, and 9% of our risk in force and 63% of our bulk risk in force, at December 31, 2010. New insurance written for bulk transactions was $1.6 billion during 2008, all of which were eligible for delivery to the GSEs, compared to $7.8 billion for 2007. We wrote no new business through the bulk channel after the second quarter of 2008. We expect the volume of any future business written through the bulk channel will be insignificant to us. In general, the loans insured by us in Wall Street bulk transactions consisted of loans with reduced underwriting documentation; cash out refinances that exceed the standard underwriting requirements of the GSEs; A- loans; subprime loans; and jumbo loans. A jumbo loan has an unpaid principal balance that exceeds the conforming loan limit. The conforming loan limit is the maximum unpaid principal amount of a mortgage loan that can be purchased by the GSEs. The conforming loan limit is subject to annual adjustment, and for mortgages covering a home with one dwelling unit was $417,000 for 2007 and early 2008; this amount was temporarily increased to up to $729,500 in the most costly communities in early 2008 and remained at that amount throughout 2009 and 2010. For additional information about new insurance written through the bulk channel, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Consolidated Operations — Bulk Transactions" in Item 7.

Geographic Dispersion

The following tables reflect the percentage of primary risk in force in the top 10 states and top 10 core-based statistical areas for the MGIC Book at December 31, 2010:

Dispersion of Primary Risk in Force

Top 10 States

1.	Florida	7.6	%
2.	California	7.4	
3.	Texas	7.1	
4.	Pennsylvania	4.6	
5.	Illinois	4.5	
6.	Ohio	4.3	
7.	Michigan	3.8	
8.	New York	3.6	
9.	Georgia	3.4	
10.	Wisconsin	2.8	
Total		49.1	%

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Top 10 Core-based statistical areas

1.	Chicago-Naperville-Joliet	3.1	%
2.	Atlanta-Sandy Springs-Marietta	2.4	
3.	Houston-Baytown-Sugarland	2.2	
4.	Washington-Arlington-Alexandria	1.9	
5.	Los Angeles-Long Beach-Glendale	1.7	
6.	San Juan-Caguas-Guaynabo	1.7	
7.	Philadelphia	1.6	
8.	Phoenix-Mesa-Scottsdale	1.5	
9.	Riverside-San Bernardino-Ontario	1.5	
10.	Dallas-Plano-Irving	1.5	
Total		19.1	%

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

Insurance In Force by Policy Year

The following table sets forth for the MGIC Book the dispersion of our primary insurance in force as of December 31, 2010, by year(s) of policy origination since we began operations in 1985:

Primary Insurance In Force by Policy Year

Policy Year	Flow	Bulk	Total	Percent of Total	
		(In millions)			
1985-2002	$ 9,666	$ 1,871	$ 11,537	6.0	%
2003	8,259	1,648	9,907	5.2	
2004	9,725	1,767	11,492	6.0	
2005	15,443	4,069	19,512	10.2	
2006	20,108	8,118	28,226	14.8	
2007	46,039	5,304	51,343	26.8	
2008	30,798	521	31,319	16.4	
2009	16,452	-	16,452	8.6	
2010	11,462	-	11,462	6.0	
Total	$ 167,952	$ 23,298	$ 191,250	100.0	%

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Risk In Force and Product Characteristics of Risk in Force

At December 31, 2010 and 2009, 95% and 94%, respectively, of our risk in force was primary insurance and the remaining risk in force was pool insurance. The following table sets forth for the MGIC Book the dispersion of our primary risk in force as of December 31, 2010, by year(s) of policy origination since we began operations in 1985:

Primary Risk In Force by Policy Year

Policy Year	Flow	Bulk (In millions)	Total	Percent of Total
1985-2002	$ 2,485	$ 513	$ 2,998	6.1 %
2003	2,241	489	2,730	5.6
2004	2,683	497	3,180	6.5
2005	4,157	1,241	5,398	11.0
2006	5,193	2,465	7,658	15.6
2007	11,808	1,300	13,108	26.8
2008	7,571	117	7,688	15.7
2009	3,453	-	3,453	7.1
2010	2,766	-	2,766	5.6
Total	$ 42,357	$ 6,622	$ 48,979	100.0 %

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

Characteristics of Primary Risk in Force

	December 31, 2010		December 31, 2009	
Primary Risk in Force (In Millions):	$ 48,979		$ 54,343	
Loan-to-value ratios:(1)				
100s	27.1	%	28.2	%
95s	30.5		29.5	
90s(2)	37.5		37.0	
80s	4.9		5.3	
Total	100.0	%	100.0	%
Loan Type:				
Fixed(3)	91.3	%	90.5	%
Adjustable rate mortgages (“ARMs”)(4)	8.7		9.5	
Total	100.0	%	100.0	%
Original Insured Loan Amount:(5)				
Conforming loan limit and below	94.8	%	94.7	%
Non-conforming	5.2		5.3	
Total	100.0	%	100.0	%
Mortgage Term:				
15-years and under	1.3	%	1.2	%
Over 15 years	98.7		98.8	
Total	100.0	%	100.0	%
Property Type:				
Single-family(6)	89.3	%	89.3	%
Condominium	9.7		9.6	
Other(7)	1.0		1.1	
Total	100.0	%	100.0	%
Occupancy Status:				
Primary residence	94.0	%	93.5	%
Second home	3.2		3.4	
Non-owner occupied	2.8		3.1	
Total	100.0	%	100.0	%
Documentation:				
Reduced documentation(8)	9.8	%	10.8	%
Full documentation	90.2		89.2	
Total	100.0	%	100.0	%
FICO Score:(9)				
Prime (FICO 620 and above)	91.3	%	91.4	%
A Minus (FICO 575 – 619)	6.8		6.7	
Subprime (FICO below 575)	1.9		1.9	
Total	100.0	%	100.0	%

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

(2) We include in our classification of 90s, loans where the borrower makes a down payment of 10% and finances the associated mortgage insurance premium payment as part of the mortgage loan. At each of December 31, 2010 and 2009, 1.3% of the primary risk in force consisted of these types of loans.

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(3) Includes fixed rate mortgages with temporary buydowns (where in effect the applicable interest rate is typically reduced by one or two percentage points during the first two years of the loan), ARMs in which the initial interest rate is fixed for at least five years and balloon payment mortgages (a loan with a maturity, typically five to seven years, that is shorter than the loan's amortization period).

(4) Includes ARMs where payments adjust fully with interest rate adjustments. Also includes pay option ARMs and other ARMs with negative amortization features, which collectively at December 31, 2010 and 2009, represented 3.1% and 3.5%, respectively, of primary risk in force. As indicated in note (3), does not include ARMs in which the initial interest rate is fixed for at least five years. As of December 31, 2010 and 2009, ARMs with loan-to-value ratios in excess of 90% represented 1.9% and 2.3%, respectively, of primary risk in force.

