

MGIC INVESTMENT CORP  
Form 10-Q  
May 07, 2015

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

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

For the quarterly period ended March 31, 2015

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

YES NO

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

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

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.

| <u>CLASS OF STOCK</u> | <u>PAR VALUE</u> | <u>DATE</u> | <u>NUMBER OF SHARES</u> |
|-----------------------|------------------|-------------|-------------------------|
| Common stock          | \$1.00           | 04/30/15    | 339,638,670             |

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## 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.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

March 31, 2015 and December 31, 2014

(Unaudited)

|                                                                           | March 31,<br>2015 | December<br>31,<br>2014 |
|---------------------------------------------------------------------------|-------------------|-------------------------|
| (In thousands)                                                            |                   |                         |
| <b><u>ASSETS</u></b>                                                      |                   |                         |
| Investment Portfolio (notes 7 and 8):                                     |                   |                         |
| Securities, available-for-sale, at fair value:                            |                   |                         |
| Fixed maturities (amortized cost, 2015 - \$4,567,873; 2014 - \$4,602,514) | \$4,594,663       | \$4,609,614             |
| Equity securities                                                         | 3,100             | 3,055                   |
| Total investment portfolio                                                | 4,597,763         | 4,612,669               |
| Cash and cash equivalents                                                 | 232,623           | 197,882                 |
| Restricted cash and cash equivalents (note 1)                             | -                 | 17,212                  |
| Accrued investment income                                                 | 32,114            | 30,518                  |
| Prepaid reinsurance premiums                                              | 50,119            | 47,623                  |
| Reinsurance recoverable on loss reserves                                  | 55,415            | 57,841                  |
| Reinsurance recoverable on paid losses                                    | 5,966             | 6,424                   |
| Premiums receivable                                                       | 59,254            | 57,442                  |
| Home office and equipment, net                                            | 28,565            | 28,693                  |
| Deferred insurance policy acquisition costs                               | 13,251            | 12,240                  |
| Profit commission receivable (note 4)                                     | 114,974           | 91,500                  |
| Other assets                                                              | 92,688            | 106,390                 |
| Total assets                                                              | \$5,282,732       | \$5,266,434             |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

## Liabilities:

|                                                                                                                                                                   |             |             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Loss reserves (note 12)                                                                                                                                           | \$2,244,624 | \$2,396,807 |
| Premium deficiency reserve (note 13)                                                                                                                              | 17,333      | 23,751      |
| Unearned premiums                                                                                                                                                 | 223,053     | 203,414     |
| Senior notes (note 3)                                                                                                                                             | 61,930      | 61,918      |
| Convertible senior notes (note 3)                                                                                                                                 | 845,000     | 845,000     |
| Convertible junior debentures (note 3)                                                                                                                            | 389,522     | 389,522     |
| Other liabilities                                                                                                                                                 | 315,710     | 309,119     |
| Total liabilities                                                                                                                                                 | 4,097,172   | 4,229,531   |
| Contingencies (note 5)                                                                                                                                            |             |             |
| Shareholders' equity (note 14):                                                                                                                                   |             |             |
| Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2015 - 340,079; 2014 - 340,047; shares outstanding 2015 - 339,639; 2014 - 338,560) | 340,079     | 340,047     |
| Paid-in capital                                                                                                                                                   | 1,662,211   | 1,663,592   |
| Treasury stock (shares at cost 2015 - 440; 2014 - 1,487)                                                                                                          | (3,362 )    | (32,937 )   |
| Accumulated other comprehensive loss, net of tax (note 9)                                                                                                         | (64,492 )   | (81,341 )   |
| Retained deficit                                                                                                                                                  | (748,876 )  | (852,458 )  |
| Total shareholders' equity                                                                                                                                        | 1,185,560   | 1,036,903   |
| Total liabilities and shareholders' equity                                                                                                                        | \$5,282,732 | \$5,266,434 |

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Three Months Ended March 31, 2015 and 2014  
(Unaudited)

|                                                                    | Three Months Ended<br>March 31,          |           |
|--------------------------------------------------------------------|------------------------------------------|-----------|
|                                                                    | 2015                                     | 2014      |
|                                                                    | (In thousands, except<br>per share data) |           |
| Revenues:                                                          |                                          |           |
| Premiums written:                                                  |                                          |           |
| Direct                                                             | \$265,412                                | \$244,189 |
| Assumed                                                            | 338                                      | 451       |
| Ceded (note 4)                                                     | (31,294 )                                | (26,620 ) |
| Net premiums written                                               | 234,456                                  | 218,020   |
| Increase in unearned premiums, net                                 | (17,168 )                                | (3,759 )  |
| Net premiums earned                                                | 217,288                                  | 214,261   |
| Investment income, net of expenses                                 | 24,120                                   | 20,156    |
| Net realized investment gains (losses):                            |                                          |           |
| Total other-than-temporary impairment losses                       | -                                        | -         |
| Portion of losses recognized in comprehensive income, before taxes | -                                        | -         |
| Net impairment losses recognized in earnings                       | -                                        | -         |
| Other realized investment gains (losses)                           | 26,327                                   | (231 )    |
| Net realized investment gains (losses)                             | 26,327                                   | (231 )    |
| Other revenue                                                      | 2,480                                    | 896       |
| Total revenues                                                     | 270,215                                  | 235,082   |
| Losses and expenses:                                               |                                          |           |
| Losses incurred, net (note 12)                                     | 81,785                                   | 122,608   |
| Change in premium deficiency reserve (note 13)                     | (6,418 )                                 | (5,173 )  |
| Amortization of deferred policy acquisition costs                  | 1,757                                    | 1,419     |
| Other underwriting and operating expenses, net                     | 39,268                                   | 37,981    |
| Interest expense                                                   | 17,362                                   | 17,539    |
| Total losses and expenses                                          | 133,754                                  | 174,374   |
| Income before tax                                                  | 136,461                                  | 60,708    |
| Provision for income taxes (note 11)                               | 3,385                                    | 726       |
| Net income                                                         | \$133,076                                | \$59,982  |
| Income per share (note 6)                                          |                                          |           |
| Basic                                                              | \$0.39                                   | \$0.18    |
| Diluted                                                            | \$0.32                                   | \$0.15    |
| Weighted average common shares outstanding - basic (note 6)        | 339,107                                  | 338,213   |
| Weighted average common shares outstanding - diluted (note 6)      | 468,141                                  | 413,180   |

See accompanying notes to consolidated financial statements.



MGIC INVESTMENT CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Three Months Ended March 31, 2015 and 2014  
(Unaudited)

|                                                           | Three Months<br>Ended March 31,<br>2015      2014<br>(In thousands,<br>except per share<br>data) |          |
|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------|----------|
| Net income                                                | \$133,076                                                                                        | \$59,982 |
| Other comprehensive income, net of tax (note 9):          |                                                                                                  |          |
| Change in unrealized investment gains and losses (note 7) | 19,563                                                                                           | 39,598   |
| Benefit plan adjustments                                  | (700 )                                                                                           | (1,486 ) |
| Foreign currency translation adjustment                   | (2,014 )                                                                                         | 1,253    |
| Other comprehensive income, net of tax                    | 16,849                                                                                           | 39,365   |
| Comprehensive income                                      | \$149,925                                                                                        | \$99,347 |

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three months ended March 31, 2015 and 2014

(Unaudited)

|                                                            | Common<br>stock | Paid-in<br>capital | Treasury<br>stock | Accumulated<br>other<br>comprehensive<br>income (loss) | Retained<br>earnings<br>(deficit) | Total<br>shareholders'<br>equity |
|------------------------------------------------------------|-----------------|--------------------|-------------------|--------------------------------------------------------|-----------------------------------|----------------------------------|
| Balance, December 31, 2013                                 | \$340,047       | \$1,661,269        | \$(64,435)        | \$ (117,726 )                                          | \$(1,074,617)                     | \$ 744,538                       |
| Net income                                                 | -               | -                  | -                 | -                                                      | 59,982                            | 59,982                           |
| Change in unrealized investment<br>gains and losses, net   | -               | -                  | -                 | 39,598                                                 | -                                 | 39,598                           |
| Reissuance of treasury stock, net                          | -               | (5,712 )           | 30,530            | -                                                      | (29,791 )                         | (4,973 )                         |
| Equity compensation                                        | -               | 1,803              | -                 | -                                                      | -                                 | 1,803                            |
| Benefit plan adjustments, net                              | -               | -                  | -                 | (1,486 )                                               | -                                 | (1,486 )                         |
| Unrealized foreign currency<br>translation adjustment, net | -               | -                  | -                 | 1,253                                                  | -                                 | 1,253                            |
| Balance, March 31, 2014                                    | \$340,047       | \$1,657,360        | \$(33,905)        | \$ (78,361 )                                           | \$(1,044,426)                     | \$ 840,715                       |

|                                                                   | Common<br>stock | Paid-in<br>capital | Treasury<br>stock | Accumulated<br>other<br>comprehensive<br>income (loss) | Retained<br>earnings<br>(deficit) | Total<br>shareholders'<br>equity |
|-------------------------------------------------------------------|-----------------|--------------------|-------------------|--------------------------------------------------------|-----------------------------------|----------------------------------|
| Balance, December 31, 2014                                        | \$340,047       | \$1,663,592        | \$(32,937)        | \$ (81,341 )                                           | \$(852,458)                       | \$ 1,036,903                     |
| Net income                                                        | -               | -                  | -                 | -                                                      | 133,076                           | 133,076                          |
| Change in unrealized investment<br>gains and losses, net (note 7) | -               | -                  | -                 | 19,563                                                 | -                                 | 19,563                           |
| Net common stock issued under<br>share-based compensation plans   | 32              | 38                 | -                 | -                                                      | -                                 | 70                               |
| Reissuance of treasury stock, net                                 | -               | (7,251 )           | 29,575            | -                                                      | (29,494 )                         | (7,170 )                         |
| Tax benefit from share-based<br>compensation                      | -               | 2,568              | -                 | -                                                      | -                                 | 2,568                            |
| Equity compensation                                               | -               | 3,264              | -                 | -                                                      | -                                 | 3,264                            |
| Benefit plan adjustments, net                                     | -               | -                  | -                 | (700 )                                                 | -                                 | (700 )                           |
| Unrealized foreign currency<br>translation adjustment, net        | -               | -                  | -                 | (2,014 )                                               | -                                 | (2,014 )                         |
| Balance, March 31, 2015                                           | \$340,079       | \$1,662,211        | \$(3,362 )        | \$ (64,492 )                                           | \$(748,876)                       | \$ 1,185,560                     |

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Three Months Ended March 31, 2015 and 2014  
(Unaudited)

|                                                                               | Three Months Ended<br>March 31, |           |
|-------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                               | 2015                            | 2014      |
|                                                                               | (In thousands)                  |           |
| Cash flows from operating activities:                                         |                                 |           |
| Net income                                                                    | \$ 133,076                      | \$ 59,982 |
| Adjustments to reconcile net income to net cash used in operating activities: |                                 |           |
| Depreciation and amortization                                                 | 11,311                          | 14,889    |
| Deferred tax benefit                                                          | (11 )                           | (86 )     |
| Realized investment (gains) losses, net                                       | (26,327 )                       | 231       |
| Loss on repurchases of senior notes                                           | -                               | 837       |
| Excess tax benefits related to share-based compensation                       | (2,568 )                        | -         |
| Other                                                                         | 13,436                          | (879 )    |
| Change in certain assets and liabilities:                                     |                                 |           |
| Accrued investment income                                                     | (1,596 )                        | (151 )    |
| Prepaid insurance premium                                                     | (2,496 )                        | (1,828 )  |
| Reinsurance recoverable on loss reserves                                      | 2,426                           | 6,467     |
| Reinsurance recoverable on paid losses                                        | 458                             | 1,394     |
| Premium receivable                                                            | (1,812 )                        | 7,962     |
| Deferred insurance policy acquisition costs                                   | (1,011 )                        | (433 )    |
| Profit commission receivable                                                  | (23,474 )                       | (22,212 ) |
| Real estate                                                                   | 1,761                           | 2,143     |
| Loss reserves                                                                 | (152,183)                       | (226,842) |
| Premium deficiency reserve                                                    | (6,418 )                        | (5,173 )  |
| Unearned premiums                                                             | 19,639                          | 5,618     |
| Return premium accrual                                                        | 3,300                           | (300 )    |
| Income taxes payable - current                                                | 2,813                           | 494       |
| Net cash used in operating activities                                         | (29,676 )                       | (157,887) |
| Cash flows from investing activities:                                         |                                 |           |
| Purchases of investments:                                                     |                                 |           |
| Fixed maturities                                                              | (940,867)                       | (582,261) |
| Equity securities                                                             | (18 )                           | (19 )     |
| Proceeds from sales of fixed maturities                                       | 795,968                         | 419,293   |
| Proceeds from maturity of fixed maturities                                    | 192,463                         | 295,188   |
| Net increase in payable for securities                                        | 699                             | 12,692    |
| Net decrease (increase) in restricted cash                                    | 17,212                          | (4 )      |
| Additions to property and equipment                                           | (576 )                          | (2,971 )  |
| Net cash provided by investing activities                                     | 64,881                          | 141,918   |
| Cash flows from financing activities:                                         |                                 |           |
| Repayment of long-term debt                                                   | -                               | (21,767 ) |
| Net common stock issued under share-based compensation plans                  | 70                              | -         |
| Excess tax benefits related to share-based compensation                       | 2,568                           | -         |
| Net cash provided by (used in) financing activities                           | 2,638                           | (21,767 ) |

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|                                                      |            |            |
|------------------------------------------------------|------------|------------|
| Effect of exchange rate changes on cash              | (3,102 )   | 1,931      |
| Net increase (decrease) in cash and cash equivalents | 34,741     | (35,805 )  |
| Cash and cash equivalents at beginning of period     | 197,882    | 332,692    |
| Cash and cash equivalents at end of period           | \$ 232,623 | \$ 296,887 |

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2015  
(Unaudited)

Note 1 – Nature of Business and Basis of Presentation

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC"), MGIC Indemnity Corporation ("MIC") and several other subsidiaries, is principally engaged in the mortgage insurance business. We provide mortgage insurance to lenders throughout the United States and to government sponsored entities ("GSEs") to protect against loss from defaults on low down payment residential mortgage loans.

The accompanying unaudited consolidated financial statements of MGIC Investment Corporation and its wholly-owned subsidiaries have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission ("SEC") for interim reporting and do not include all of the other information and disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2014 included in our Annual Report on Form 10-K. As used below, "we," "our" and "us" refer to MGIC Investment Corporation's consolidated operations or to MGIC Investment Corporation, as the context requires.

