

MGIC INVESTMENT CORP
Form 10-Q
November 07, 2018

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

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

For the quarterly period ended September 30, 2018

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

For the transition period from _____ to _____
Commission file number 1-10816

MGIC Investment Corporation

(Exact name of registrant as specified in its charter)

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

250 E. KILBOURN AVENUE 53202
MILWAUKEE, WISCONSIN (Zip Code)

(Address of principal executive offices)
(414) 347-6480
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company (Do not check if a smaller reporting company)
Emerging growth company If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

CLASS OF STOCK	PAR VALUE	DATE	NUMBER OF SHARES
Common stock	\$1.00	October 31, 2018	361,589,994

Forward Looking and Other Statements

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are “forward looking statements.” Forward looking statements consist of statements that relate to matters other than historical fact. In most cases, forward looking statements may be identified by words such as “believe,” “anticipate” or “expect,” or words of similar import. The risk factors referred to in “Forward Looking Statements and Risk Factors – Location of Risk Factors” in Management’s Discussion and Analysis of Financial Condition and Results of Operations below, may cause our actual results to differ materially from the results contemplated by forward looking statements that we may make. We are not undertaking any obligation to update any forward looking statements or other statements we may make 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.

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MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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Glossary of terms and acronyms

/ A

ARMs

Adjustable rate mortgages

ABS

Asset-backed securities

ASC

Accounting Standards Codification

Available Assets

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

/ B

Book or book year

A group of loans insured in a particular calendar year

BPMI

Borrower-paid mortgage insurance

/ C

CECL

Current expected credit losses

CFPB

Consumer Financial Protection Bureau

CLO

Collateralized loan obligations

CMBS

Commercial mortgage-backed securities

/ D

DAC

Deferred insurance policy acquisition costs

Debt-to-income (“DTI”) ratio

The ratio, expressed as a percentage, of a borrowers’ total debt payments to gross income

Direct

When referring to insurance or risk written or in force, “direct” means before giving effect to reinsurance

/ F

Fannie Mae

Federal National Mortgage Association

FCRA
Fair Credit Reporting Act

FEMA
Federal Emergency Management Agency

FHA
Federal Housing Administration

FHFA
Federal Housing Finance Agency

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

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

Freddie Mac
Federal Home Loan Mortgage Corporation

/ G
GAAP
Generally Accepted Accounting Principles in the United States

GSEs
Collectively, Fannie Mae and Freddie Mac

/ H
HAMP
Home Affordable Modification Program

HARP
Home Affordable Refinance Program

Home Re
Home Re 2018-1, Ltd., an unaffiliated special purpose insurer domiciled in Bermuda

HOPA
Homeowners Protection Act

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/ I

IADA

Individual Assistance Disaster Area

IBNR

Losses incurred but not reported

IIF

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

/ J

JCT

Joint Committee on Taxation

/ L

LAE

Loss adjustment expenses

Legacy book

Mortgage insurance policies written prior to 2009

Loan-to-value ("LTV") ratio

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

Long-term debt:

5.75% Notes

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

9% Debentures

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

FHLB Advance or the Advance

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

Loss ratio

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

Low down payment loans or mortgages

Loans with less than 20% down payments

LPMI

Lender-paid mortgage insurance

/ M

MBS

Mortgage-backed securities

MD&A

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

MGIC

Mortgage Guaranty Insurance Corporation, a subsidiary of MGIC Investment Corporation

MAC

MGIC Assurance Corporation, a subsidiary of MGIC

Minimum Required Assets

The greater of \$400 million or the total of the minimum amount of Available Assets that must be held under the PMIERs based upon a percentage of RIF weighted by certain risk attributes

MPP

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

/ N

N/A

Not applicable for the period presented

NAIC

The National Association of Insurance Commissioners

NIW

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

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N/M

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

NPE

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

NPL

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

NPW

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

/ O

OCI

Office of the Commissioner of Insurance of the State of Wisconsin

/ P

Persistency

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

PMI

Private Mortgage Insurance (as an industry or product type)