(5) Loans within the conforming loan limit have an original principal balance that does not exceed the maximum original principal balance of loans that the GSEs are eligible to purchase. The conforming loan limit is subject to annual adjustment and was $417,000 for 2007 and early 2008; this amount was temporarily increased to up to $729,500 in the most costly communities in early 2008 and remained at such level throughout 2010. Non-conforming loans are loans with an original principal balance above the conforming loan limit.

(6) Includes townhouse-style attached housing with fee simple ownership.

(7) Includes cooperatives and manufactured homes deemed to be real estate.

(8) Reduced documentation loans, many of which are commonly referred to as "Alt-A" loans, are originated under programs in which there is a reduced level of verification or disclosure compared to traditional mortgage loan underwriting, including programs in which the borrower's income and/or assets are disclosed in the loan application but there is no verification of those disclosures and programs in which there is no disclosure of income or assets in the loan application. At December 31, 2010 and 2009, reduced documentation loans represented 5.5% and 6.1%, respectively, of risk in force written through the flow channel and 37.4% and 38.9%, respectively of risk in force written through the bulk channel. In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." Based in part on information provided by the GSEs, we estimate full documentation loans of this type were approximately 4% of 2007 new insurance written. Information for other periods is not available. We understand these AU systems grant such doc waivers for loans they judge to have higher credit quality. We also understand that the GSEs terminated their "doc waiver" programs in the second half of 2008.

(9) Represents the FICO score at loan origination. The weighted average FICO score at loan origination for new insurance written in 2010 and 2009 was 759 and 760, respectively. For the information presented for 2010, the FICO credit score for a loan with multiple borrowers is the lowest of the borrowers' "decision FICO scores." For the information presented prior to 2010, the FICO score for a loan with multiple borrowers was the income weighted average of the "decision FICO scores" for each borrower. A borrower's "decision FICO score" is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used.

Other Products and Services

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

In response to requests or subpoenas, we provided information regarding captive mortgage reinsurance arrangements to the New York Department of Insurance, the Minnesota Department of Commerce and the Department of Housing and Urban Development, commonly referred to as HUD. Seven mortgage insurers, including MGIC, were involved in litigation alleging that "inflated" captive reinsurance premiums were paid in violation of RESPA. MGIC settled this class action litigation against it in October 2003. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. On November 29, 2010, six mortgage insurers (including MGIC) and a large mortgage lender (which was the named plaintiffs' lender) were named as defendants in a purported class action complaint alleging various causes of action related to the captive mortgage reinsurance arrangements of this mortgage lender, including that the defendants violated RESPA by paying the lender's captive reinsurer excessive premiums in relation to the risk assumed by that captive. The named plaintiffs' loan was not insured by MGIC and it is our understanding that it was not reinsured by this mortgage lender's captive reinsurance affiliates. There can be no assurance that we will not be subject to future litigation under RESPA. For more information, see our risk factor titled "We are subject to the risk of private litigation and regulation proceedings" in Item 1A.

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

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

Contract Underwriting and Related Services. We perform contract underwriting services for lenders in which we judge whether the data relating to the borrower and the loan contained in the lender's mortgage loan application file comply with the lender's loan underwriting guidelines. We also provide an interface to submit data to the automated underwriting systems of the GSEs, which independently judge the data. These services are provided for loans that require private mortgage insurance as well as for loans that do not require private mortgage insurance. The complaint in the RESPA litigation that we settled in 2003 and that is described in our risk factor titled "We are subject to the risk of private litigation and regulatory proceedings" in Item 1A, alleged, among other things, that the pricing of contract underwriting provided by us violated RESPA.

Under our contract underwriting agreements, we may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such obligations. The cost of remedies provided by us to customers for failing to meet these standards has not been material to our financial position or results of operations for the years ended December 31, 2010, 2009 and 2008. However, a generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs, and claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years, including for 2006 and 2007, involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans for which we provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. Beginning in the second half of 2009, we experienced an increase in claims for contract underwriting remedies, which continued throughout 2010. Hence, there can be no assurance that contract underwriting remedies will not be material in the future.

In February 2008, Freddie Mac and Fannie Mae informed us and the rest of our industry that they were reviewing all mortgage insurers' business justifications for activities, such as contract underwriting services, that have the potential for creating non-insurance related contingent liabilities. We are uncertain of the status of these reviews.

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Customers

Originators of residential mortgage loans such as savings institutions, commercial banks, mortgage brokers, credit unions, mortgage bankers and other lenders have historically determined the placement of mortgage insurance written on a flow basis and as a result are our customers. To obtain primary insurance from us written on a flow basis, a mortgage lender must first apply for and receive a mortgage guaranty master policy from us. Our top 10 customers, none of whom represented more than 10% of our consolidated revenues, generated 27.2% of our new insurance written on a flow basis in 2010, compared to 39.3% in 2009 and 40.3% in 2008. In the fourth quarter of 2009, Countrywide and an affiliate ("Countrywide") commenced litigation against us as a result of its dissatisfaction with our rescission practices shortly after it ceased doing business with us. See the risk factor titled "We are subject to the risk of private litigation and regulatory proceedings" in Item 1A as well as Item 3, "Legal Proceedings," for more information about this litigation and the arbitration case we filed against Countrywide regarding rescissions. Countrywide and its Bank of America affiliates accounted for 12.0% of our flow new insurance written in 2008 and 8.3% of our new insurance written in the first three quarters of 2009. Another customer with whom we still do business accounted for approximately 11% of our flow new insurance written in 2010 compared to almost 14% in 2009.

Sales and Marketing and Competition

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

Competition. Our competition includes other mortgage insurers, governmental agencies and products designed to eliminate the need to purchase private mortgage insurance. As noted above in "Overview of the Private Mortgage Insurance Industry," for flow business, we and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies, principally the FHA and, to a lesser degree, the VA. These agencies sponsor government-backed mortgage insurance programs, which during 2010 and 2009 accounted for approximately 84.4% and 84.6%, respectively, of the total low down payment residential mortgages which were subject to governmental or private mortgage insurance, a substantial increase from approximately 22.7% in 2007, according to statistics reported by Inside Mortgage Finance. We believe that the FHA's market share increased, in part, because mortgage insurers have tightened their underwriting guidelines (which has led to increased utilization of the FHA's programs) and because of increases in the amount of loan level delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). Furthermore, the FHA's loan limits were raised to be more on par with those of the GSEs in high cost markets.