In the opinion of management the accompanying financial statements include all adjustments, consisting primarily of normal recurring accruals, necessary to fairly state our financial position and results of operations for the periods indicated. The results of operations for the interim period may not be indicative of the results that may be expected for the year ending December 31, 2015.

Capital - GSEs

Since 2008, substantially all of our insurance written has been for loans sold to Fannie Mae and Freddie Mac (the "GSEs"). In April 2015, the GSEs each released revised private mortgage insurer eligibility requirements (the "PMIERs") that become effective December 31, 2015. The PMIERs include revised financial requirements for mortgage insurers (the "GSE Financial Requirements") under which a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) must meet or exceed "Minimum Required Assets" (which are based on an insurer's book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

We expect that MGIC will be in compliance with the PMIERs, including the GSE Financial Requirements, when they become effective.

We estimate that as of March 31, 2015, before considering the effects of reinsurance, MGIC has a shortfall in Available Assets of approximately \$230 million. This shortfall estimate is based on our interpretation of the GSE Financial Requirements and assumes that the risk in force and assets of MGIC's MIC subsidiary will be repatriated to MGIC. This shortfall estimate does not reflect the benefits from MGIC's existing quota share reinsurance transaction or the anticipated restructure of that transaction; or the transfer of assets (including the \$45 million discussed below) from regulated insurance affiliates of MGIC that, subject to regulatory authorization, could increase the assets of MGIC. We believe that these benefits will eliminate our shortfall in Available Assets and each is discussed below.

We did not expect to receive full credit under the PMIERS for our existing reinsurance transaction. However, we and the reinsurers have reached agreement to restructure the transaction in a manner that we believe will result in MGIC receiving full credit under the PMIERS. The effectiveness of the restructured transaction will be subject to approval by the GSEs and the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”). In addition, in April 2015, regulated insurance affiliates of MGIC transferred \$45 million of assets to MGIC increasing the Available Assets of MGIC. Furthermore, if additional Available Assets are required, we believe that a portion of our holding company’s \$494 million of cash and investments at March 31, 2015, may be available for future contribution to MGIC. In addition, we could seek non-dilutive debt capital to mitigate a shortfall.

As noted above, we expect to be in compliance with the PMIERS, including the GSE Financial Requirements, by their effective date. However, if we are not in compliance with the GSE Financial Requirements by then, we could submit to the GSEs for approval, a transition plan having milestones for actions to achieve compliance. If the plan were approved, the GSEs would monitor our progress and we could have until June 2017 to meet the GSE Financial Requirements (the “transition period”). During the transition period, MGIC would be considered to be in remediation (a status similar to the one under which it has been operating with the GSEs for over five years) and eligible to provide mortgage insurance on loans acquired by the GSEs.

Factors that may negatively impact MGIC’s ability to comply with the GSE Financial Requirements before their effective date include the following:

The GSEs may not approve our restructured reinsurance transaction or they may not allow full credit under the GSE Financial Requirements for that transaction.

We may not obtain regulatory authorization to transfer assets from MIC to MGIC to the extent we are assuming because regulators project higher losses than we project or require a level of capital be maintained in MIC higher than we are assuming.

MGIC may not receive additional capital contributions from our holding company due to competing demands on the holding company resources, including for repayment of debt.

Our future operating results may be negatively impacted by the matters discussed in the rest of these footnotes. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby increasing our shortfall in Available Assets.

We may not be able to access the non-dilutive debt markets due to market conditions, concern about our creditworthiness, or other factors, in a manner sufficient to provide the funds we may seek.

There can be no assurance that the GSEs will not make the GSE Financial Requirements more onerous in the future; in this regard, the PMIERS provide that the tables of factors that determine Minimum Required Assets will be updated every two years and may be updated more frequently to reflect changes in macroeconomic conditions or loan performance. The GSEs will provide notice 180 days prior to the effective date of table updates. In addition, the GSEs may amend the PMIERS at any time. 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.

While on an overall basis, the amount of Available Assets we must hold in order to continue to insure GSE loans has increased under the PMIERS over what state regulation currently provides, reinsurance is one option we have to mitigate the effect of PMIERS on our returns. In this regard, see the first bullet point above.

See additional disclosure regarding statutory capital in Note 16 – “Statutory Capital.”

#### Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2014 amounts to conform to 2015 presentation.

#### Restricted cash and cash equivalents

During the second quarter of 2013, approximately \$60.3 million was placed in escrow in connection with the two agreements we entered into to resolve our dispute with Countrywide Home Loans, Inc. (“CHL”) and its affiliate, Bank of America, N.A., as successor to Countrywide Home Loans Servicing LP (“BANA” and collectively with CHL, “Countrywide”) regarding rescissions. In the fourth quarter of 2013, approximately \$42.9 million was released from escrow in connection with the BANA agreement. In the first quarter of 2015, the escrow funds were disbursed to us pursuant to the amended and restated settlement agreement and release entered into with CHL on March 2, 2015. See additional discussion of these settlement agreements in Note 5 – “Litigation and Contingencies.”

#### Subsequent events

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

#### Note 2 - New Accounting Pronouncements

##### Revenue from Contracts with Customers

In May 2014, the FASB issued guidance to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, our fee income related to contract underwriting and other fee-based services provided to lenders will be subject to this guidance. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. We are currently evaluating the impact of this update, but it is not expected to have a significant impact on our consolidated financial statements and disclosures.

The guidance is effective for fiscal years beginning after December 15, 2016. On April 1, 2015, the FASB issued a proposal to defer the effective date by one year and permit early adoption, but not before the original effective date of December 15, 2016.

# Presentation of Debt Issuance Costs

In April 2015, the FASB amended existing guidance related to the presentation of debt issuance costs. The new standard requires the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

## Note 3 – Debt

Long-term debt as of March 31, 2015 and December 31, 2014 consists of the following obligations.

|                                                                                       | March<br>31,<br>2015<br>(In millions) | December<br>31, 2014 |
|---------------------------------------------------------------------------------------|---------------------------------------|----------------------|
| Senior Notes, interest at 5.375% per annum, due November 2015                         | \$61.9                                | \$61.9               |
| Convertible Senior Notes, interest at 5% per annum, due May 2017 (1)                  | 345.0                                 | 345.0                |
| Convertible Senior Notes, interest at 2% per annum, due April 2020 (2) (3)            | 500.0                                 | 500.0                |
| Convertible Junior Subordinated Debentures, interest 9% per annum, due April 2063 (4) | 389.5                                 | 389.5                |
| Total debt                                                                            | 1,296.4                               | 1,296.4              |
| Less current portion of debt                                                          | (61.9 )                               | (61.9 )              |
| Total long-term debt                                                                  | \$1,234.5                             | \$1,234.5            |

Convertible at any time prior to maturity at the holder's option, at an initial conversion rate, which is subject to (1) adjustment, of 74.4186 shares per \$1,000 principal amount, representing an initial conversion price of approximately \$13.44 per share.

Prior to January 1, 2020, the 2% Convertible Senior Notes are convertible only upon satisfaction of one or more conditions. One such condition is that during any calendar quarter commencing after March 31, 2014, the last reported sale price of our common stock for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter be greater than or equal to 130% of the applicable conversion price on each applicable trading day. The 2% Notes are convertible at (2) an initial conversion rate, which is subject to adjustment, of 143.8332 shares per \$1,000 principal amount, representing an initial conversion price of approximately \$6.95 per share. 130% of such conversion price is \$9.03. On or after January 1, 2020, holders may convert their notes irrespective of satisfaction of the conditions. For the quarter ending March 31, 2015, our common stock was greater than or equal to 130% of the applicable conversion price for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, March 31, 2015.

Prior to April 10, 2017, the notes will not be redeemable. On any business day on or after April 10, 2017 we may redeem for cash all or part of the notes, at our option, at a redemption rate equal to 100% of the principal amount of (3) the notes being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds 130% of the then prevailing conversion price of the notes for each of at least 20 of the 30 consecutive trading days preceding notice of the redemption. .

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

the election to convert. In lieu of issuing shares of common stock upon conversion of the debentures, we may, at our option, make a cash payment to converting holders for all or some of the shares of our common stock otherwise issuable upon conversion.

The Senior Notes, Convertible Senior Notes and Convertible Junior Subordinated Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. At March 31, 2015, we had approximately \$494 million in cash and investments at our holding company. The net unrealized gains on our holding company investment portfolio were approximately \$1.3 million at March 31, 2015. The modified duration of the holding company investment portfolio, excluding cash and cash equivalents, was 2.8 years at March 31, 2015.

## Note 4 – Reinsurance

A summary of our quota share reinsurance agreements, excluding captive agreements, for the three months ended March 31, 2015 and 2014 appears below.

|                                                  | Three months<br>ended March 31,<br>2015      2014<br>(In thousands) |          |
|--------------------------------------------------|---------------------------------------------------------------------|----------|
| Ceded premiums written, net of profit commission | \$27,136                                                            | \$21,486 |
| Ceded premiums earned, net of profit commission  | 24,613                                                              | 19,627   |
| Ceded losses incurred                            | 4,873                                                               | 2,519    |
| Ceding commissions (1)                           | 10,122                                                              | 8,740    |

- (1) Ceding commissions are reported within Other underwriting and operating expenses, net on the consolidated statements of operations.

As of March 31, 2015 and December 31, 2014, we have accrued a profit commission receivable of \$115.0 million and \$91.5 million, respectively. This receivable could increase materially through the term of the agreement, but the ultimate amount of the commission will depend on the ultimate level of premiums earned and losses incurred under the agreement. Any profit commission would be paid to us upon termination of the reinsurance agreement. Recoverables under the agreement are supported by trust funds or letters of credit. Profit commissions are recorded as a reduction to our ceded premiums.

In the past, MGIC has obtained both captive and non-captive reinsurance. In a captive reinsurance arrangement, the reinsurer is affiliated with the lender for whom MGIC provides mortgage insurance. As part of our settlement with the Consumer Financial Protection Bureau (“CFPB”) discussed in Note 5 – “Litigation and Contingencies”, MGIC and three other mortgage insurers agreed that they would not enter into any new captive reinsurance agreement or reinsure any new loans under any existing captive reinsurance agreement for a period of ten years. In accordance with this settlement, all of our active captive arrangements have been placed into run-off.

Captive agreements were written on an annual book of business and the captives are required to maintain a separate trust account to support the combined reinsured risk on all annual books. MGIC is the sole beneficiary of the trust, and the trust account is made up of capital deposits by the lender captive, premium deposits by MGIC, and investment income earned. These amounts are held in the trust account and are available to pay reinsured losses. The reinsurance recoverable on loss reserves related to captive agreements was \$39 million at March 31, 2015 which was supported by \$168 million of trust assets, while at December 31, 2014, the reinsurance recoverable on loss reserves related to captive agreements was \$45 million which was supported by \$198 million of trust assets.

Note 5 – Litigation and Contingencies

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us as “curtailments.” In 2014 and the first quarter of 2015, curtailments reduced our average claim paid by approximately 6.7% and 8.2%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid.

When reviewing the loan file associated with a claim, we may determine that we have the right to rescind coverage on the loan. In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009. We estimate rescissions mitigated our incurred losses by approximately \$2.5 billion in 2009 and \$0.2 billion in 2010 and have not significantly mitigated our incurred losses since then. Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, reversals of rescissions have been immaterial. A variance between ultimate actual rescission and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

If the insured disputes our right to rescind coverage, we generally engage in discussions in an attempt to settle the dispute. As part of those discussions, we may voluntarily suspend rescissions we believe may be part of a settlement. Certain settlements require GSE approval. The GSEs have consented to our settlement agreements with two customers, one of which is Countrywide, as discussed below, and have rejected other settlement agreements. We have reached and implemented settlement agreements that do not require GSE approval, but they have not been material in the aggregate.

If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings. Under our policies in effect prior to October 1, 2014, 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, and under our master policy effective October 1, 2014, such proceedings may be brought up to two years from the date of the notice of rescission. In a few jurisdictions there is a longer time to bring such proceedings.

Until a liability associated with a settlement agreement or litigation becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes even though discussions and legal proceedings have been initiated and are ongoing. Under ASC 450-20, an estimated loss from such discussions and proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated.

Since December 2009, we have been involved in legal proceedings with Countrywide in which Countrywide alleged that MGIC denied valid mortgage insurance claims. (In our SEC reports, we refer to insurance rescissions and denials of claims collectively as “rescissions” and variations of that term.) In addition to the claim amounts it alleged MGIC had improperly denied, Countrywide contended it was entitled to other damages of almost \$700 million as well as exemplary damages. We sought a determination in those proceedings that we were entitled to rescind coverage on the applicable loans.

In April 2013, MGIC entered into separate settlement agreements with CHL and BANA, pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC’s rescission practices (as amended, the “Agreements”). On March 2, 2015, the parties to the Agreement with CHL amended and restated the Agreement.

The Agreement with BANA covers loans purchased by the GSEs. That original Agreement was implemented beginning in November 2013 and we resolved all related suspended rescissions in November and December 2013 by paying the associated claim or processing the rescission. The pending arbitration proceedings concerning the loans covered by that agreement have been dismissed, the mutual releases between the parties regarding such loans have become effective and the litigation between the parties regarding such loans is to be dismissed.

The Agreement with CHL covers loans that were purchased by non-GSE investors, including securitization trusts (the “other investors”). The original Agreement addressed rescission and denial rights; the amended and restated Agreement also addresses curtailment rights. That Agreement will be implemented only as and to the extent that it is consented to by or on behalf of the other investors. While there can be no assurance that the Agreement with CHL will be implemented, we have determined that its implementation is probable.

The estimated impact of the Agreements and other probable settlements have been recorded in our financial statements. The estimated impact that we recorded for probable settlements is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is \$441 million, of which about 72% is related to claims paying practices subject to the Agreement with CHL. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

The flow policies at issue with Countrywide are in the same form as the flow policies that we used with all of our customers during the period covered by the Agreements, 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.

We are involved in discussions and legal and consensual proceedings with customers with respect to our claims paying practices. Although it is reasonably possible that when these discussions or proceedings are completed we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and proceedings to be approximately \$29 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

The estimates of our maximum exposure referred to above do not include interest or consequential or exemplary damages.