PMIERS

Private Mortgage Insurer Eligibility Requirements issued by the GSEs

Premium Yield

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

/ Q

QSR Transaction

Quota share reinsurance transaction

/ R

REMIC

Real Estate Mortgage Investment Conduit

RESPA

Real Estate Settlement Procedures Act

RIF

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

Risk-to-capital

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

RMBS

Residential mortgage-backed securities

/ S

State Capital Requirements

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

/ T

Tax Act

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

/ U

Underwriting expense ratio

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

Underwriting profit

NPE minus incurred losses and underwriting expenses

USDA

U.S. Department of Agriculture

/ V

VA

U.S. Department of Veterans Affairs

VIE

Variable interest entity

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MGIC INVESTMENT
CORPORATION AND
SUBSIDIARIES
CONSOLIDATED BALANCE
SHEETS

(In thousands) September 30, 2018, December 31, 2017

ASSETS (Unaudited)

Investment portfolio:

Fixed income, available

for sale,

at fair

value

(amortized cost, 2018) \$4,969,612 \$4,983,315

2017

\$5,042,011;

2017

(\$4,946,278)

Equity securities,

at fair

value

(cost, 2018) 7,720 7,246

2017

\$4,134;

2017

(\$7,223)

Other invested

assets, at cost 3,100 —

at cost

Total

investment portfolio 4,980,432 4,990,561

4,980,432 4,990,561

Cash and cash equivalents	266,997	99,851
Accrued investment income	45,366	46,060
Reinsurance recoverable on	33,281	48,474
loss reserves		
Reinsurance recoverable on	3,111	3,872
paid losses		
Premiums receivable	51,640	54,045
Home office and equipment, net	50,055	44,936
Deferred insurance policy acquisition costs	18,665	18,841
Deferred income taxes, net	111,613	234,381
Other assets	95,948	78,478
Total assets	\$ 5,657,108	\$ 5,619,499

LIABILITIES
AND
SHAREHOLDERS'
EQUITY

Liabilities:

Loss reserves	\$ 721,046	\$ 985,635
Unearned premiums	407,614	392,934
Federal Home Loan Bank	155,000	155,000

advance		
Senior		
notes	419,425	418,560
Convertible		
junior		
subordinated	256,872	256,872
debentures		
Other		
liabilities	207,620	255,972
Total	2,167,577	2,464,973
liabilities		
Contingencies		
Shareholders'		
equity:		
Common		
stock		
(one		
dollar		
par		
value,		
shares		
authorized		
1,000,000;		
shares		
issued		
2018		
-	371,353	370,567
371,353;		
2017		
-		
370,567;		
shares		
outstanding		
2018		
-		
362,155;		
2017		
-		
370,567)		
Paid-in		
capital	1,857,639	1,850,582
Treasury		
stock		
at		
cost		
(shares	(100,059) —
2018		
-		
9,198)		
Accumulated	128,931	(43,783)
other		

comprehensive
 loss,
 net
 of
 tax
 Retained earnings 1,489,529 977,160
 Total
 shareholders' equity 3,489,531 3,154,526
 Total
 liabilities
 and \$ 5,657,108 \$ 5,619,499
 shareholders'
 equity

See accompanying notes to consolidated financial statements.

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MGIC INVESTMENT CORPORATION AND
 SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF
 OPERATIONS (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except Note 2018 per share data)	2018	2017	2018	2017
Revenues:				
Premiums written:				
Direct	\$280,229	\$287,918	\$824,989	\$828,986
Assumed	(1,020)	(91)	(843)	1,882
Ceded	(25,326)	(31,931)	(79,921)	(92,436)
Net premiums written	253,883	255,896	744,225	738,432
Increase in unearned premiums, net	(1,457)	(18,813)	(14,728)	(41,110)
Net premiums earned	250,426	237,083	729,497	