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

Private mortgage insurers are also subject to competition from the GSEs to the extent that they are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry. As noted above, for a number of years, the GSEs have had programs under which, on certain loans, lenders could choose a mortgage insurance coverage percentage that was only the minimum required by their charters, with the GSEs paying a lower price for these loans ("charter coverage"). The GSEs have also had programs under which on certain loans they would accept a level of mortgage insurance above the requirements of their charters but below their standard coverage without any decrease in the purchase price they would pay for these loans ("reduced coverage"). Freddie Mac eliminated its reduced coverage program in 2009. Effective January 1, 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage and, in the second quarter of 2010, Fannie Mae eliminated its reduced coverage program. In recent years, a majority of our volume has been on loans with GSE standard coverage, almost all of the rest of our volume was on loans with reduced coverage, with only a minor portion of our volume on loans with charter coverage. We charge higher premium rates for higher coverages. To the extent lenders selling loans to Fannie Mae choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Fannie Mae and Freddie Mac” for a discussion about the risk that private mortgage insurance will not remain a significant credit enhancement for low down payment single family mortgages and the risk factor titled “Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses” in Item 1A for a discussion of how potential changes in the GSEs’ business practices could affect us.

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The capital markets and their participants have historically competed with mortgage insurers by offering alternative products and services and may further develop as competitors to private mortgage insurers in ways we cannot predict. Competition from such alternative products and services was substantial prior to 2007 but declined materially in late 2007 and their presence was insignificant in 2008 through 2010.

Prior to 2008, we and other mortgage insurers also competed with transactions structured to avoid mortgage insurance on low down payment mortgage loans. These transactions include self-insuring, and "80-10-10" and similar loans (generally referred to as "piggyback loans"), which are loans comprised of both a first and a second mortgage (for example, an 80% loan-to-value ratio first mortgage and a 10% loan-to-value ratio second mortgage), with the loan-to-value ratio of the first mortgage below what investors require for mortgage insurance, compared to a loan in which the first mortgage covers the entire borrowed amount (which in the preceding example would be a 90% loan-to-value ratio mortgage). Competition from piggyback structures was substantial prior to 2007 but declined materially later in 2007, and declined further in 2008 and remained low in 2009 and 2010.

The U.S. private mortgage insurance industry currently consists of eight active mortgage insurers and their affiliates. The newest mortgage insurer began to write new business in 2010 and has reported that JPMorgan Chase, one of our customers, is an investor. One of the other eight mortgage insurers is a joint venture in which another mortgage insurer participates. Another of the eight mortgage insurers is part of a consolidated group, certain members of which together are, according to filings with the Securities and Exchange Commission as of February 15, 2011, our largest shareholder. The names of these mortgage insurers can be found in "Competition or changes in our relationships with our customers could reduce our revenues or increase our losses" in Item 1A. In 2008, a mortgage insurer ceased writing new insurance and placed its existing book of business in run-off. According to Inside Mortgage Finance, which obtains its data from reports provided by us and other mortgage insurers that are to be prepared on the same basis as the reports by insurers to the trade association for the private mortgage insurance industry, for more than ten years, we have been the largest private mortgage insurer based on new primary insurance written, with a market share of 22.0% in 2010, 26.0% in 2009, 24.5% in 2008, 21.3% in 2007 and 21.6% in 2006, and at December 31, 2010, we also had the largest book of direct primary insurance in force. For more than five years, these reports do not include as "primary mortgage insurance" insurance on certain loans classified by us as primary insurance, such as loans insured through bulk transactions that already had mortgage insurance placed on the loans at origination.

The private mortgage insurance industry is highly competitive. We believe that we currently compete with other private mortgage insurers based on underwriting guidelines, pricing, customer relationships, name recognition, reputation, the ancillary products and services provided to lenders (including contract underwriting services), the strength of management teams and field organizations, the depths of databases covering insured loans, issuer financial strength ratings and the effective use of technology and innovation in the delivery and servicing of insurance products. Our relationships with our customers could be adversely affected by a variety of factors, including rescission of coverage on loans that affects the customer and our decision to discontinue ceding new business under excess of loss captive reinsurance programs. In the fourth quarter of 2009, Countrywide commenced litigation against us as a result of its dissatisfaction with our rescission practices shortly after it ceased doing business with us. See the risk factor titled "We are subject to the risk of private litigation and regulatory proceedings" in Item 1A as well as Item 3, "Legal Proceedings," for more information about this litigation and the arbitration case we filed against Countrywide regarding rescissions. Information about some of the other factors that can affect a mortgage insurer's relationship with its customers can be found in our risk factor titled "Competition or changes in our relationships with our customers could reduce our revenues or increase our losses" in Item 1A. Several private mortgage insurers compete based on the types of captive mortgage reinsurance that they offer.

Certain private mortgage insurers compete for flow business by offering lower premium rates than other companies, including us, either in general or with respect to particular customers or classes of business. On a case-by-case basis, we will adjust premium rates, generally depending on the risk characteristics, loss performance or class of business of the loans to be insured, or the costs associated with doing such business.

The mortgage insurance industry historically viewed a financial strength rating of Aa3/AA- as critical to writing new business. At the time that this annual report was finalized, the financial strength of MGIC, our principal mortgage insurance subsidiary, was rated Ba3 by Moody’s Investors Service (the outlook for this rating is positive) and B+ by Standard & Poor’s Rating Services (the outlook for this rating is negative). In January 2010, at our request, Fitch Ratings withdrew its ratings of MGIC. MGIC could be further downgraded by either or both of these rating agencies. As a result of MGIC’s financial strength rating being below Aa3/AA-, it is operating with each GSE as an eligible insurer under a remediation plan. For further information about the importance of MGIC’s ratings, see our risk factor titled “MGIC may not continue to meet the GSEs’ mortgage insurer eligibility requirements” in Item 1A. In assigning financial strength ratings, in addition to considering the adequacy of the mortgage insurer’s capital to withstand very high claim scenarios under assumptions determined by the rating agency, we believe rating agencies review a mortgage insurer’s historical and projected operating performance, franchise risk, business outlook, competitive position, management, corporate strategy, and other factors. The rating agency issuing the financial strength rating can withdraw or change its rating at any time.

Risk Management

We believe that mortgage credit risk is materially affected by:

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

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

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

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

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

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

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Delegated Underwriting and GSE Automated Underwriting Approvals. Delegated underwriting is a program under which approved lenders are allowed to commit us to insure loans originated through the flow channel. Until January 2007, lenders were able to commit us to insure loans utilizing only their own underwriting guidelines and underwriting evaluation. In addition, from 2000 through January 2007, loans approved by the automated underwriting services of the GSEs were automatically approved for MGIC mortgage insurance. As a result, during this period, a substantial majority of the loans insured by us through the flow channel were approved as a result of loan approvals by the automated underwriting services of the GSEs or through delegated underwriting programs, including those utilizing lenders' proprietary underwriting services. Beginning in 2007, loans that did not meet our underwriting guidelines would not automatically be insured by us even though the loans were approved by the underwriting services described above. As a result, our delegated underwriting program began requiring lenders to commit us to insure only loans that complied with our underwriting guidelines.

Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation

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

Defaults. The claim cycle on private mortgage insurance begins with the insurer's receipt of notification of a default on an insured loan from the lender. We define a default as an insured loan with a mortgage payment that is 45 days or more past due. Lenders are required to notify us of defaults within 130 days after the initial default, although most lenders do so earlier. The incidence of default is affected by a variety of factors, including the level of borrower income growth, unemployment, divorce and illness, the level of interest rates, rates of housing price appreciation or depreciation and general borrower creditworthiness. Defaults that are not cured result in a claim to us. See "-Claims." Defaults may be cured by the borrower bringing current the delinquent loan payments or by a sale of the property and the satisfaction of all amounts due under the mortgage. In addition, when a policy is rescinded or a claim is denied we remove the default from our default inventory.

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The following table shows the number of primary and pool loans insured in the MGIC Book, including loans insured in bulk transactions and A- and subprime loans, the related number of loans in default and the percentage of loans in default, or default rate, as of December 31, 2006-2010:

Default Statistics for the MGIC Book

	December 31, 2010	2009	2008	2007	2006
PRIMARY INSURANCE					
Insured loans in force	1,228,315	1,360,456	1,472,757	1,437,432	1,283,174
Loans in default(1)	214,724	250,440	182,188	107,120	78,628
Default rate – all loans	17.48 %	18.41 %	12.37 %	7.45 %	6.13 %
Flow loans in default	162,621	185,828	122,693	61,352	42,438
Default rate – flow loans	14.94 %	15.46 %	9.51 %	4.99 %	4.08 %
Bulk loans in force	139,446	158,089	182,268	208,903	243,395
Bulk loans in default(2)	52,103	64,612	59,495	45,768	36,190
Default rate – bulk loans	37.36 %	40.87 %	32.64 %	21.91 %	14.87 %
Prime loans in default(3)	134,787	150,642	95,672	49,333	36,727
Default rate – prime loans	13.11 %	13.29 %	7.90 %	4.33 %	3.71 %
A-minus loans in default(3)	31,566	37,711	31,907	22,863	18,182
Default rate – A-minus loans	36.69 %	40.66 %	30.19 %	19.20 %	16.81 %
Subprime loans in default(3)	11,132	13,687	13,300	12,915	12,227
Default rate – subprime loans	45.66 %	50.72 %	43.30 %	34.08 %	26.79 %
Reduced documentation loans delinquent(4)	37,239	48,400	41,309	22,009	11,492
Default rate – reduced doc loans	41.66 %	45.26 %	32.88 %	15.48 %	8.19 %
POOL INSURANCE					
Insured loans in force	468,361	526,559	603,332	757,114	766,453
Loans in default	43,329	44,231	33,884	25,224	20,458
Percentage of loans in default (default rate)	9.25 %	8.40 %	5.62 %	3.33 %	2.67 %

General Notes: (a) For the information presented for 2010, the FICO credit score for a loan with multiple borrowers is the lowest of the borrowers' "decision FICO scores." For the information presented prior to 2010, the FICO score for a loan with multiple borrowers was the income weighted average of the "decision FICO scores" for each borrower. A borrower's "decision FICO score" is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used. This change will make our reporting of FICO credit scores consistent with the FICO credit scores that we use for underwriting purposes. (b) Servicers continue to pay our premiums for nearly all of the loans in our default inventory, but in some cases, servicers stop paying our premiums. In those cases, even though the loans continue to be included in our default inventory, the applicable loans are removed from our insured loans in force. Loans where servicers have stopped paying premiums include 14,970 defaults as of December 31, 2010.

(1) At December 31, 2010, 2009, 2008 and 2007, 36,066, 45,907, 45,482 and 39,704 loans in default, respectively, related to Wall Street bulk transactions and at December 31, 2010, 2009, 2008, 2007 and 2006, 20,898, 16,389, 13,275, 5,055 and 2,906 loans in default, respectively, were in our claims received inventory.

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

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

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

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Different areas of the United States may experience different default rates due to varying localized economic conditions from year to year. The following table shows the percentage of primary loans we insured that were in default as of December 31, 2010, 2009 and 2008 for the 15 states for which we paid the most losses during 2010:

State Default Rates

	December 31,		
	2010	2009	2008
Florida	41.00 %	42.61 %	29.46 %
California	27.30	34.22	25.17
Arizona	30.81	33.55	21.54
Michigan	17.48	19.25	13.61
Georgia	20.85	22.38	14.36
Nevada	41.07	42.01	25.10
Illinois	21.96	21.70	13.28
Texas	11.31	12.11	8.68
Ohio	13.67	13.97	9.93
Virginia	15.07	16.90	11.99
Minnesota	15.38	18.12	13.17
Maryland	22.15	23.91	15.19
Washington	15.73	14.44	7.27
Massachusetts	13.28	15.22	10.86
Colorado	13.62	14.58	9.02
All other states	13.76	13.78	9.08

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

Primary Default Inventory by State

	December 31,		
	2010	2009	2008
Florida	32,788	38,924	29,384
California	14,070	19,661	14,960
Arizona	6,781	8,791	6,338
Michigan	10,278	12,759	9,853
Georgia	9,117	10,905	7,622
Nevada	4,729	5,803	3,916
Illinois	12,548	13,722	9,130
Texas	11,602	13,668	10,540
Ohio	9,850	11,071	8,555
Virginia	3,627	4,464	3,360
Minnesota	3,672	4,674	3,642
Maryland	4,264	4,940	3,318
Washington	3,888	3,768	1,967
Massachusetts	3,050	3,661	2,634
Colorado	2,917	3,451	2,328
All other states	81,543	90,178	64,641
	214,724	250,440	182,188

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

Under the terms of our master policy, the lender is required to file a claim for primary insurance with us within 60 days after it has acquired title to the underlying property (typically through foreclosure). Depending on the applicable state foreclosure law, generally at least twelve months pass from the date of default to payment of a claim on an uncured default. The rate at which claims are received and paid has slowed recently due to various state and lender foreclosure moratoriums and suspensions, servicing delays including as a result of attempts to modify loans, fraud investigations by us, our pursuit of mitigation opportunities and a lack of capacity in the court systems.