Consumers continue to bring lawsuits against home mortgage lenders and settlement service providers. Mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in December 2004, following denial of class certification in June 2004. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. Beginning in December 2011, MGIC, together with various mortgage lenders and other mortgage insurers, has been named as a defendant in twelve lawsuits, alleged to be class actions, filed in various U.S. District Courts. The complaints in all of the cases allege various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the lenders' captive reinsurers received excessive premiums in relation to the risk assumed by those captives, thereby violating RESPA. Seven of those cases had been dismissed prior to February 2015 without any further opportunity to appeal. The remaining five cases were dismissed with prejudice in the first quarter of 2015 pursuant to stipulations of dismissal from the plaintiffs. There can be no assurance that we will not be subject to further litigation under RESPA (or FCRA) or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us.

In 2013, the U.S. District Court for the Southern District of Florida approved a settlement with the CFPB that resolved a federal investigation of MGIC's participation in captive reinsurance arrangements in the mortgage insurance industry. The settlement concluded the investigation with respect to MGIC without the CFPB or the court making any findings of wrongdoing. As part of the settlement, MGIC agreed that it would not enter into any new captive reinsurance agreement or reinsure any new loans under any existing captive reinsurance agreement for a period of ten years. MGIC had voluntarily suspended most of its captive arrangements in 2008 in response to market conditions and GSE requests. In connection with the settlement, MGIC paid a civil penalty of \$2.65 million and the court issued an injunction prohibiting MGIC from violating any provisions of RESPA.

We received requests from the Minnesota Department of Commerce (the "MN Department") beginning in February 2006 regarding captive mortgage reinsurance and certain other matters in response to which MGIC has provided information on several occasions, including as recently as May 2011. Since August 2013, MGIC and several competitors have exchanged drafts of a proposed Consent Order with the MN Department, containing terms and conditions, including unspecified civil penalties, that would resolve the MN Department's investigation. We received the latest draft of the Consent Order from the MN Department in March 2015. We continue to be engaged in discussions with the MN Department regarding the draft Consent Order. We also received a request in June 2005 from the New York Department of Financial Services for information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. Other insurance departments or other officials, including attorneys general, may also seek information about, investigate, or seek remedies regarding captive mortgage reinsurance.

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. State insurance regulatory authorities could take actions, including changes in capital requirements, that could have a material adverse effect on us. In addition, the CFPB may issue additional rules or regulations, which may materially affect our business.

In December 2013, the U.S. Treasury Department's Federal Insurance Office released a report that calls for federal standards and oversight for mortgage insurers to be developed and implemented. It is uncertain what form the standards and oversight will take and when they will become effective.

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

A non-insurance subsidiary of our holding company is a shareholder of the corporation that operates the Mortgage Electronic Registration System ("MERS"). Our subsidiary, as a shareholder of MERS, has been named as a defendant (along with MERS and its other shareholders) in eight lawsuits asserting various causes of action arising from allegedly improper recording and foreclosure activities by MERS. Seven of these lawsuits have been dismissed without any further opportunity to appeal. The remaining lawsuit had also been dismissed by the U.S. District Court, however, the plaintiff in that lawsuit filed a motion for reconsideration by the U.S. District Court and to certify a related question of law to the Supreme Court of the State in which the U.S. District Court is located. That motion for reconsideration was denied, however, in May 2014, the plaintiff appealed the denial. The damages sought in this remaining case are substantial. We deny any wrongdoing and intend to defend ourselves vigorously against the allegations in the lawsuit.

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.

Through a non-insurance subsidiary, we utilize our underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of the contract underwriting activities, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to its customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. Beginning in the second half of 2009, our subsidiary experienced an increase in claims for contract underwriting remedies, which continued throughout 2012. The related contract underwriting remedy expense was approximately \$4 million and \$5 million for the years ended December 31, 2014 and 2013, respectively. There was no underwriting remedy expense incurred in the first quarter of 2015, but it may increase in the future.



See Note 11 – “Income Taxes” for a description of federal income tax contingencies.

Note 6 – Earnings per Share

Basic earnings per share (“EPS”) is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common equivalent shares outstanding during the reporting period. We calculate diluted EPS using the treasury stock method for unvested restricted stock, and the if-converted method for convertible debt instruments. For unvested restricted stock, assumed proceeds under the treasury stock method would include unamortized compensation expense and windfall tax benefits or shortfalls. The determination of potentially issuable shares from our convertible debt instruments does not consider satisfaction of the conversion requirements and the shares are included in the determination of diluted EPS as of the beginning of the period, if dilutive. In addition, if dilutive, interest expense, net of tax, related to the convertible debt instrument is added back to earnings in calculating diluted EPS.

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The following table reconciles the numerators and denominators used to calculate basic and diluted EPS.

|                                                        | Three months ended<br>March 31,<br>2015      2014<br>(In thousands, except<br>per share data) |          |
|--------------------------------------------------------|-----------------------------------------------------------------------------------------------|----------|
| Basic earnings per share:                              |                                                                                               |          |
| Net income                                             | \$ 133,076                                                                                    | \$59,982 |
| Weighted average common shares outstanding             | 339,107                                                                                       | 338,213  |
| Basic income per share                                 | \$0.39                                                                                        | \$0.18   |
| Diluted earnings per share:                            |                                                                                               |          |
| Net income                                             | \$ 133,076                                                                                    | \$59,982 |
| Interest expense, net of tax:                          |                                                                                               |          |
| 2% Convertible Senior Notes due 2020                   | 3,049                                                                                         | 3,049    |
| 5% Convertible Senior Notes due 2017                   | 4,692                                                                                         | -        |
| 9% Convertible Junior Subordinated Debentures due 2063 | 8,765                                                                                         | -        |
| Diluted income available to common shareholders        | \$ 149,582                                                                                    | \$63,031 |
| Weighted average shares - basic                        | 339,107                                                                                       | 338,213  |
| Effect of dilutive securities:                         |                                                                                               |          |
| Unvested restricted stock units                        | 2,569                                                                                         | 3,025    |
| 2% Convertible Senior Notes due 2020                   | 71,942                                                                                        | 71,942   |
| 5% Convertible Senior Notes due 2017                   | 25,670                                                                                        | -        |
| 9% Convertible Junior Subordinated Debentures due 2063 | 28,853                                                                                        | -        |
| Weighted average shares - diluted                      | 468,141                                                                                       | 413,180  |
| Diluted income per share                               | \$0.32                                                                                        | \$0.15   |
| Antidilutive securities (in millions)                  | -                                                                                             | 54.5     |

## Note 7 – Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at March 31, 2015 and December 31, 2014 are shown below.

|                                                                                       | Amortized<br>Cost<br>(In thousands) | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses (1) | Fair Value  |
|---------------------------------------------------------------------------------------|-------------------------------------|------------------------------|-----------------------------------|-------------|
| <u>March 31, 2015</u>                                                                 |                                     |                              |                                   |             |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$312,233                           | \$ 2,629                     | \$ (2,057 )                       | \$312,805   |
| Obligations of U.S. states and political subdivisions                                 | 937,548                             | 16,621                       | (1,466 )                          | 952,703     |
| Corporate debt securities                                                             | 2,394,862                           | 18,939                       | (5,785 )                          | 2,408,016   |
| Asset-backed securities                                                               | 253,185                             | 769                          | (35 )                             | 253,919     |
| Residential mortgage-backed securities                                                | 315,778                             | 719                          | (7,466 )                          | 309,031     |
| Commercial mortgage-backed securities                                                 | 259,934                             | 1,804                        | (1,132 )                          | 260,606     |
| Collateralized loan obligations                                                       | 61,341                              | -                            | (797 )                            | 60,544      |
| Debt securities issued by foreign sovereign governments                               | 32,992                              | 4,047                        | -                                 | 37,039      |
| Total debt securities                                                                 | 4,567,873                           | 45,528                       | (18,738 )                         | 4,594,663   |
| Equity securities                                                                     | 3,021                               | 85                           | (6 )                              | 3,100       |
| Total investment portfolio                                                            | \$4,570,894                         | \$ 45,613                    | \$ (18,744 )                      | \$4,597,763 |
| <u>December 31, 2014</u>                                                              |                                     |                              |                                   |             |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$349,153                           | \$ 2,752                     | \$ (5,130 )                       | \$346,775   |
| Obligations of U.S. states and political subdivisions                                 | 844,942                             | 12,961                       | (2,761 )                          | 855,142     |
| Corporate debt securities                                                             | 2,418,991                           | 16,325                       | (10,035 )                         | 2,425,281   |
| Asset-backed securities                                                               | 286,260                             | 535                          | (140 )                            | 286,655     |
| Residential mortgage-backed securities                                                | 329,983                             | 254                          | (9,000 )                          | 321,237     |
| Commercial mortgage-backed securities                                                 | 276,215                             | 1,221                        | (2,158 )                          | 275,278     |
| Collateralized loan obligations                                                       | 61,340                              | -                            | (1,264 )                          | 60,076      |
| Debt securities issued by foreign sovereign governments                               | 35,630                              | 3,540                        | -                                 | 39,170      |
| Total debt securities                                                                 | 4,602,514                           | 37,588                       | (30,488 )                         | 4,609,614   |
| Equity securities                                                                     | 3,003                               | 61                           | (9 )                              | 3,055       |
| Total investment portfolio                                                            | \$4,605,517                         | \$ 37,649                    | \$ (30,497 )                      | \$4,612,669 |

(1) At March 31, 2015 and December 31, 2014, there were no other-than-temporary impairment losses recorded in other comprehensive income.

Our foreign investments primarily consist of the investment portfolio supporting our Australian domiciled subsidiary. This portfolio is comprised of Australian government and semi government securities, representing 86% of the market value of our foreign investments with the remaining 10% invested in corporate securities and 4% in cash equivalents. Eighty-five percent of the Australian portfolio is rated AAA, by one or more of Moody's, Standard & Poor's and Fitch Ratings, and the remaining 15% is rated AA.

The amortized cost and fair values of debt securities at March 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most asset-backed and mortgage-backed securities and collateralized loan obligations provide for periodic payments throughout their lives, they are listed below in separate categories.

|                                        | Amortized<br>Cost | Fair Value  |
|----------------------------------------|-------------------|-------------|
| <u>March 31, 2015</u>                  | (In thousands)    |             |
| Due in one year or less                | \$301,142         | \$301,873   |
| Due after one year through five years  | 1,806,892         | 1,823,593   |
| Due after five years through ten years | 1,127,078         | 1,133,449   |
| Due after ten years                    | 442,523           | 451,648     |
|                                        | \$3,677,635       | \$3,710,563 |
| Asset-backed securities                | 253,185           | 253,919     |
| Residential mortgage-backed securities | 315,778           | 309,031     |
| Commercial mortgage-backed securities  | 259,934           | 260,606     |
| Collateralized loan obligations        | 61,341            | 60,544      |
| Total at March 31, 2015                | \$4,567,873       | \$4,594,663 |

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At March 31, 2015 and December 31, 2014, the investment portfolio had gross unrealized losses of \$18.7 million and \$30.5 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

|                                                                                       | Less Than 12 Months | Unrealized | 12 Months or Greater | Unrealized | Total       | Unrealized |
|---------------------------------------------------------------------------------------|---------------------|------------|----------------------|------------|-------------|------------|
|                                                                                       | Fair Value          | Losses     | Fair Value           | Losses     | Fair Value  | Losses     |
| <u>March 31, 2015</u>                                                                 | (In thousands)      |            |                      |            |             |            |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$93,555            | \$ 362     | \$26,435             | \$ 1,695   | \$119,990   | \$ 2,057   |
| Obligations of U.S. states and political subdivisions                                 | 174,785             | 695        | 50,757               | 771        | 225,542     | 1,466      |
| Corporate debt securities                                                             | 621,952             | 4,169      | 113,002              | 1,616      | 734,954     | 5,785      |
| Asset-backed securities                                                               | 34,294              | 10         | 11,930               | 26         | 46,224      | 36         |
| Residential mortgage-backed securities                                                | 34,574              | 168        | 229,563              | 7,298      | 264,137     | 7,466      |
| Commercial mortgage-backed securities                                                 | 61,443              | 304        | 71,895               | 828        | 133,338     | 1,132      |
| Collateralized loan obligations                                                       | -                   | -          | 60,544               | 797        | 60,544      | 797        |
| Equity securities                                                                     | 68                  | -          | 177                  | 5          | 245         | 5          |
| Total investment portfolio                                                            | \$1,020,671         | \$ 5,708   | \$564,303            | \$ 13,036  | \$1,584,974 | \$ 18,744  |
|                                                                                       | Less Than 12 Months | Unrealized | 12 Months or Greater | Unrealized | Total       | Unrealized |
|                                                                                       | Fair Value          | Losses     | Fair Value           | Losses     | Fair Value  | Losses     |
| <u>December 31, 2014</u>                                                              | (In thousands)      |            |                      |            |             |            |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$58,166            | \$ 138     | \$232,351            | \$ 4,992   | \$290,517   | \$ 5,130   |
| Obligations of U.S. states and political subdivisions                                 | 166,408             | 1,066      | 114,465              | 1,695      | 280,873     | 2,761      |
| Corporate debt securities                                                             | 816,555             | 5,259      | 243,208              | 4,776      | 1,059,763   | 10,035     |
| Asset-backed securities                                                               | 54,491              | 80         | 11,895               | 60         | 66,386      | 140        |
| Residential mortgage-backed securities                                                | 24,168              | 34         | 263,002              | 8,966      | 287,170     | 9,000      |
| Commercial mortgage-backed securities                                                 | 89,301              | 810        | 110,652              | 1,348      | 199,953     | 2,158      |
| Collateralized loan obligations                                                       | -                   | -          | 60,076               | 1,264      | 60,076      | 1,264      |
| Equity securities                                                                     | 167                 | 1          | 235                  | 8          | 402         | 9          |
| Total investment portfolio                                                            | \$1,209,256         | \$ 7,388   | \$1,035,884          | \$ 23,109  | \$2,245,140 | \$ 30,497  |

The unrealized losses in all categories of our investments at March 31, 2015 and December 31, 2014 were primarily caused by the difference in interest rates at each respective period, compared to interest rates at the time of purchase. There were 278 and 423 securities in an unrealized loss position at March 31, 2015 and December 31, 2014, respectively. During each of the three months ended March 31, 2015 and 2014 there were no other-than-temporary impairments ("OTTI") recognized.