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

Claim activity is not evenly spread throughout the coverage period of a book of primary business. For prime loans, relatively few claims are typically received during the first two years following issuance of coverage on a loan. This is typically followed by a period of rising claims which, based on industry experience, has historically reached its highest level in the third and fourth years after the year of loan origination. Thereafter, the number of claims typically received has historically declined at a gradual rate, although the rate of decline can be affected by conditions in the economy, including slowing home price appreciation or housing price depreciation. Due in part to the subprime component of loans insured in Wall Street bulk transactions, the peak claim period for bulk loans has generally occurred earlier than for prime loans. Moreover, when a loan is refinanced, because the new loan replaces, and is a continuation of, an earlier loan, the pattern of claims frequency for that new loan may be different from the historical pattern of other loans. Persistency, the condition of the economy, including unemployment, and other factors can affect the pattern of claim activity. For example, a weak economy can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. We are currently seeing such performance as it relates to delinquencies from our older books and all of our books are being affected by the condition of the economy and housing price depreciation. As of December 31, 2010, 58% of the MGIC Book of primary insurance in force had been written on or after January 1, 2007 and 31% had been written on or after January 1, 2008, although a portion of that insurance arose from the refinancing of earlier originations. See "Our Products and Services - Mortgage Insurance - Insurance In Force by Policy Year" above.

Another important factor affecting MGIC Book losses is the amount of the average claim paid, which is generally referred to as claim severity. The main determinants of claim severity are the amount of the mortgage loan, the coverage percentage on the loan and local market conditions. The primary average claim paid on the MGIC Book was $50,173 for 2010, compared to $52,627 for 2009, $52,239 for 2008, and $37,165 in 2007. The increase in the average claim paid in 2010, 2009 and 2008 compared to 2007 was primarily a result of higher loan exposures with higher average claim payments. The decrease in average claim paid in 2010 compared to 2009 was primarily a result of flow claims being a higher percentage of claims paid in 2010 compared to 2009; flow claims have lower average loan amounts and coverage percentages than bulk loans.

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Information about net claims we paid during 2008 through 2010 appears in the table below.

Net paid claims (In millions)

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

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

Primary paid claims by state (In millions)

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

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

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

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Because we review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur most often after we have received a claim. Historically, policy rescissions and claim denials, which we collectively refer to as "rescissions" and variations of this term, were not a material portion of our claims resolved during a year. However, beginning in 2008 rescissions have materially mitigated our paid losses. For further information about our recent rescission rates, See "Management's Discussion and Analysis of Financial Condition and Results of Operations–Results of Consolidated Operations — Losses – Losses Incurred" in Item 7. While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue at the same rates (as a percentage of claims received) we have previously experienced. For further information, see our risk factor titled "We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper" in Item 1A.

When we rescind coverage, we return all premiums previously paid to us under the policy and are relieved of our obligation to pay a claim under the policy, although if the insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by legal proceedings. Legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under Accounting Standards Codification ("ASC") 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see the risk factor titled, "We are subject to the risk of private litigation and regulatory proceedings" in Item 1A as well as Item 3, "Legal Proceedings."

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

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

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

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

One of the loss mitigation techniques available to us is obtaining a deficiency judgment against the borrower and attempting to recover some or all of the paid claim from the borrower. However, eleven states, including Arizona, Illinois, Ohio, Texas and Virginia, prohibit mortgage guaranty insurance companies from obtaining deficiency judgments if the applicable property is a single-family home that the borrower lived in. In six other states, including California, deficiency judgments are effectively prohibited. Finally, some states, including, Florida, Indiana, Illinois and Ohio (when, in the latter two states, there is a non-owner occupied property), have a judicial foreclosure process in which a deficiency judgment can be ultimately obtained. In our experience, the increased time and costs associated with separate actions to obtain a deficiency judgment usually outweigh the potential benefits of collecting the deficiency judgment. In recent years, recoveries on deficiency judgments have been less than 1% of our paid claims. The recent increase in our paid claims has not been accompanied by a similar increase in recoveries on deficiency judgments. This has occurred because the number of borrowers against whom we are seeking deficiency judgments has not increased. This in turn is due to our view that the number of borrowers whose credit quality would warrant our seeking deficiency judgments has remained essentially unchanged despite the substantial increase in the number of potential deficiency candidates.

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Loss Reserves and Premium Deficiency Reserves

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

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

Our reserving process bases our estimates of future events on our past experience. However, estimation of loss reserves is inherently judgmental and conditions that have affected the development of the loss reserves in the past may not necessarily affect development patterns in the future, in either a similar manner or degree. For further information, see our risk factors in Item 1A, including the ones titled "Because we establish loss reserves only upon a loan default rather than based on estimates of our ultimate losses, losses may have a disproportionate adverse effect on our earnings in certain periods," "Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves" and "We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper."

After our reserves are initially established, we perform premium deficiency tests using best estimate assumptions as of the testing date. We establish premium deficiency reserves, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premium and already established reserves. In the fourth quarter of 2007, we recorded premium deficiency reserves of $1,211 million relating to Wall Street bulk transactions remaining in our insurance in force. As of December 31, 2010, this premium deficiency reserve was $179 million.

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

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C. Other Business and Joint Ventures

We provide various mortgage services for the mortgage finance industry, such as portfolio retention and secondary marketing of mortgage-related assets. Our eMagic.com LLC subsidiary provides an Internet portal through which mortgage industry participants can access products and services of wholesalers, investors and vendors necessary to make a home mortgage loan. Using the trade name Myers Internet, eMagic.com also provides website hosting, design and marketing solutions for mortgage originators and real estate agents.

For information about our Australian operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Australia" in Item 7.

At December 31, 2010, we owned approximately 45.5% of the equity interest in C-BASS, which prior to 2008 was one of our principal joint ventures included in the "Income from joint ventures, net of tax" line in our Consolidated Statement of Operations. C-BASS is a joint venture with its senior management and Radian Group Inc. that was formerly engaged principally in the business of investing in the credit risk of subprime single-family residential mortgages. In 2007, C-BASS ceased its operations and was managing its portfolio pursuant to a consensual, non-bankruptcy restructuring, under which its assets were to be paid out over time to its secured and unsecured creditors. In November 2010, C-BASS filed for Chapter 11 bankruptcy protection. At December 31, 2010 and 2009, our book value of C-BASS, including our note receivable from C-Bass, was zero. For further information about C-BASS, see Note 12, "Investments in joint ventures," to our consolidated financial statements in Item 8.

Until August 2008, when we sold our entire interest in Sherman to Sherman, Sherman was a joint venture with its senior management and Radian Group Inc. Our interest sold represented approximately 24.25% of Sherman's equity. In September 2007, we also sold certain interests in Sherman. For further information about Sherman, which during 2008 was our principal joint venture included in the "Income from joint ventures, net of tax" line in our Consolidated Statement of Operations, see "Management's Discussion and Analysis—Results of Consolidated Operations" in Item 7 and Note 12, "Investments in joint ventures," to our consolidated financial statements in Item 8.

D. Investment Portfolio

Policy and Strategy

At December 31, 2010, the fair value of our investment portfolio and cash and cash equivalents was approximately $8.8 billion. As of December 31, 2010, approximately $891 million of our portfolio was held at the parent company level and the remainder of our portfolio was held by our subsidiaries, primarily MGIC. The portion of our portfolio that is held at the parent company level is held in fixed income securities, all of which are rated "A" or better, primarily invested in corporate, government, and taxable municipal securities. Unless otherwise indicated, the remainder of the discussion of our investment portfolio refers to our investment portfolio only and not to cash and cash equivalents.

Approximately 44% of our investment portfolio is managed by either BlackRock, Inc. or Wellington Management Company, LLP, although we maintain overall control of investment policy and strategy. We maintain direct management of the remainder of our investment portfolio.

Our current policies emphasize preservation of capital, as well as total return. Therefore, our investment portfolio consists almost entirely of high-quality, fixed-income investments. We seek liquidity through diversification and investment in publicly traded securities. We attempt to maintain a level of liquidity commensurate with our perceived business outlook and the expected timing, direction and degree of changes in interest rates. During 2010, we reduced the proportion of our investment portfolio in tax exempt municipal securities while increasing the proportion of taxable securities principally since the tax benefits of holding tax exempt municipal securities are no longer available based on our current net loss position. Our investment policies in effect at December 31, 2010 limited investments in the securities of a single issuer, other than the U.S. government, and generally limit the purchase of fixed income securities to those that are rated investment grade by at least one rating agency. At that date, the maximum aggregate book value of the holdings of a single obligor was:

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

(1) No limit subject to liquidity considerations.

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

At December 31, 2010, based on amortized cost, approximately 95% of our total fixed income investment portfolio was invested in securities rated "A" or better, with 42% rated "AAA" and 29% rated "AA," in each case by at least one nationally recognized securities rating organization. For information related to the portion of our investment portfolio that is insured by financial guarantors, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition" in Item 7.

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

Investment Operations

At December 31, 2010, tax exempt municipal securities represented 36%, and taxable municipal securities represented 12%, of the fair value of our total investment portfolio and derivative financial instruments in our investment portfolio were immaterial. During 2010 we continued to shift our portfolio to a higher concentration of taxable securities, as reflected in the table below. Securities due within one year, within one to five years, within five to ten years, and after ten years, represented 16%, 40%, 19% and 19%, respectively, of the total fair value of our investment in debt securities. Auction rate and mortgage-backed securities represented 5% and 1%, respectively, of the total fair value of our investment in debt securities. Our pre-tax yield for 2010, excluding cash and cash equivalents, was 3.0%, compared to a pre-tax yield of 4.0% in each of 2009 and 2008. Our pre-tax yield for 2010, including cash and cash equivalents, was 2.5%, compared to a pre-tax yield of 3.6% in 2009 and 3.9% in 2008.

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Our ten largest holdings at December 31, 2010 appear in the table below:

	Fair Value (In thousands)
1. Bank of America Corp (FDIC guaranteed)	$ 95,775
2. New York, NY	75,231
3. General Electric Capital Corp.	59,523
4. Illinois State – (Issuer 452152)	59,158
5. Illinois State – (Issuer 452151)	58,920
6. Montana State Higher Student Assist	58,735
7. Goldman Sachs Group (FDIC guaranteed)	52,943
8. Sales Tax Asset Receivable Corporation	51,987
9. Amgen Inc.	47,940
10. New York NY City Transitional	47,773
	$ 607,985

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

Holdings aggregated using the industry convention of the first six characters of the CUSIP, which identifies specific corporate or municipal issuer.

The sectors of our investment portfolio at December 31, 2010 appear in the table below:

	Percentage of Portfolio's Fair Value
1. Tax-Exempt Municipals	25.7 %
2. Corporate	23.0
3. U.S. Treasuries	18.5
4. Taxable Municipals	12.1
5. Escrowed / Prerefunded Municipals	6.2
6. Student Loans	4.8
5. Asset Backed	4.7
6. Foreign	4.8
7. Other	0.2
	100.0 %

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

E. Regulation

Direct Regulation

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

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

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

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

Mortgage insurance premium rates are also subject to state regulation to protect policyholders against the adverse effects of excessive, inadequate or unfairly discriminatory rates and to encourage competition in the insurance marketplace. Any increase in premium rates must be justified, generally on the basis of the insurer's loss experience, expenses and future trend analysis. The general mortgage default experience may also be considered. Premium rates are subject to review and challenge by state regulators. See our risk factor "Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis" in Item 1A and "Management's Discussion and Analysis — Liquidity and Capital Resources - Capital" in Item 7 for information about regulations governing our capital adequacy, information about our current capital and our expectations regarding our future capital position.

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

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

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

As the most significant purchasers and sellers of conventional mortgage loans and beneficiaries of private mortgage insurance, Freddie Mac and Fannie Mae impose requirements on private mortgage insurers in order for them to be eligible to insure loans sold to the GSEs. These requirements are subject to change from time to time. Currently, both MGIC and MIC are approved mortgage insurers for both Freddie Mac and Fannie Mae but their longer term eligibility could be negatively affected as discussed, under "Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis" and "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements" in Item 1A.

In September 2008, the FHFA was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The appointment of FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry's inability, due to capital constraints, to write sufficient business to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. Such changes may allow the GSEs to reduce or eliminate the level of private mortgage insurance coverage that they use as credit enhancement, which could have a material adverse effect on our revenue, results of operations or financial condition. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released on February 11, 2011 and while it does not provide any definitive timelines for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact on our business is uncertain. Any changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last. For additional information about the potential impact that any such changes in the GSE's roles may have on us, see the risk factor titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses" in Item 1A and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Fannie Mae and Freddie Mac" in Item 7.

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

Indirect Regulation

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

Subject to certain exceptions, in general, RESPA prohibits any person from giving or receiving any "thing of value" pursuant to an agreement or understanding to refer settlement services. See "We are subject to the risk of private litigation and regulatory proceedings" in Item 1A.

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

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

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

F. Employees

At December 31, 2010, we had approximately 1,010 full- and part-time employees, of whom approximately 25% were assigned to our field offices. The number of employees given above does not include "on-call" employees. The number of "on-call" employees can vary substantially, primarily as a result of changes in demand for contract underwriting services. In recent years, the number of "on-call" employees has ranged from fewer than 100 to more than 220.

G. Website Access

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

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Item 1A. Risk Factors.