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

Three Months  
Ended  
March 31,  
2015      2014  
(In thousands)

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

|                   |          |         |
|-------------------|----------|---------|
| Fixed maturities  | \$26,324 | \$(234) |
| Equity securities | 3        | 3       |
|                   | \$26,327 | \$(231) |

Three Months  
Ended  
March 31,  
2015      2014  
(In thousands)

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

|                 |          |          |
|-----------------|----------|----------|
| Gains on sales  | \$27,206 | \$805    |
| Losses on sales | (879 )   | (1,036)  |
|                 | \$26,327 | \$(231 ) |

### Note 8 – Fair Value Measurements

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

Level 1 – Quoted prices for identical instruments in active markets that we can access. Financial assets utilizing Level 1 inputs primarily include U.S. Treasury securities, equity securities, and Australian government and semi government securities.

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

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. Level 3 inputs reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. Financial assets utilizing Level 3 inputs primarily include certain state premium tax credit investments. Our non-financial assets that are classified as Level 3 securities consist of real estate acquired through claim settlement. The fair value of real estate acquired is the lower of our acquisition cost or a percentage of the appraised value. The percentage applied to the appraised value is based upon our historical sales experience adjusted for current trends.

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including data published in market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. Quality controls are performed by the independent pricing sources throughout this process, which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. This model combines all inputs to arrive at a value assigned to each security. In addition, on a quarterly basis, we perform quality controls over values received from the pricing sources which include reviewing tolerance reports, trading information and data changes, and directional moves compared to market moves. We have not made any adjustments to the prices obtained from the independent pricing sources.

Our financial assets that are classified as Level 3 securities are primarily state premium tax credit investments. The state premium tax credit investments have an average maturity of less than 4 years, credit ratings of AA+ or higher, and their balance reflects their remaining scheduled payments discounted at an average annual rate of 7.2%.

Fair value measurements for assets measured at fair value included the following as of March 31, 2015 and December 31, 2014:

|                                                                                       | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------------------------------------------------------------------|------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| <u>March 31, 2015</u>                                                                 |                  |                                                                |                                               |                                           |
| (In thousands)                                                                        |                  |                                                                |                                               |                                           |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$312,805        | \$189,913                                                      | \$122,892                                     | \$ -                                      |
| Obligations of U.S. states and political subdivisions                                 | 952,703          | -                                                              | 950,912                                       | 1,791                                     |
| Corporate debt securities                                                             | 2,408,016        | -                                                              | 2,408,016                                     | -                                         |
| Asset-backed securities                                                               | 253,919          | -                                                              | 253,919                                       | -                                         |
| Residential mortgage-backed securities                                                | 309,031          | -                                                              | 309,031                                       | -                                         |
| Commercial mortgage-backed securities                                                 | 260,606          | -                                                              | 260,606                                       | -                                         |
| Collateralized loan obligations                                                       | 60,544           | -                                                              | 60,544                                        | -                                         |
| Debt securities issued by foreign sovereign governments                               | 37,039           | 37,039                                                         | -                                             | -                                         |
| Total debt securities                                                                 | 4,594,663        | 226,952                                                        | 4,365,920                                     | 1,791                                     |
| Equity securities                                                                     | 3,100            | 2,779                                                          | -                                             | 321                                       |
| Total investment portfolio                                                            | \$4,597,763      | \$229,731                                                      | \$4,365,920                                   | \$ 2,112                                  |
| Real estate acquired (1)                                                              | \$10,897         | \$-                                                            | \$-                                           | \$ 10,897                                 |

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|                                                                                       | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------------------------------------------------------------------|------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| <u>December 31, 2014</u>                                                              | (In thousands)   |                                                                |                                               |                                           |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$346,775        | \$188,824                                                      | \$157,951                                     | \$ -                                      |
| Obligations of U.S. states and political subdivisions                                 | 855,142          | -                                                              | 853,296                                       | 1,846                                     |
| Corporate debt securities                                                             | 2,425,281        | -                                                              | 2,425,281                                     | -                                         |
| Asset-backed securities                                                               | 286,655          | -                                                              | 286,655                                       | -                                         |
| Residential mortgage-backed securities                                                | 321,237          | -                                                              | 321,237                                       | -                                         |
| Commercial mortgage-backed securities                                                 | 275,278          | -                                                              | 275,278                                       | -                                         |
| Collateralized loan obligations                                                       | 60,076           | -                                                              | 60,076                                        | -                                         |
| Debt securities issued by foreign sovereign governments                               | 39,170           | 39,170                                                         | -                                             | -                                         |
| Total debt securities                                                                 | 4,609,614        | 227,994                                                        | 4,379,774                                     | 1,846                                     |
| Equity securities                                                                     | 3,055            | 2,734                                                          | -                                             | 321                                       |
| Total investment portfolio                                                            | \$4,612,669      | \$230,728                                                      | \$4,379,774                                   | \$ 2,167                                  |
| Real estate acquired (1)                                                              | \$12,658         | \$-                                                            | \$-                                           | \$ 12,658                                 |

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

There were no transfers of securities between Level 1 and Level 2 during the first three months of 2015.

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For assets measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the three months ended March 31, 2015 and 2014 is as follows:

|                                                           | Debt<br>Securities | Equity<br>Securities | Total<br>Investments | Real<br>Estate<br>Acquired |
|-----------------------------------------------------------|--------------------|----------------------|----------------------|----------------------------|
| Balance at December 31, 2014                              | \$ 1,846           | \$ 321               | \$ 2,167             | \$12,658                   |
| Total realized/unrealized gains (losses):                 |                    |                      |                      |                            |
| Included in earnings and reported as losses incurred, net | -                  | -                    | -                    | (503 )                     |
| Purchases                                                 | 7                  | -                    | 7                    | 10,797                     |
| Sales                                                     | (62 )              | -                    | (62 )                | (12,055 )                  |
| Transfers into Level 3                                    | -                  | -                    | -                    | -                          |
| Transfers out of Level 3                                  | -                  | -                    | -                    | -                          |
| Balance at March 31, 2015                                 | \$ 1,791           | \$ 321               | \$ 2,112             | \$10,897                   |

Amount of total losses included in earnings for the three months ended March 31, 2015 attributable to the change in unrealized losses on assets still held at March 31, 2015

\$ -      \$ -      \$ -      \$-

|                                                           | Debt<br>Securities | Equity<br>Securities | Total<br>Investments | Real<br>Estate<br>Acquired |
|-----------------------------------------------------------|--------------------|----------------------|----------------------|----------------------------|
| Balance at December 31, 2013                              | \$ 2,423           | \$ 321               | \$ 2,744             | \$13,280                   |
| Total realized/unrealized gains (losses):                 |                    |                      |                      |                            |
| Included in earnings and reported as losses incurred, net | -                  | -                    | -                    | (1,160 )                   |
| Purchases                                                 | 30                 | -                    | 30                   | 8,010                      |
| Sales                                                     | (75 )              | -                    | (75 )                | (8,993 )                   |
| Transfers into Level 3                                    | -                  | -                    | -                    | -                          |
| Transfers out of Level 3                                  | -                  | -                    | -                    | -                          |
| Balance at March 31, 2014                                 | \$ 2,378           | \$ 321               | \$ 2,699             | \$11,137                   |

Amount of total losses included in earnings for the three months ended March 31, 2014 attributable to the change in unrealized losses on assets still held at March 31, 2014

\$ -      \$ -      \$ -      \$-

Authoritative guidance over disclosures about the fair value of financial instruments requires additional disclosure for financial instruments not measured at fair value. Certain financial instruments, including insurance contracts, are excluded from these fair value disclosure requirements. The carrying values of cash and cash equivalents (Level 1) and accrued investment income (Level 2) approximated their fair values.

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

We incur financial liabilities in the normal course of our business. The following tables present the carrying value and fair value of our financial liabilities disclosed, but not carried, at fair value at March 31, 2015 and December 31, 2014, and the level within the fair value hierarchy at which such liabilities are measured on a recurring basis.

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|                       | Par<br>Value | Total Fair<br>Value | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-----------------------|--------------|---------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| <u>March 31, 2015</u> |              |                     |                                                                                           |                                                           |                                                    |
| (In thousands)        |              |                     |                                                                                           |                                                           |                                                    |

Financial liabilities:

|                                            |             |             |      |             |      |
|--------------------------------------------|-------------|-------------|------|-------------|------|
| Senior Notes                               | \$61,953    | \$63,309    | \$ - | \$63,309    | \$ - |
| Convertible Senior Notes due 2017          | 345,000     | 382,622     | -    | 382,622     | -    |
| Convertible Senior Notes due 2020          | 500,000     | 735,945     | -    | 735,945     | -    |
| Convertible Junior Subordinated Debentures | 389,522     | 497,221     | -    | 497,221     | -    |
| Total Debt                                 | \$1,296,475 | \$1,679,097 | \$ - | \$1,679,097 | \$ - |

|                          | Par<br>Value | Total Fair<br>Value | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--------------------------|--------------|---------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| <u>December 31, 2014</u> |              |                     |                                                                                           |                                                           |                                                    |
| (In thousands)           |              |                     |                                                                                           |                                                           |                                                    |

Financial liabilities:

|                                            |             |             |      |             |      |
|--------------------------------------------|-------------|-------------|------|-------------|------|
| Senior Notes                               | \$61,953    | \$63,618    | \$ - | \$63,618    | \$ - |
| Convertible Senior Notes due 2017          | 345,000     | 387,997     | -    | 387,997     | -    |
| Convertible Senior Notes due 2020          | 500,000     | 735,075     | -    | 735,075     | -    |
| Convertible Junior Subordinated Debentures | 389,522     | 500,201     | -    | 500,201     | -    |
| Total Debt                                 | \$1,296,475 | \$1,686,891 | \$ - | \$1,686,891 | \$ - |

The fair values of our Senior Notes, Convertible Senior Notes and Debentures were determined using available pricing for these debentures or similar instruments and are considered Level 2 securities.

# Note 9 – Other Comprehensive Income

Our other comprehensive income for the three months ended March 31, 2015 and 2014 was as follows:

|                                                      | Three Months Ended March 31, 2015 |               |                        |               |
|------------------------------------------------------|-----------------------------------|---------------|------------------------|---------------|
|                                                      | Before<br>tax                     | Tax<br>effect | Valuation<br>allowance | Net of<br>tax |
|                                                      | (In thousands)                    |               |                        |               |
| Other comprehensive income (loss):                   |                                   |               |                        |               |
| Change in unrealized gains and losses on investments | \$ 19,721                         | \$(6,876)     | \$ 6,718               | \$ 19,563     |
| Benefit plan adjustments                             | (700 )                            | 245           | (245 )                 | (700 )        |
| Unrealized foreign currency translation adjustment   | (3,102 )                          | 1,088         | -                      | (2,014 )      |
| Other comprehensive income (loss)                    | \$ 15,919                         | \$(5,543)     | \$ 6,473               | \$ 16,849     |
|                                                      |                                   |               |                        |               |
|                                                      | Three Months Ended March 31, 2014 |               |                        |               |
|                                                      | Before<br>tax                     | Tax<br>effect | Valuation<br>allowance | Net of<br>tax |
|                                                      | (In thousands)                    |               |                        |               |
| Other comprehensive income (loss):                   |                                   |               |                        |               |
| Change in unrealized gains and losses on investments | \$ 39,661                         | \$(13,871)    | \$ 13,808              | \$ 39,598     |
| Benefit plan adjustments                             | (1,486 )                          | 520           | (520 )                 | (1,486 )      |
| Unrealized foreign currency translation adjustment   | 1,931                             | (678 )        | -                      | 1,253         |
| Other comprehensive income (loss)                    | \$ 40,106                         | \$(14,029)    | \$ 13,288              | \$ 39,365     |

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

Total accumulated other comprehensive income and changes in accumulated other comprehensive income, including amounts reclassified from other comprehensive income, are included in the table below.

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|                                                                         | Three Months Ended March 31, 2015                                                             |                             |                                    |             |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------|------------------------------------|-------------|
|                                                                         | Unrealized<br>gains<br>and<br>losses on<br>available-for-sale<br>securities<br>(In thousands) | Defined<br>benefit<br>plans | Foreign<br>currency<br>translation | Total       |
| Balance at December 31, 2014, before tax                                | \$7,148                                                                                       | \$ (55,878)                 | \$ 7,117                           | \$ (41,613) |
| Other comprehensive income (loss) before reclassifications              | 30,955                                                                                        | -                           | (3,102 )                           | \$ 27,853   |
| Amounts reclassified from accumulated other comprehensive income (loss) | 11,234 (1)                                                                                    | 700 (2)                     | -                                  | \$ 11,934   |
| Net current period other comprehensive income (loss)                    | 19,721                                                                                        | (700 )                      | (3,102 )                           | 15,919      |
| Balance at March 31, 2015, before tax                                   | \$26,869                                                                                      | \$ (56,578)                 | \$ 4,015                           | \$ (25,694) |
| Tax effect (3)                                                          | (64,857)                                                                                      | 26,940                      | (881 )                             | (38,798)    |
| Balance at March 31, 2015, net of tax                                   | \$ (37,988)                                                                                   | \$ (29,638)                 | \$ 3,134                           | \$ (64,492) |

|                                                                               | Three Months Ended March 31, 2014                                                          |                             |                                    |             |
|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------|------------------------------------|-------------|
|                                                                               | Unrealized<br>gains and<br>losses on<br>available-for-sale<br>securities<br>(In thousands) | Defined<br>benefit<br>plans | Foreign<br>currency<br>translation | Total       |
| Balance at December 31, 2013, before tax                                      | \$ (84,634 )                                                                               | \$ (3,766 )                 | \$ 11,184                          | \$ (77,216) |
| Other comprehensive income (loss) before reclassifications                    | 36,672                                                                                     | -                           | 1,931                              | 38,603      |
| Less: Amounts reclassified from accumulated other comprehensive income (loss) | (2,989 ) (1)                                                                               | 1,486 (2)                   | -                                  | (1,503 )    |
| Net current period other comprehensive income (loss)                          | 39,661                                                                                     | (1,486 )                    | 1,931                              | 40,106      |
| Balance at March 31, 2015, before tax                                         | \$ (44,973 )                                                                               | \$ (5,252 )                 | \$ 13,115                          | \$ (37,110) |
| Tax effect (3)                                                                | (64,119 )                                                                                  | 26,940                      | (4,072 )                           | (41,251)    |
| Balance at March 31, 2014, net of tax                                         | \$ (109,092)                                                                               | \$ 21,688                   | \$ 9,043                           | \$ (78,361) |

During the three months ended March 31, 2015 and 2014, we realized net investment gains (losses) that at the end of the prior quarter had been classified in net unrealized gains (losses) of \$11.2 million and (\$3.0) million, respectively. As a result, these amounts were reclassified to the Consolidated Statement of Operations and included in Realized investment gains (losses).