Forward-Looking Statements and Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Alternatives to private mortgage insurance include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Historically, rescissions of policies for which claims have been submitted to us were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of policies have materially mitigated our paid losses. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately $1.2 billion (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue at the same rates (as a percentage of claims received) we have previously experienced. See the table labeled "Ever-To-Date Rescission Rates on Primary Claims Received" under "Management's Discussion and Analysis of Financial Condition and Results of Operations-Losses-Losses incured," in Item 7.

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

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under Accounting Standards Codification ("ASC") 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see the risk factor titled, "We are subject to the risk of private litigation and regulatory proceedings" in Item 1A as well as Item 3, "Legal Proceedings."

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

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

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

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

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

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

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

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

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

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

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

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

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

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The flow policies at issue with Countrywide are in the same form as the flow policies that we use with all of our customers, and the bulk policies at issue vary from one another, but are generally similar to those used in the majority of our Wall Street bulk transactions. Because our rescission practices with Countrywide do not differ from our practices with other servicers, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. As discussed in Note 9 – "Loss reserves" to our consolidated financial statements in Item 8, during 2008-2010 we estimated that total rescissions mitigated our incurred losses by approximately $3.1 billion, which included approximately $2.0 billion of mitigation on paid losses, excluding amounts that would have been applied to a deductible. At December 31, 2010 we estimate that our total loss reserves were benefited from rescissions by approximately $1.3 billion.

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

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

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

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

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

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

We establish reserves using estimated claim rates and claim amounts in estimating the ultimate loss on delinquent loans. The estimated claim rates and claim amounts represent our best estimates of what we will actually pay on the loans in default as of the reserve date and incorporate anticipated mitigation from rescissions. We rescind policies and deny claims in cases where we believe our policy allows us to do so. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse development from ongoing dispute resolution proceedings, including those with Countrywide, or from ongoing disagreements over the interpretation of our policy, including those with one of our pool insurance insureds related to the computation of the aggregate loss limit under a pool insurance policy. For more information regarding Countrywide, see "—We are subject to the risk of private litigation and regulatory proceedings" and for more information regarding the pool insurance disagreement, see "Results of Consolidated Operations – Pool Insurance" in Item 7.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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- Essent Guaranty, Inc.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the level of current mortgage interest rates compared to the mortgage coupon rates on the insurance in force, which affects the vulnerability of the insurance in force to refinancings, and

- mortgage insurance cancellation policies of mortgage investors along with the current value of the homes underlying the mortgages in the insurance in force.

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

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

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

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

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

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

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

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

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

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

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

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

Our Australian operations may suffer significant losses.

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At December 31, 2010, we leased office space in various cities throughout the United States under leases expiring between 2011 and 2016 and which required annual rental payments of approximately $2.0 million in 2010.

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

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Item 3. Legal Proceedings.

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

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

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

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The flow policies at issue with Countrywide are in the same form as the flow policies that we use with all of our customers, and the bulk policies at issue vary from one another, but are generally similar to those used in the majority of our Wall Street bulk transactions. Because our rescission practices with Countrywide do not differ from our practices with other servicers, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. As discussed in Note 9 – "Loss reserves" to our consolidated financial statements in Item 8, during 2008-2010 we estimated that total rescissions mitigated our incurred losses by approximately $3.1 billion, which included approximately $2.0 billion of mitigation on paid losses, excluding amounts that would have been applied to a deductible. At December 31, 2010 we estimate that our total loss reserves were benefited from rescissions by approximately $1.3 billion.

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

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

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

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In addition to the above litigation, we face other litigation and regulatory risks. For additional information about such other litigation and regulatory risks, you should review our risk factor titled "We are subject to the risk of private litigation and regulatory proceedings" in Item 1A.

Item 4. [Reserved]

Executive Officers

Certain information with respect to our executive officers as of March 1, 2011 is set forth below:

Name and Age	Title
Curt S. Culver, 58	Chairman of the Board and Chief Executive Officer of MGIC Investment Corporation and MGIC; Director of MGIC Investment Corporation and MGIC
Patrick Sinks, 54	President and Chief Operating Officer of MGIC Investment Corporation and MGIC
J. Michael Lauer, 66	Executive Vice President and Chief Financial Officer of MGIC Investment Corporation and MGIC
Lawrence J. Pierzchalski, 58	Executive Vice President– Risk Management of MGIC
Jeffrey H. Lane, 61	Executive Vice President, General Counsel and Secretary of MGIC Investment Corporation and MGIC
James A. Karpowicz, 63	Senior Vice President–Chief Investment Officer and Treasurer of MGIC Investment Corporation and MGIC
Michael G. Meade, 61	Senior Vice President–Information Services and Chief Information Officer of MGIC

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

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

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

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

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

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

Mr. Meade has served as MGIC's Senior Vice President–Information Services and Chief Information Officer since February 1992. From 1985 to 1992 he held various positions within MGIC's information services organization, the last of which was Vice President–Information Services.

PART II

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

(a) Our Common Stock is listed on the New York Stock Exchange under the symbol "MTG." The following table sets forth for 2010 and 2009 by calendar quarter the high and low sales prices of our Common Stock on the New York Stock Exchange.

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	2010		2009	
Quarter	High	Low	High	Low
First	$ 11.36	$ 5.78	$ 4.45	$ 0.70
Second	13.80	6.87	5.90	1.32
Third	9.60	6.48	9.94	3.27
Fourth	10.90	8.06	7.56	3.72

In October 2008, the Board suspended payment of our cash dividend. Accordingly, no cash dividends were paid in 2009 or 2010. The payment of future dividends is subject to the discretion of our Board and will depend on many factors, including our operating results, financial condition and capital position. See Note 8, "Debt", to our consolidated financial statements in Item 8 for dividend restrictions if we elect to defer interest on our Convertible Junior Debentures. We are a holding company and the payment of dividends from our insurance subsidiaries is restricted by insurance regulation. For a discussion of these restrictions, see “Management’s Discussion and Analysis — Liquidity and Capital Resources” in Item 7 of this annual report and Note 16, “Dividend restrictions,” to our consolidated financial statements in Item 8.

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

Information regarding equity compensation plans is contained in Item 12.

(b) Not applicable.

(c) We did not repurchase any shares of Common Stock during the fourth quarter of 2010.

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Item 6. Selected Financial Data.

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

Book value per share	8.33	10.41	19.46	31.72	51.88

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

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

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

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

Overview

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

As used below, “we” and “our” refer to MGIC Investment Corporation’s consolidated operations. In the discussion below, we classify, in accordance with industry practice, as “full documentation” loans approved by GSE and other automated underwriting systems under “doc waiver” programs that do not require verification of borrower income. For additional information about such loans, see footnote (3) to the composition of primary default inventory table under “Results of Consolidated Operations—Losses—Losses Incurred” below. The discussion of our business in this document generally does not apply to our Australian operations which have historically been immaterial. The results of our operations in Australia are included in the consolidated results disclosed. For additional information about our Australian operations, see our risk factor titled “Our Australian operations may suffer significant losses” in Item 1A of this Report and “Overview—Australia” below.

Forward Looking Statements

As discussed under “Forward Looking Statements and Risk Factors” in Item 1A of Part 1 of this Report, actual results may differ materially from the results contemplated by forward looking statements. We are not undertaking any obligation to update any forward looking statements or other statements we may make in the following discussion or elsewhere in this document even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. Therefore no reader of this document should rely on these statements being current as of any time other than the time at which this document was filed with the Securities and Exchange Commission.

Outlook

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

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

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

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

Fannie Mae and Freddie Mac

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

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

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For further discussion see our risk factors titled “Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses” and “The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance” in Item 1A.

Both of the GSEs have guidelines on terms under which they can conduct business with mortgage insurers, such as MGIC, with financial strength ratings below Aa3/AA-. (MGIC’s financial strength rating from Moody’s is Ba3, with a positive outlook and from Standard & Poor’s is B+, with a negative outlook.) For information about how these guidelines could affect us, see our risk factor titled “MGIC may not continue to meet the GSEs’ mortgage insurer eligibility requirements” In Item 1A.

Qualified Residential Mortgages

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

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

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

For further discussion see our risk factor titled “The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance” in Item 1A.

Capital

Insurance regulators

Although we currently meet the minimum capital requirements of the jurisdictions in which we write business, in 2009, we requested and received from the Office of the Commissioner of Insurance for Wisconsin (“OCI”) and insurance departments in certain other jurisdictions, waivers from their minimum capital requirements in order to prepare for the possibility that we would not meet those requirements in the future. We also funded MGIC Indemnity Corporation (“MIC”) and obtained the required state and GSE approvals for MIC to write new business in jurisdictions where MGIC no longer met, or was not able to obtain a waiver of, the capital requirements. The GSEs have only approved MIC for use in certain states. The OCI or other insurance departments may modify or terminate MGIC’s existing waivers or fail to renew them when they expire. For additional information see our risk factors titled “Even though our plan to write new insurance in MGIC Indemnity Corporation (“MIC”) has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”) and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis” in Item 1A.

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GSEs

The GSEs have approved us as an eligible mortgage insurer, under remediation plans, even though our insurer financial strength (IFS) rating is below the published GSE minimum. The GSEs may change the requirements under our remediation plans or fail to renew, when they expire, their approvals of MIC as an eligible insurer during periods when MGIC does not meet insurance department requirements. These possibilities could result from changes imposed on the GSEs by their regulator or due to an actual or GSE-projected deterioration in our capital position. For additional information about this challenge see our risk factors titled “MGIC may not continue to meet the GSEs’ mortgage insurer eligibility requirements” and “We have reported losses for the last four years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability” in Item 1A.

Rescissions

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

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

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

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

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Actions disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20 an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 20 – “Litigation and contingencies” to our consolidated financial statements in Item 8.

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

For further information see our risk factor titled “We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper” in Item 1A.

Loan Modification and Other Similar Programs

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

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

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

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

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

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

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

Factors Affecting Our Results

Our results of operations are affected by:

- Premiums written and earned

Premiums written and earned in a year are influenced by:

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

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

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

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

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

- Investment income

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

- Losses incurred

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

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

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

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

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

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

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

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

- Changes in premium deficiency reserve

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

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- Underwriting and other expenses

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

- Interest expense

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

Mortgage Insurance Earnings and Cash Flow Cycle

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

Australia

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

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Summary of 2010 Results

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

- Net premiums written and earned

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

- Investment income

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

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

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

- Losses incurred

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

- Change in premium deficiency reserve

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

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- Underwriting and other expenses

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

- Interest expense

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

- Benefit from income taxes

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

Results of Consolidated Operations

New insurance written

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

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

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

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

We expect new insurance written in 2011 to increase modestly over the $12 billion written in 2010. Our level of new insurance written could also be affected by other items, including those noted in our Risk Factors in Item 1A.

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

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

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

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

Cancellations, insurance in force and risk in force

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

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

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

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

Bulk transactions

We ceased writing Wall Street bulk business in the fourth quarter of 2007. In addition, we wrote no new business through the bulk channel since the second quarter of 2008. We expect the volume of any future business written through the bulk channel will be insignificant. Wall Street bulk transactions, as of December 31, 2010, included approximately 89,000 loans with insurance in force of approximately $14.1 billion and risk in force of approximately $4.2 billion, which is approximately 63% of our bulk risk in force.

Pool insurance

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

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

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

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Net premiums written and earned

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

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

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

Risk sharing arrangements

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

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

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

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

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

Investment income

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

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

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

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Realized gains and other-than-temporary impairments

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

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

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

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

Other revenue

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

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

Losses

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

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

In addition, our loss reserving methodology incorporates the effects rescission activity is expected to have on the losses we will pay on our delinquent inventory. A variance between ultimate actual rescission rates and these estimates could materially affect our losses. See our risk factor titled "We may not continue to realize benefits from rescissions at the levels we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper" in Item 1A.

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

Losses incurred

In 2010, net losses incurred were $1,608 million, of which $1,875 million related to current year loss development and ($267) million related to favorable prior years' loss development. In 2009, net losses incurred were $3,379 million, of which $2,913 million related to current year loss development and $466 million related to unfavorable prior years' loss development. See Note 10 – "Loss reserves" of our Notes to Consolidated Financial Statements in Item 8.

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

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

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

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

Aging of the Primary Default Inventory

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

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

Number of Payments Delinquent

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

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

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

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

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

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

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

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

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

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. Actions disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20 an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 20 – "Litigation and contingencies" in Item 8.

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

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

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

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

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

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

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

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

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

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

A rollforward of our primary insurance default inventory for the years ended December 31, 2010, 2009 and 2008 appears in the table below. The information concerning new notices and cures is compiled from monthly reports received from loan servicers. The level of new notice and cure activity reported in a particular month can be influenced by, among other things, the date on which a servicer generates its report and by transfers of servicing between loan servicers.

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

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

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

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

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

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

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

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

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

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

Gross Reserves

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

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

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

Losses by Region

Primary Default Inventory

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

Primary Loss Reserves
(In millions)

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

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

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

Primary loss reserves
(In millions)

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

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

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

Primary average claim paid

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

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

Primary average loan size

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

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

Primary average loan size

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

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

Net paid claims (In millions)

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

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

Paid Claims by state (In millions)

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

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

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

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

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

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

Flow default inventory by policy year

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

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

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

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

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Premium deficiency

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

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

	December 31, 2010	December 31, 2009	December 31, 2008
		(In millions)	
Present value of expected future premium	$506	$ 427	$ 712