- During the three months ended March 31, 2015 and 2014, other comprehensive income related to benefit plans of
- (2) \$0.7 million and \$1.5 million was reclassified to the Consolidated Statement of Operations and included in Underwriting and other expenses, net.
  - (3) Tax effect does not approximate 35% due to amounts of tax benefits not provided in various periods due to our tax valuation allowance.

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Total accumulated other comprehensive income at December 31, 2014 is included in the table below.

|                                          | Unrealized<br>gains<br>and<br>losses on<br>available-for-sale<br>securities<br>(In thousands) | Defined<br>pension<br>plans | Foreign<br>currency<br>translation | Total      |
|------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------|------------------------------------|------------|
| Balance at December 31, 2014, before tax | \$7,148                                                                                       | \$(55,878)                  | \$ 7,117                           | \$(41,613) |
| Tax effect (1)                           | (64,699)                                                                                      | 26,940                      | (1,969 )                           | (39,728)   |
| Balance at December 31, 2014, net of tax | \$(57,551)                                                                                    | \$(28,938)                  | \$ 5,148                           | \$(81,341) |

(1) Tax effect does not approximate 35% due to amounts of tax benefits not provided in various periods due to our tax valuation allowance.

Note 10 - Benefit Plans

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

|                                    | Three Months Ended March 31,<br>Pension and<br>Supplemental<br>Executive<br>Retirement Plans<br>2015      2014<br>(In thousands) |         |           |           | Other<br>Postretirement<br>Benefits<br>2015      2014 |  |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|---------|-----------|-----------|-------------------------------------------------------|--|
| Service cost                       | \$2,448                                                                                                                          | \$2,080 | \$202     | \$177     |                                                       |  |
| Interest cost                      | 3,908                                                                                                                            | 4,009   | 178       | 183       |                                                       |  |
| Expected return on plan assets     | (5,295)                                                                                                                          | (5,258) | (1,248)   | (1,161)   |                                                       |  |
| Recognized net actuarial loss      | 1,209                                                                                                                            | 291     | (35 )     | (73 )     |                                                       |  |
| Amortization of prior service cost | (211 )                                                                                                                           | (42 )   | (1,662)   | (1,662)   |                                                       |  |
| Net periodic benefit cost          | \$2,059                                                                                                                          | \$1,080 | \$(2,565) | \$(2,536) |                                                       |  |

We currently intend to make a contribution of \$17 million to our qualified pension plan and supplemental executive retirement plan in 2015.

## Note 11 – Income Taxes

### Valuation Allowance

We review the need to maintain the deferred tax asset valuation allowance on a quarterly basis. We analyze several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the existence and current level of taxable operating income, the expected occurrence of future income or loss, the expiration dates of the carryforwards, the cyclical nature of our operating results, and available tax planning strategies. Based on our analysis and the current level of cumulative operating losses, we continue to reduce our benefit from income tax through the recognition of a valuation allowance.

It is reasonably possible that the valuation allowance will be reversed in the foreseeable future. Specifically, if we continue to recognize meaningful levels of sustainable pre-tax income, it is likely that the valuation allowance will be reversed in 2015. In the period in which the valuation allowance is reversed, we would recognize a tax benefit which will increase our earnings for that period. In future years, after the valuation allowance has been reversed and until such time as our net operating loss carryforwards are exhausted or expired, our provision for income tax would substantially exceed the amount of cash tax payments.

The effect of the change in valuation allowance on the provision for income taxes was as follows:

|                               | Three months ended<br>March 31, |          |
|-------------------------------|---------------------------------|----------|
|                               | 2015                            | 2014     |
|                               | (In thousands)                  |          |
| Provision for income tax      | \$47,883                        | \$23,120 |
| Change in valuation allowance | (44,498)                        | (22,394) |
| Provision for income taxes    | \$3,385                         | \$726    |

The change in the valuation allowance that was included in other comprehensive income for the three months ended March 31, 2015 and 2014 was a decrease of \$6.5 million and \$13.3 million, respectively. The total valuation allowance as of March 31, 2015 and December 31, 2014 was \$851.3 million and \$902.3 million, respectively.

We have approximately \$2.3 billion of net operating loss carryforwards on a regular tax basis and \$1.4 billion of net operating loss carryforwards for computing the alternative minimum tax as of March 31, 2015. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 through 2033.

### Tax Contingencies

As previously disclosed, the Internal Revenue Service (“IRS”) completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits (“REMICs”). 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 these assessments within the IRS and in August 2010, we reached a tentative settlement agreement with the IRS which was not finalized.



On September 10, 2014, we received Notices of Deficiency (commonly referred to as “90 day letters”) covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of \$197.5 million and at March 31, 2015, there would also be interest related to these matters of approximately \$171.9 million. In 2007, we made a payment of \$65.2 million to the United States Department of the Treasury which will reduce any amounts we would ultimately owe. The Notices of Deficiency also reflect additional amounts due of \$261.4 million, which are primarily associated with the disallowance of the carryback of the 2009 net operating loss to the 2004-2007 tax years. We believe the IRS included the carryback adjustments as a precaution to keep open the statute of limitations on collection of the tax that was refunded when this loss was carried back, and not because the IRS actually intends to disallow the carryback permanently.

We filed a petition with the U.S. Tax Court contesting most of the IRS' proposed adjustments reflected in the Notices of Deficiency and the IRS has filed an answer to our petition which continues to assert their claim. Litigation to resolve our dispute with the IRS could be lengthy and costly in terms of legal fees and related expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached and finalized. Depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of March 31, 2015, those state taxes and interest would approximate \$47.7 million. In addition, there could also be state tax penalties. Our total amount of unrecognized tax benefits as of March 31, 2015 is \$106.4 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows, available assets and statutory capital. In this regard, see Note 1 – “Nature of Business – Capital-GSEs.”

In October 2014, we received a Revenue Agent’s Report from the IRS related to the examination of our federal income tax returns for the years 2011 and 2012. The result of the examination had no material effect on the financial statements.

The total amount of the unrecognized tax benefits, related to our aforementioned REMIC issue that would affect our effective tax rate is \$93.8 million, after taking into account the effect of NOL carrybacks. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. As of March 31, 2015 and December 31, 2014, we had accrued \$27.1 million and \$26.9 million, respectively, for the payment of interest.

#### Note 12 – Loss Reserves

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

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Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment, and the current and future strength of local housing markets. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrower income and thus their ability to make mortgage payments, and a drop in housing values which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could result in a material impact to our results of operations and capital position, even in a stable economic environment.

The following table provides a reconciliation of beginning and ending loss reserves for the three months ended March 31, 2015 and 2014:

|                                                                   | Three months ended<br>March 31,<br>2015          2014<br>(In thousands) |             |
|-------------------------------------------------------------------|-------------------------------------------------------------------------|-------------|
| Reserve at beginning of period                                    | \$2,396,807                                                             | \$3,061,401 |
| Less reinsurance recoverable                                      | 57,841                                                                  | 64,085      |
| Net reserve at beginning of period                                | 2,338,966                                                               | 2,997,316   |
| Losses incurred:                                                  |                                                                         |             |
| Losses and LAE incurred in respect of default notices related to: |                                                                         |             |
| Current year                                                      | 109,381                                                                 | 155,982     |
| Prior years (1)                                                   | (27,596 )                                                               | (33,374 )   |
| Subtotal                                                          | 81,785                                                                  | 122,608     |
| Losses paid:                                                      |                                                                         |             |
| Losses and LAE paid in respect of default notices related to:     |                                                                         |             |
| Current year                                                      | 312                                                                     | 314         |
| Prior years                                                       | 231,230                                                                 | 342,669     |
| Subtotal                                                          | 231,542                                                                 | 342,983     |
| Net reserve at end of period                                      | 2,189,209                                                               | 2,776,941   |
| Plus reinsurance recoverables                                     | 55,415                                                                  | 57,618      |
| Reserve at end of period                                          | \$2,244,624                                                             | \$2,834,559 |

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

The “Losses incurred” section of the table above shows losses incurred on default notices received in the current year and in prior years. The amount of losses incurred relating to default notices received in the current year represents the estimated amount to be ultimately paid on such default notices. The amount of losses incurred relating to default notices received in prior years represents the actual claim rate and severity associated with those defaults notices resolved in the current year differing from the estimated liability at the prior year-end, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. This re-estimation of the estimated claim rate and estimated severity is the result of our review of current trends in the 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.



Losses incurred on default notices received in the current year decreased in the first three months of 2015 compared to the same period in 2014, primarily due to a decrease in the number of new default notices received, net of cures, as well as a decrease in the estimated claim rate on new delinquencies.

The prior year development of the reserves in the first three months of 2015 and 2014 is reflected in the table below.

|                                                                                        | Three months ended March 31,<br>2015<br>(In millions) | 2014     |
|----------------------------------------------------------------------------------------|-------------------------------------------------------|----------|
| Decrease in<br>estimated claim rate<br>on primary defaults                             | \$ (39 )                                              | \$ (30 ) |
| Increase in<br>estimated severity<br>on primary defaults                               | 17                                                    | 5        |
| Change in estimates<br>related to pool<br>reserves, LAE<br>reserves and<br>reinsurance | (6 )                                                  | (8 )     |
| Total prior year loss<br>development (1)                                               | \$ (28 )                                              | \$ (33 ) |

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

For the three months ended March 31, 2015 and 2014 we experienced favorable prior year loss reserve development. This development was based on the resolution of approximately 24% and 25% for the three months ended March 31, 2015 and 2014, respectively of the prior year default inventory. In addition, during the first quarter of 2015, the claim rate development was favorably impacted by \$20 million due to re-estimation of previously recorded reserves relating to disputes on our claims paying practices and adjustments to incurred but not reported losses (IBNR). This favorable development was offset, in part, by an increase in the claim rate and severity on prior year defaults remaining in the delinquent inventory.

The “Losses paid” section of the table above shows the breakdown between claims paid on default notices received in the current year and claims paid on default notices received in prior years. Until a few years ago, it took, on average, approximately twelve months for a default that is not cured to develop into a paid claim. Over the past several years, the average time it takes to receive a claim associated with a default has increased. This is, in part, due to new loss mitigation protocols established by servicers and to changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation processes. It is difficult to estimate how long it may take for current and future defaults that do not cure to develop into paid claims.

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at March 31, 2015 and December 31, 2014 and approximated \$112 million and \$115 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.

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A rollforward of our primary default inventory for the three months ended March 31, 2015 and 2014 appears in the table below. The information concerning new notices and cures is compiled from monthly reports received from loan servicers. The level of new notice and cure activity reported in a particular month can be influenced by, among other things, the date on which a servicer generates its report, the number of business days in a month and by transfers of servicing between loan servicers.

|                                                           | Three months<br>ended March 31, |          |
|-----------------------------------------------------------|---------------------------------|----------|
|                                                           | 2015                            | 2014     |
| Default inventory at beginning of period                  | 79,901                          | 103,328  |
| New notices                                               | 18,896                          | 23,346   |
| Cures                                                     | (21,767)                        | (27,318) |
| Paid (including those charged to a deductible or captive) | (4,573)                         | (7,064)  |
| Rescissions and denials                                   | (221)                           | (450)    |
| Default inventory at end of period                        | 72,236                          | 91,842   |

Pool insurance notice inventory was 3,350 at March 31, 2015 and 5,646 at March 31, 2014.

The decrease in the primary default inventory experienced during 2015 and 2014 was generally across all markets and primarily in book years 2008 and prior. As of March 31, 2015, the percentage of loans in the inventory that have been in default for 12 or more consecutive months is consistent with one year prior, but higher than the percentage as of December 31, 2014, as shown in the table below. Historically as a default ages it becomes more likely to result in a claim. The percentage of loans that have been in default for 12 or more consecutive months and the number of loans in our primary claims received inventory have been affected by our suspended rescissions and the resolution of certain of those rescissions discussed below and in Note 5 – “Litigation and Contingencies.”

|                                                                            | March 31,<br>2015 |       | December 31,<br>2014 |       | March 31,<br>2014 |       |
|----------------------------------------------------------------------------|-------------------|-------|----------------------|-------|-------------------|-------|
| Consecutive months in default                                              |                   |       |                      |       |                   |       |
| 3 months or less                                                           | 11,604            | 16 %  | 15,319               | 19 %  | 14,313            | 16 %  |
| 4 - 11 months                                                              | 18,940            | 26 %  | 19,710               | 25 %  | 23,305            | 25 %  |
| 12 months or more                                                          | 41,692            | 58 %  | 44,872               | 56 %  | 54,224            | 59 %  |
| Total primary default inventory                                            | 72,236            | 100 % | 79,901               | 100 % | 91,842            | 100 % |
| Primary claims received inventory included in ending default inventory (1) | 4,448             | 6 %   | 4,746                | 6 %   | 5,990             | 7 %   |

(1) Our claims received inventory includes suspended rescissions, as we have voluntarily suspended rescissions of coverage related to loans that we believed would be included in a potential resolution. As of March 31, 2015, rescissions of coverage on approximately 1,470 loans had been voluntarily suspended compared to 1,425 at December 31, 2014 and 1,525 at March 31, 2014.

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

|                                 | March 31,<br>2015 |       | December 31,<br>2014 |       | March 31,<br>2014 |       |
|---------------------------------|-------------------|-------|----------------------|-------|-------------------|-------|
| 3 payments or less              | 19,159            | 27 %  | 23,253               | 29 %  | 23,035            | 25 %  |
| 4 - 11 payments                 | 18,372            | 25 %  | 19,427               | 24 %  | 22,766            | 25 %  |
| 12 payments or more             | 34,705            | 48 %  | 37,221               | 47 %  | 46,041            | 50 %  |
| Total primary default inventory | 72,236            | 100 % | 79,901               | 100 % | 91,842            | 100 % |

### Claims paying practices

Our loss reserving methodology incorporates our estimates of future rescissions. A variance between ultimate actual rescission rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At March 31, 2015 and December 31, 2014 the estimate of this liability totaled \$27 million and \$28 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.

For information about discussions and legal proceedings with customers with respect to our claims paying practices, including settlements that we believe are probable, as defined in ASC 450-20, see Note 5 – “Litigation and Contingencies.”

### Note 13 – Premium Deficiency Reserve

The components of the premium deficiency reserve at March 31, 2015, December 31, 2014 and March 31, 2014 appear in the table below.

|                                                                                           | March<br>31,<br>2015 | December<br>31, 2014 | March<br>31,<br>2014 |
|-------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|
|                                                                                           | (In millions)        |                      |                      |
| Present value of expected future paid losses and expenses, net of expected future premium | \$(519)              | \$ (554 )            | \$(622 )             |
| Established loss reserves                                                                 | 502                  | 530                  | 579                  |
| Net deficiency                                                                            | \$(17 )              | \$ (24 )             | \$(43 )              |

The decrease in the premium deficiency reserve for the three months ended March 31, 2015 and 2014 was \$7 million and \$5 million, respectively, which represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The net change in assumptions for the three months ended March 31, 2015 and 2014 is primarily related to higher estimated ultimate premiums.



## Note 14 – Shareholders’ Equity

We have a Shareholders Rights Agreement which was approved by shareholders (the “Agreement”) dated July 25, 2012, as amended through March 11, 2013, that seeks to diminish the risk that our ability to use our net operating losses (“NOLs”) to reduce potential future federal income tax obligations may become substantially limited and to deter certain abusive takeover practices. The benefit of the NOLs would be substantially limited, and the timing of the usage of the NOLs could be substantially delayed, if we were to experience an “ownership change” as defined by Section 382 of the Internal Revenue Code.

Under the Agreement each outstanding share of our Common Stock is accompanied by one Right. The Distribution Date occurs on the earlier of ten days after a public announcement that a person has become an Acquiring Person, or ten business days after a person announces or begins a tender offer in which consummation of such offer would result in a person becoming an Acquiring Person. An Acquiring Person is any person that becomes, by itself or together with its affiliates and associates, a beneficial owner of 5% or more of the shares of our Common Stock then outstanding, but excludes, among others, certain exempt and grandfathered persons as defined in the Agreement. The Rights are not exercisable until the Distribution Date. Each Right will initially entitle shareholders to buy one-tenth of one share of our Common Stock at a Purchase Price of \$14 per full share (equivalent to \$1.40 for each one-tenth share), subject to adjustment. Each exercisable Right (subject to certain limitations) will entitle its holder to purchase, at the Rights’ then-current Purchase Price, a number of our shares of Common Stock (or if after the Shares Acquisition Date, we are acquired in a business combination, common shares of the acquiror) having a market value at the time equal to twice the Purchase Price. The Rights will expire on August 1, 2015, or earlier as described in the Agreement. The Rights are redeemable at a price of \$0.001 per Right at any time prior to the time a person becomes an Acquiring Person. Other than certain amendments, the Board of Directors may amend the Rights in any respect without the consent of the holders of the Rights.

## Note 15 – Stock-Based Compensation

We have an incentive stock plan under which restricted stock units (“RSUs”) were granted to employees and non-employee directors. Our annual grant of share-based compensation takes place during the first quarter of each fiscal year. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period which generally corresponds to the vesting period. Awards under our incentive plan generally vest over periods ranging from one to three years. The number of shares granted to employees and the weighted average fair value per share during the periods presented were (shares in thousands):

|                                         | Three months ended March 31, |                                               |                   |                                               |
|-----------------------------------------|------------------------------|-----------------------------------------------|-------------------|-----------------------------------------------|
|                                         | 2015                         |                                               | 2014              |                                               |
|                                         | Shares<br>Granted            | Weighted<br>Average<br>Share<br>Fair<br>Value | Shares<br>Granted | Weighted<br>Average<br>Share<br>Fair<br>Value |
| RSUs subject to performance conditions  | 1,110                        | \$ 8.98                                       | 1,372             | \$ 8.43                                       |
| RSUs subject only to service conditions | 408                          | 8.98                                          | 409               | 8.43                                          |

## Note 16 – Statutory Capital

Statutory Capital Requirements

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

At March 31, 2015, MGIC’s risk-to-capital ratio was 13.7 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was \$805 million above the required MPP of \$1.0 billion. In 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. We and the reinsurers have reached agreement to restructure the transaction in a manner that we believe will result in MGIC receiving full credit under the GSE Financial Requirements. The effectiveness of the restructured transaction will be subject to approval by the GSEs and the OCI. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the reinsurance agreement, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these financial statement footnotes for information about matters that could negatively affect such compliance.

At March 31, 2015, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 15.4 to 1. Reinsurance agreements with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance agreements with its affiliates, unless a waiver of the State Capital Requirements of Wisconsin continues to be effective, additional capital contributions to the reinsurance affiliates could be needed.

The NAIC previously announced that it plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. A working group of state regulators is drafting the revisions, although no date has been established by which the NAIC must propose revisions to such requirements. Depending on the scope of revisions made by the NAIC, MGIC may be prevented from writing new business in the jurisdictions adopting such revisions.

If MGIC fails to meet the State Capital Requirements of Wisconsin and is unable to obtain a waiver of them from the OCI, MGIC could be prevented from writing new business in all jurisdictions. If MGIC fails to meet the State Capital Requirements of a jurisdiction other than Wisconsin and is unable to obtain a waiver of them, MGIC could be prevented from writing new business in that particular jurisdiction. It is possible that regulatory action by one or more jurisdictions, including those that do not have specific State Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions.

If we are unable to write business in all jurisdictions, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the future ability of our insurance operations to meet the Financial Requirements may affect its willingness to procure insurance from us. A possible future failure by MGIC to meet the Financial Requirements will not necessarily mean that MGIC lacks sufficient resources to pay claims on its insurance liabilities. While we believe MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force on a timely basis, you should read the rest of these financial statement footnotes for information about matters that could negatively affect MGIC's claims paying resources.

Statement of Statutory Accounting Principles No. 101 ("SSAP No. 101") became effective January 1, 2012 and prescribed new standards for determining the amount of deferred tax assets that can be recognized as admitted assets for determining statutory capital. Under a permitted practice effective September 30, 2012 and until further notice, the OCI has approved MGIC to report its net deferred tax asset as an admitted asset in an amount not to exceed 10% of surplus as regards policyholders, notwithstanding any contrary provisions of SSAP No. 101. Deferred tax assets of \$140 million and \$138 million were included in MGIC's statutory capital at March 31, 2015 and December 31, 2014, respectively.

See Note 1 – "Nature of Business and Basis of Presentation – Capital" for additional information regarding the capital standards of the GSEs.

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

### Overview

Through our subsidiaries MGIC and MIC, we are a leading provider of private mortgage insurance in the United States, as measured by \$166.1 billion of primary insurance in force at March 31 2015.

As used below, “we” and “our” refer to MGIC Investment Corporation’s consolidated operations. The discussion below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2014. We refer to this Discussion as the “10-K MD&A.” In the discussion below, we classify, in accordance with industry practice, as “full documentation” loans approved by GSE and other automated underwriting systems under “doc waiver” programs that do not require verification of borrower income. For additional information about such loans, see footnote (2) to the composition of primary default inventory table under “Results of Consolidated Operations-Losses-Losses incurred” below. The discussion of our business in this document generally does not apply to our Australian operations which have historically been immaterial. The results of our operations in Australia are included in the consolidated results disclosed. For additional information about our Australian operations, see our risk factor titled “Our Australian operations may suffer significant losses” and “Overview—Australia” in our 10-K MD&A.

### Forward Looking and Other Statements

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

### General Business Environment

As a provider of mortgage insurance, our results are subject to macroeconomic conditions and specific events that impact the origination environment and the credit performance of the underlying insured mortgages. The origination market during the first quarter of 2015 was strong as declining residential mortgage interest rates led to a significant increase in refinancing activity and also supported a higher level of purchase activity. While lower residential mortgage interest rates increase loan activity, they may unfavorably impact the persistency rate of business inforce as current rates would provide an incentive for homeowners who originated mortgages at higher rates to refinance their mortgages. Our level of incurred losses however, may be favorably impacted if homeowners with delinquent mortgages can cure their delinquency through refinancing or sale. During the first quarter of 2015, we experienced improved financial results due to a lower level of incurred losses as we received fewer delinquencies and experienced a lower claim rate on these notices relative to the prior year and had favorable prior year loss development primarily from a re-estimation of reserves relating to disputes regarding our claims paying practices. In addition to lower losses, our current period financial results benefited from realized gains on the sales of securities under favorable market conditions.

The strong origination market during the first quarter of 2015 allowed us to grow our insurance in force 5% compared to the prior year period. In addition, we continue to experience an increasing level of purchase and refinancing application activity relative to the prior year that supports our expectation to modestly increase our new insurance written in 2015 relative to 2014. As our more recent book years containing high-quality mortgages continue to become a more significant percentage of our insurance inforce relative to our legacy book years, we expect to continue to realize favorable financial results. In addition, the finalization of the PMIERs provides more clarity regarding the capital requirements of our industry going forward that may allow us to pursue additional opportunities

to provide credit enhancement that is currently assumed by the GSEs.

For a number of years, substantially all of the loans we insured have been sold to the GSEs, which have been in conservatorship since late 2008. When the conservatorship will end and what role, if any, the GSEs will play in the secondary mortgage market post-conservatorship will be determined by Congress. The scope of the FHA's large market presence may also change in connection with the determination of the future of the GSEs." See our risk factor titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses." Furthermore, capital standards for private mortgage insurers have been revised; see "Capital" below. While we strongly believe private mortgage insurance should be an integral part of credit enhancement in a future mortgage market, its role in that market cannot be predicted.

## Capital

### GSEs

In April 2015, the GSEs each released revised PMIERS that become effective December 31, 2015. The PMIERS include revised GSE Financial Requirements under which a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) must meet or exceed "Minimum Required Assets" (which are based on an insurer's book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

We expect that MGIC will be in compliance with the PMIERS, including the GSE Financial Requirements, when they become effective.

We estimate that as of March 31, 2015, before considering the effects of reinsurance, MGIC has a shortfall in Available Assets of approximately \$230 million. This shortfall estimate is based on our interpretation of the GSE Financial Requirements and assumes that the risk in force and assets of MGIC's MIC subsidiary will be repatriated to MGIC. This shortfall estimate does not reflect the benefits from MGIC's existing quota share reinsurance transaction or the anticipated restructure of that transaction; or the transfer of assets from regulated insurance affiliates of MGIC that, subject to regulatory authorization, could increase the assets of MGIC. We believe that these benefits will eliminate our shortfall in Available Assets and each is discussed below.

Our existing reinsurance agreement is not expected to receive full credit under the PMIERS. However, we and the reinsurers have reached agreement to restructure the transaction in a manner that we believe will result in MGIC receiving full credit under the PMIERS. The effectiveness of the restructured transaction will be subject to approval by the GSEs and the OCI. In addition, in April 2015, regulated insurance affiliates of MGIC transferred \$45 million of assets to MGIC increasing the Available Assets of MGIC. Furthermore, if additional Available Assets are required, we believe that a portion of our holding company's \$494 million of cash and investments at March 31, 2015, may be available for future contribution to MGIC. In addition, we could seek non-dilutive debt capital to mitigate a shortfall.

There can be no assurance that the GSEs will not make the GSE Financial Requirements more onerous in the future; in this regard, the PMIERS provide that the tables of factors that determine Minimum Required Assets will be updated every two years and may be updated more frequently to reflect changes in macroeconomic conditions or loan performance. The GSEs will provide notice 180 days prior to the effective date of table updates. In addition, the GSEs may amend the PMIERS at any time. 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.

See our risk factor titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility” for factors that may negatively impact MGIC’s ability to comply with the GSE Financial Requirements before their effective date and the transition plan available to us to achieve compliance if we fail to be compliant on the effective date.

### State Regulations

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

At March 31, 2015, MGIC’s risk-to-capital ratio was 13.7 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was \$805 million above the required MPP of \$1.0 billion. In 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. We and the reinsurers have reached agreement to restructure the transaction in a manner that we believe will result in MGIC receiving full credit under the GSE Financial Requirements. The effectiveness of the restructured transaction will be subject to approval by the GSEs and the OCI. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the reinsurance agreement, without penalty.

At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, refer to risk factor “State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” for information about matters that could negatively affect such compliance.

### GSE Reform

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential housing finance system through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us and that the charters of the GSEs are changed by new federal legislation. The financial reform legislation that was 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 did not provide any definitive timeline for GSE reform; however, it did recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government’s footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to change the business practices of the GSEs and the FHA; however, no legislation has been

enacted. 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 residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact of any resulting changes on our business is uncertain. Most meaningful 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.

Dodd-Frank requires lenders to consider a borrower's ability to repay a home loan before extending credit. The Consumer Financial Protection Bureau ("CFPB") rule defining "Qualified Mortgage" ("QM") for purposes of implementing the "ability to repay" law became effective in January 2014 and included a temporary category of QMs for mortgages that satisfy the general product feature requirements of QMs and meet the GSEs' underwriting requirements (the "temporary category"). The temporary category will phase out when the GSEs' conservatorship ends, or if sooner, on January 21, 2021.

Dodd-Frank requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. The final rule implementing that requirement will become effective on December 24, 2015 for asset-backed securities collateralized by residential mortgages. The final rule exempts securitizations of qualified residential mortgages ("QRMs") from the risk retention requirement and generally aligns the QRM definition with that of QM. As noted above, there is a temporary category of QMs for mortgages that satisfy the general product feature requirements of QMs and meet the GSEs' underwriting requirements. As a result, lenders that originate loans that are sold to the GSEs while they are in conservatorship would not be required to retain risk associated with those loans. The final rule requires the agencies to review the QRM definition no later than four years after its effective date and every five years thereafter, and allows each agency to request a review of the definition at any time.

We estimate that for our new risk written in 2013, 2014 and the first quarter of 2015, 87%, 83% and 85%, respectively, was for loans that would have met the CFPB's general QM definition and, therefore, the QRM definition. We estimate that approximately 99% of our new risk written in each of 2013, 2014 and the first quarter of 2015, was for loans that would have met the temporary category in CFPB's QM definition. Changes in the treatment of GSE-guaranteed mortgage loans in the regulations defining QM and QRM, or changes in the conservatorship or capital support provided to the GSEs by the U.S. Government, could impact the manner in which the risk-retention rules apply to GSE securitizations, originators who sell loans to GSEs and our business.

The GSEs have different loan purchase programs that allow different levels of mortgage insurance coverage. Under the "charter coverage" program, on certain loans lenders may choose a mortgage insurance coverage percentage that is less than the GSEs' "standard coverage" and only the minimum required by the GSEs' charters, with the GSEs paying a lower price for such loans. In 2013, 2014 and the first quarter of 2015, nearly all of our volume was on loans with GSE standard or higher coverage. We charge higher premium rates for higher coverage percentages. To the extent lenders selling loans to the GSEs in the future choose lower coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

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

## Loan Modification and Other Similar Programs

Our operating results continue to be impacted by the Home Affordable Modification Program (“HAMP”) and the GSEs’ Home Affordable Refinance Program (“HARP”). During the first quarter of 2015 and 2014, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately \$153 million and \$210 million, respectively, of estimated claim payments. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments. Approximately 8% and 9% of the modifications resulted in principal forgiveness in the first quarter of 2015 and 2014, respectively.

In 2014 and the first quarter of 2015, approximately 16% and 13%, respectively, of our primary cures were the result of modifications, with HAMP accounting for approximately 67% and 70%, respectively, of those modifications. As of March 31, 2015, we are aware of approximately 6,110 loans remaining in our primary delinquent inventory for which the HAMP trial period has begun and which trial period has not been reported to us as completed or cancelled. The HAMP program has been extended through December 2016, however we believe that we have realized the majority of the benefits from HAMP as the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly in recent years. The interest rates on certain loans modified under HAMP are subject to adjustment five years after the modification became effective. Such adjustments are limited to an increase of one percentage point per year.

HARP, currently scheduled to expire December 31, 2015, allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. As of March 31, 2015, approximately 15% of our primary insurance in force had benefitted from HARP and was still in force. We believe that we have realized the majority of the benefits from HARP because the number of loans insured by us that we are aware are entering HARP has decreased significantly.

As shown in the following table, as of March 31, 2015 approximately 28% of our primary risk in force has been modified.

| Policy year    | HARP (1)<br>Modifications |   | HAMP<br>Modifications |   | Other<br>Modifications |   |
|----------------|---------------------------|---|-----------------------|---|------------------------|---|
| 2003 and Prior | 10.4                      | % | 14.2                  | % | 12.8                   | % |
| 2004           | 16.3                      | % | 13.9                  | % | 11.1                   | % |
| 2005           | 21.3                      | % | 15.4                  | % | 11.4                   | % |
| 2006           | 24.6                      | % | 17.4                  | % | 12.0                   | % |
| 2007           | 34.5                      | % | 17.8                  | % | 7.5                    | % |
| 2008           | 48.6                      | % | 10.6                  | % | 3.6                    | % |
| 2009           | 20.9                      | % | 0.9                   | % | 0.7                    | % |
| 2010 - Q1 2015 | -                         |   | -                     |   | -                      |   |
| Total          | 14.4                      | % | 9.4                   | % | 3.9                    | % |

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

As of March 31, 2015 based on loan count, the loans associated with 98.1% of all HARP modifications, 78.6% of HAMP modifications and 71.4% of other modifications were current.

Eligibility under certain loan modification programs can 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.

Over the past several years, the average time it takes to receive a claim associated with a defaulted loan has increased. This is, in part, due to new loss mitigation protocols established by servicers and to changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation processes. Unless a loan is cured during a foreclosure delay, at the completion of the foreclosure, additional interest and expenses may be due to the lender from the borrower. In some circumstances, our paid claim amount may include some additional interest and expenses.

#### 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 and VA, 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 HARP.

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 cancelled 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.

Premium rates, which are affected by product type, competitive pressures, the risk characteristics of the loans insured and the percentage of coverage on the loans.

- Premiums ceded, net of a profit commission, under reinsurance agreements.

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 claim payments and rescissions, and premiums ceded under reinsurance agreements. 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 entirely of investment grade fixed income securities. The principal factors that influence investment income are the size of the portfolio and its yield. As measured by amortized cost (which excludes changes in fair 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, and cash provided by (or used for) non-operating activities, such as debt or stock issuances or repurchases. From time to time we may elect to realize gains on securities that are trading above our cost basis. 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" in our 10-K MD&A, 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:

- 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 few years after loans are originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency (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.

· Losses ceded under reinsurance agreements.

· 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.

· 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.” Underwriting and other expenses are net of any ceding commission associated with our reinsurance agreements.

· Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. The principal amount of our long-term debt obligations at March 31, 2015 is comprised of \$61.9 million of 5.375% Senior Notes due in November 2015, \$345 million of 5% Convertible Senior Notes due in 2017, \$500 million of 2% Convertible Senior Notes due in 2020 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” in our Annual Report on Form 10-K.

## 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 following the year the book was written. 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.

## Summary of 2015 First Quarter Results

Our results of operations for the first quarter of 2015 were principally affected by the factors referred to below.

### ·Net premiums written and earned

Net premiums written and earned during the first quarter of 2015 increased when compared to the same period in 2014. The increase was due to our higher average insurance in force, offset in part by an increase in ceded premiums, net of profit commission, under reinsurance agreements.

### ·Investment income

Investment income in the first quarter of 2015 was higher when compared to the same period in 2014 due to an increase in our average investment yield.

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

Net realized gains (losses) for the first quarter of 2015 were \$26.3 million compared to (\$0.2) million for the first quarter of 2014. At March 31, 2015, the net unrealized gains in our investment portfolio were \$26.9 million, which included \$45.6 million of gross unrealized gains, offset by \$18.7 million of gross unrealized losses.

### ·Losses incurred

Losses incurred for the first quarter of 2015 decreased compared to the same period in 2014, primarily due to fewer new notices of default being received and a lower claim rate on new notices. There were 18,896 new notices received in the first quarter of 2015 compared to 23,346 new notices received in the first quarter of 2014.

### ·Change in premium deficiency reserve

The premium deficiency reserve as of March 31, 2015 reflects the present value of expected future losses and expenses that exceeds the present value of expected future premiums and already established loss reserves. During the first quarter of 2015 the premium deficiency reserve on Wall Street bulk transactions declined by \$7 million to \$17 million. 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 the first quarter of 2015 is primarily related to higher estimated ultimate premiums.

·Underwriting and other expenses

Underwriting and other expenses for the first quarter of 2015 increased when compared to the same period last year primarily due to an increase in employee costs.

·Interest expense

Interest expense remained relatively constant period over period.

·Provision for income taxes

We had a net provision for income taxes of \$3.4 million and \$0.7 million in the first quarter of 2015 and 2014, respectively. The provision for income taxes reflects a decrease in the valuation allowance of \$44.5 million and \$22.4 million for the three months ended March 31, 2015 and 2014, respectively.

## Results of Consolidated Operations

### New insurance written

The amount of our primary new insurance written during the three months ended March 31, 2015 and 2014 was as follows:

|                                        | Three Months<br>Ended March<br>31, |       |
|----------------------------------------|------------------------------------|-------|
|                                        | 2015                               | 2014  |
| Total Primary NIW (In billions)        | \$9.0                              | \$5.2 |
| Refinance volume as a % of primary NIW | 28.8%                              | 15.0% |

The increase in new insurance written in the first quarter of 2015 compared to the same period last year was due to a significant increase in origination volume, primarily driven by refinancing transactions, and to a lesser extent purchase loans. At this time we lack definitive information to assess the impact on our first quarter writings of changes in our industry's market share and our market share within our industry. We continue to believe that new insurance written volume in 2015 will modestly exceed the 2014 level.

The level of competition within the private mortgage industry remains intense, and is not expected to diminish. Further, changes in the FHA's policies and procedures will continue to impact the amount of new insurance written by us. In January 2015, the FHA significantly reduced its annual mortgage insurance premiums by 50 basis points. This reduction more than offsets the previously enacted price change by the FHA, which increased the prevailing annual insurance premiums by 10 basis points in early 2013; however rates will remain above those in 2007. Absent any other changes, the reduction in FHA premiums will make private mortgage insurance less competitive with the FHA for borrowers with certain credit characteristics. However, we believe our pricing continues to be more attractive than the FHA's pricing for a substantial majority of borrowers with credit and loan characteristics similar to those whose loans we insured in 2014 and the first quarter of 2015. The GSEs also recently lowered their minimum downpayment requirements for certain loans from 5% to 3%, however we may not insure a significant number of those loans in the near future because the new FHA pricing on those loans may be more favorable for borrowers. Our underwriting requirements are available on our website at <http://mgic.com/underwriting/index.html>. We cannot predict how these factors will change in the future and we cannot predict whether the GSEs will reduce their fees, therefore, we cannot predict the FHA's share of new insurance written in the future.

The level of competition within the private mortgage insurance industry is intense and is not expected to diminish. Price competition has been present for some time: in the third quarter of 2014, we reduced many of our standard lender-paid single premium rates to match competition; and in the fourth quarter of 2013, we reduced all of our standard borrower-paid monthly premium rates and most of our standard single premium rates to match competition. Currently, we are seeing price competition in the form of lender-paid single premium programs customized for individual lenders by using a rate card's authority to set premiums or adjust premiums on individual loans within a range of premiums. This has resulted in rates materially discounted from those on the standard rate card (i.e., one that does not use such authority). In the first quarter of 2015, the average discount from our rate card on lender-paid single premium policies was 13%, primarily as a result of selectively matching reduced rates offered by our competitors, compared to 5% in the fourth quarter of 2014. Prior to the fourth quarter of 2014, we did not offer significant discounts from our standard lender-paid single premium policy rate card. As a result of these rate reductions and discounts, lender-paid single premium policies are an increasing percentage of our new insurance written representing 20% of our new insurance written for the first quarter of 2015 compared to 11% in 2014. The premium from a single premium policy is collected upfront and generally earned over the estimated life of the policy. In contrast, premiums from a monthly premium policy are received and earned each month over the life of the policy. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life. Currently, we expect to receive less lifetime premium from a new lender-paid single premium policy than we would from a new borrower-paid monthly premium policy. As a result of the recent increase in the percentage of our new business written as lender-paid single premium policies, our weighted average premium rate on new insurance written has decreased from 2013 to 2014. As the percentage of business written as lender-paid single premium policies increases, all other things equal, our weighted average premium rates on new insurance written will decrease. If we reduce or discount prices on any premium plan in response to future price competition, it may further decrease our weighted average premium rates.

We monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in 2013 and 2014.

#### Cancellations, insurance in force and risk in force

New insurance written and cancellations of primary insurance in force during the three months ended March 31, 2015 and 2014 were as follows:

|                                                   | Three Months<br>Ended March<br>31,<br>2015    2014<br>(In billions) |          |
|---------------------------------------------------|---------------------------------------------------------------------|----------|
| NIW                                               | \$9.0                                                               | \$5.2    |
| Cancellations                                     | (7.8 )                                                              | (6.0 )   |
| Change in primary insurance in force              | \$1.2                                                               | \$(0.8 ) |
| Direct primary insurance in force as of March 31, | \$166.1                                                             | \$157.9  |
| Direct primary risk in force as of March 31,      | \$43.2                                                              | \$40.9   |

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

Our persistency rate was 81.6% at March 31, 2015 compared to 82.8% at December 31, 2014 and 81.1% at March 31, 2014. Our persistency rate is affected by the level of current mortgage interest rates compared to the mortgage interest rates on our insurance in force, which affects the vulnerability of the insurance in force to refinancing. From 2008 through 2012 mortgage interest rates declined annually and current mortgage interest rates remain historically low. As a result of refinancing activity, the persistency rate on our 2009 – 2012 book years ranges from 71% to 78%. 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.

#### Pool insurance

We have written no new pool insurance since 2009, however, for a variety of reasons, including responding to capital market alternatives to private mortgage insurance and customer demands, we may write pool risk in the future. Our direct pool risk in force was \$0.8 billion (\$0.3 billion on pool policies with aggregate loss limits and \$0.5 billion on pool policies without aggregate loss limits) at March 31, 2015 compared to \$0.8 billion (\$0.3 billion on pool policies with aggregate loss limits and \$0.5 billion on pool policies without aggregate loss limits) at December 31, 2014. If claim payments associated with a specific pool reach the aggregate loss limit the remaining insurance in force within the pool would be cancelled and any remaining defaults under the pool would be removed from our default inventory.

## Net premiums written and earned

Net premiums written and earned during the first quarter of 2015 increased when compared to the same period in 2014. The increase was due to our higher average insurance in force, offset in part by an increase in ceded premiums under reinsurance agreements.

We expect our average insurance in force to increase modestly throughout the remainder of 2015. As our insurance in force grows we expect an increase in our direct premiums written and earned, when compared to 2014. Written and earned premiums are also influenced by the loan-to-value, level of coverage, credit score, premium plan, and premium rates on new insurance written. We expect that our lender-paid single premium business as a percentage of our overall new insurance written in 2015 will exceed the level written in 2014, as discussed under “New insurance written” above.

The amount of premiums ceded in 2015 may be impacted by potential modifications or expansion of our existing quota share reinsurance agreement executed in 2013. See our risk factor titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility.”

## Reinsurance agreements

At March 31, 2015, approximately 61% of our insurance in force was subject to reinsurance agreements, compared to 56% at March 31, 2014. For the first quarter of 2015 approximately 85% of our new insurance written was subject to reinsurance agreements, compared to 93% in the first quarter of 2014.

In 2013, MGIC and several of our competitors reached a settlement with the CFPB to resolve an investigation. As part of the settlement, without admitting or denying any liability, we have agreed that we will not enter into any new captive reinsurance agreement or reinsure any new loans under any existing captive reinsurance agreement for a period of ten years. In accordance with this settlement, all of our active captive agreements were placed into run-off. See our risk factor titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future” for a discussion of the CFPB investigation and requests or subpoenas for information regarding captive mortgage reinsurance agreements.

## Investment income

Investment income in the first quarter of 2015 increased compared to the same period in 2014 due to an increase in our investment yield. The portfolio’s average pre-tax investment yield was 2.2% at March 31, 2015 and 1.9% at March 31, 2014. The portfolio’s average pre-tax investment yield was 2.2% at December 31, 2014.

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

Net realized gains (losses) for the first quarter of 2015 were \$26.3 million, compared to (\$0.2) million for the first quarter of 2014. During the first quarter of 2015, under favorable market conditions, we sold fixed maturity securities to realize gains. At March 31, 2015, the net unrealized gains in our investment portfolio were \$26.9 million, which included \$45.6 million of gross unrealized gains, partially offset by \$18.7 million of gross unrealized losses.

## Losses

As discussed in “Critical Accounting Policies” in our 10-K MD&A 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. We consider a loan in default when it is two or more payments 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.

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment and the current and future strength of local housing markets. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers’ income and thus their ability to make mortgage payments, and a drop in housing values that could result in, among other things, greater losses on loans that have pool insurance, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Our estimates are also affected by any agreements we enter into regarding our claims paying practices, such as the settlement agreements discussed in Note 5 – “Litigation and Contingencies” to our consolidated financial statements. Changes to our estimates could result in a material impact to our results of operations, even in a stable economic environment.

### Losses incurred

Losses incurred for the first quarter of 2015 decreased compared to the same period in 2014, primarily due to fewer new notices of default being received and a lower claim rate on new notices. There were 18,896 new notices received in the first quarter of 2015 compared to 23,346 new notices received in the first quarter of 2014.

In the first three months of 2015, net losses incurred were \$82 million, including \$110 million of current year loss development partially offset by \$28 million of favorable prior years’ loss development. In the first three months of 2014, net losses incurred were \$123 million, including \$156 million of current year loss development partially offset by \$33 million of favorable prior years’ loss development.

Historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new notice activity and a lower cure rate.

See Note 12 – “Loss Reserves” to our consolidated financial statements for a discussion of our losses incurred and claims paying practices.

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Information about the composition of the primary default inventory at March 31, 2015, December 31, 2014 and March 31, 2014 appears in the table below.

|                                                                     | March<br>31,<br>2015 | December<br>31,<br>2014 | March<br>31,<br>2014 |
|---------------------------------------------------------------------|----------------------|-------------------------|----------------------|
| Total loans delinquent                                              | 72,236               | 79,901                  | 91,842               |
| Percentage of loans delinquent (default rate)                       | 7.44 %               | 8.25 %                  | 9.67 %               |
| Prime loans delinquent (1)                                          | 45,416               | 50,307                  | 57,965               |
| Percentage of prime loans delinquent (default rate)                 | 5.22 %               | 5.82 %                  | 6.95 %               |
| A-minus loans delinquent (1)                                        | 11,639               | 13,021                  | 14,518               |
| Percentage of A-minus loans delinquent (default rate)               | 25.44 %              | 27.61 %                 | 27.78 %              |
| Subprime credit loans delinquent (1)                                | 4,654                | 5,228                   | 5,814                |
| Percentage of subprime credit loans delinquent (default rate)       | 31.93 %              | 35.20 %                 | 36.14 %              |
| Reduced documentation loans delinquent (2)                          | 10,527               | 11,345                  | 13,545               |
| Percentage of reduced documentation loans delinquent (default rate) | 25.81 %              | 27.08 %                 | 29.02 %              |

(1) 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. For the information presented, the FICO credit score for a loan with multiple borrowers is the lowest of the borrowers’ “decision FICO scores.” 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.

(2) In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under "doc waiver" programs that do not require verification of borrower income are classified by 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.

The primary and pool loss reserves at March 31, 2015, December 31, 2014 and March 31, 2014 appear in the table below.

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|                                                                        | March<br>31,<br>2015 | December<br>31,<br>2014 | March<br>31,<br>2014 |
|------------------------------------------------------------------------|----------------------|-------------------------|----------------------|
| Gross Reserves                                                         |                      |                         |                      |
| Primary:                                                               |                      |                         |                      |
| Direct loss reserves (in millions)                                     | \$2,112              | \$2,246                 | \$2,629              |
| Ending default inventory                                               | 72,236               | 79,901                  | 91,842               |
| Average direct reserve per default                                     | \$29,233             | \$28,107                | \$28,630             |
| Primary claims received inventory included in ending default inventory | 4,448                | 4,746                   | 5,990                |
| Pool (1):                                                              |                      |                         |                      |
| Direct loss reserves (in millions):                                    |                      |                         |                      |
| With aggregate loss limits                                             | \$47                 | \$53                    | \$72                 |
| Without aggregate loss limits                                          | 10                   | 12                      | 15                   |
| Reserve related to Freddie Mac Settlement (2)                          | 73                   | 84                      | 115                  |
| Total pool direct loss reserves                                        | \$130                | \$149                   | \$202                |
| Ending default inventory:                                              |                      |                         |                      |
| With aggregate loss limits                                             | 2,666                | 3,020                   | 4,714                |
| Without aggregate loss limits                                          | 684                  | 777                     | 932                  |
| Total pool ending default inventory                                    | 3,350                | 3,797                   | 5,646                |
| Pool claims received inventory included in ending default inventory    | 88                   | 99                      | 144                  |
| Other gross reserves (in millions)                                     | \$3                  | \$2                     | \$4                  |

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

(2) See our Form 8-K filed with the Securities and Exchange Commission on November 30, 2012 for a discussion of our settlement with Freddie Mac regarding a pool policy.

The primary default inventory and primary loss reserves by region at March 31, 2015, December 31, 2014 and March 31, 2014 appear in the table below.

|                           | March<br>31,<br>2015 | December<br>31,<br>2014 | March<br>31,<br>2014 |
|---------------------------|----------------------|-------------------------|----------------------|
| Primary Default Inventory |                      |                         |                      |
| Region                    |                      |                         |                      |
| Great Lakes               | 8,289                | 9,329                   | 10,380               |
| Mid-Atlantic              | 3,968                | 4,416                   | 4,947                |
| New England               | 3,814                | 4,117                   | 4,613                |
| North Central             | 7,547                | 8,499                   | 9,783                |
| Northeast                 | 12,164               | 13,152                  | 14,165               |
| Pacific                   | 5,792                | 6,242                   | 7,511                |
| Plains                    | 2,165                | 2,427                   | 2,675                |
| South Central             | 8,087                | 9,045                   | 10,137               |
| Southeast                 | 20,410               | 22,674                  | 27,631               |
| Total                     | 72,236               | 79,901                  | 91,842               |



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|                                     | March<br>31,<br>2015 | December<br>31,<br>2014 | March<br>31,<br>2014 |
|-------------------------------------|----------------------|-------------------------|----------------------|
| Primary Loss Reserves (In millions) |                      |                         |                      |
| Region                              |                      |                         |                      |
| Great Lakes                         | \$ 138               | \$ 139                  | \$ 172               |
| Mid-Atlantic                        | 134                  | 123                     | 128                  |
| New England                         | 110                  | 125                     | 126                  |
| North Central                       | 206                  | 222                     | 263                  |
| Northeast                           | 412                  | 446                     | 458                  |
| Pacific                             | 234                  | 250                     | 319                  |
| Plains                              | 35                   | 35                      | 43                   |
| South Central                       | 113                  | 133                     | 163                  |
| Southeast                           | 590                  | 641                     | 788                  |
| Total before IBNR and LAE           | \$1,972              | \$ 2,114                | \$2,460              |
| IBNR and LAE                        | 140                  | 132                     | 169                  |
| Total                               | \$2,112              | \$ 2,246                | \$2,629              |

Regions contain the states as follows:

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

The average claim paid, as shown in the table below, can vary materially from period to period based upon a variety of factors, including the local market conditions, average loan amount, average coverage percentage, and our loss mitigation efforts on loans for which claims are paid.

The primary average claim paid for the top 5 states (based on 2015 paid claims) for the three months ended March 31, 2015 and 2014 appears in the table below.

|                            | March<br>31,<br>2015 | March<br>31,<br>2014 |
|----------------------------|----------------------|----------------------|
| Primary average claim paid |                      |                      |
| Florida                    | \$58,707             | \$53,991             |
| Illinois                   | 47,996               | 48,038               |
| Maryland                   | 67,829               | 67,851               |
| California                 | 80,608               | 80,238               |
| New Jersey                 | 69,590               | 77,347               |
| All other states           | 40,299               | 39,265               |
| All states                 | \$47,366             | \$45,897             |

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The primary average loan size of our insurance in force at March 31, 2015, December 31, 2014 and March 31, 2014 appears in the table below.

|                              | March<br>31,<br>2015 | December<br>31,<br>2014 | March<br>31,<br>2014 |
|------------------------------|----------------------|-------------------------|----------------------|
| Primary average loan size    |                      |                         |                      |
| Total insurance in force     | \$ 171,050           | \$ 170,240              | \$ 166,330           |
| Prime (FICO 620 & >)         | 173,840              | 172,990                 | 168,790              |
| A-Minus (FICO 575 - 619)     | 126,140              | 126,420                 | 127,140              |
| Subprime (FICO < 575)        | 116,850              | 117,310                 | 118,410              |
| Reduced doc (All FICO's) (1) | 181,260              | 181,480                 | 182,750              |

In this report we classify loans without complete documentation as “reduced documentation” loans regardless of (1) 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 do not appear in other categories.

The primary average loan size of our insurance in force at March 31, 2015, December 31, 2014 and March 31, 2014 for the top 5 states (based on 2015 paid claims) appears in the table below.

|                           | March<br>31,<br>2015 | December<br>31,<br>2014 | March<br>31,<br>2014 |
|---------------------------|----------------------|-------------------------|----------------------|
| Primary average loan size |                      |                         |                      |
| Florida                   | \$ 179,124           | \$ 177,981              | \$ 174,125           |
| Illinois                  | 155,256              | 155,335                 | 154,788              |
| Maryland                  | 240,506              | 239,875                 | 237,287              |
| California                | 283,583              | 283,228                 | 282,835              |
| New Jersey                | 240,603              | 240,846                 | 239,889              |
| All other states          | 161,112              | 160,314                 | 156,209              |

Information about net paid claims during the three months ended March 31, 2015 and 2014 appears in the table below.

| Net paid claims (In millions) | Three<br>Months<br>Ended |        |
|-------------------------------|--------------------------|--------|
|                               | March 31,<br>2015        | 2014   |
| Prime (FICO 620 & >)          | \$ 146                   | \$ 228 |
| A-Minus (FICO 575 - 619)      | 27                       | 39     |
| Subprime (FICO < 575)         | 9                        | 11     |
| Reduced doc (All FICO's) (1)  | 35                       | 46     |
| Pool (2)                      | 17                       | 24     |
| Direct losses paid            | 234                      | 348    |
| Reinsurance                   | (8 )                     | (12 )  |
| Net losses paid               | 226                      | 336    |
| LAE                           | 6                        | 7      |
| Net losses and LAE paid       | \$ 232                   | \$ 343 |

In this report we classify loans without complete documentation as “reduced documentation” loans regardless of (1) 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 do not appear in other categories.

(2) The three months ended March 31, 2015 and 2014 each include \$11 million paid under the terms of the settlement with Freddie Mac.

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Primary claims paid for the top 15 states (based on 2015 paid claims) and all other states for the three months ended March 31, 2015 and 2014 appears in the table below.

| Paid claims by state (In millions) | Three<br>Months<br>Ended<br>March 31, |       |
|------------------------------------|---------------------------------------|-------|
|                                    | 2015                                  | 2014  |
| Florida                            | \$49                                  | \$75  |
| Illinois                           | 18                                    | 28    |
| Maryland                           | 11                                    | 15    |
| California                         | 11                                    | 20    |
| New Jersey                         | 9                                     | 10    |
| Pennsylvania                       | 9                                     | 10    |
| Ohio                               | 8                                     | 12    |
| New York                           | 8                                     | 7     |
| Washington                         | 7                                     | 11    |
| Georgia                            | 6                                     | 9     |
| Connecticut                        | 6                                     | 5     |
| Wisconsin                          | 5                                     | 7     |
| Indiana                            | 4                                     | 5     |
| Michigan                           | 4                                     | 11    |
| Virginia                           | 4                                     | 4     |
| All other states                   | 58                                    | 96    |
|                                    | 217                                   | 324   |
| Other (Pool, LAE, Reinsurance)     | 15                                    | 19    |
| Net losses and LAE paid            | \$232                                 | \$343 |

We believe paid claims will continue to decline in the remainder of 2015, excluding the expected impact of the remaining Countrywide settlement as discussed in Note 5 – “Litigation and Contingencies” to our consolidated financial statements and in our risk factor titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future.”

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The primary default inventory for the top 15 states (based on 2015 paid claims) at March 31, 2015, December 31, 2014 and March 31, 2014 appears in the table below.

| Primary default inventory by state | March<br>31,<br>2015 | December<br>31,<br>2014 | March<br>31,<br>2014 |
|------------------------------------|----------------------|-------------------------|----------------------|
| Florida                            | 8,276                | 9,442                   | 12,852               |
| Illinois                           | 3,970                | 4,481                   | 5,435                |
| Maryland                           | 1,908                | 2,119                   | 2,486                |
| California                         | 2,570                | 2,777                   | 3,266                |
| New Jersey                         | 3,910                | 4,077                   | 4,409                |
| Pennsylvania                       | 3,945                | 4,480                   | 4,906                |
| Ohio                               | 3,484                | 3,908                   | 4,395                |
| New York                           | 4,309                | 4,595                   | 4,850                |
| Washington                         | 1,290                | 1,415                   | 1,794                |
| Georgia                            | 2,450                | 2,726                   | 3,080                |
| Connecticut                        | 974                  | 1,095                   | 1,258                |
| Wisconsin                          | 1,598                | 1,797                   | 1,862                |
| Indiana                            | 2,027                | 2,325                   | 2,484                |
| Michigan                           | 2,185                | 2,447                   | 2,771                |
| Virginia                           | 1,219                | 1,355                   | 1,438                |

The primary default inventory by policy year at March 31, 2015, December 31, 2014 and March 31, 2014 appears in the table below.

| Primary default inventory by policy year | March<br>31,<br>2015 | December<br>31,<br>2014 | March<br>31,<br>2014 |
|------------------------------------------|----------------------|-------------------------|----------------------|
| Policy year:                             |                      |                         |                      |
| 2004 and prior                           | 17,576               | 19,797                  | 23,322               |
| 2005                                     | 9,521                | 10,630                  | 12,339               |
| 2006                                     | 14,009               | 15,529                  | 17,827               |
| 2007                                     | 22,894               | 25,232                  | 29,115               |
| 2008                                     | 6,162                | 6,721                   | 7,710                |
| 2009                                     | 593                  | 648                     | 682                  |
| 2010                                     | 301                  | 300                     | 296                  |
| 2011                                     | 252                  | 260                     | 232                  |
| 2012                                     | 340                  | 316                     | 232                  |
| 2013                                     | 377                  | 335                     | 87                   |
| 2014                                     | 210                  | 133                     | -                    |
| 2015                                     | 1                    | -                       | -                    |
|                                          | 72,236               | 79,901                  | 91,842               |

Our results of operations continue to be negatively impacted by the mortgage insurance we wrote during 2005 through 2008. Although uncertainty remains with respect to the ultimate losses we may experience on each of our books of business, including our 2005-2008 books. As we continue to write new insurance on high-quality mortgages, the 2005-2008 books have become a smaller percentage of our total portfolio, representing approximately 39% of our total primary risk in force at March 31, 2015 compared to approximately 40% at December 31, 2014 and 47% at March 31, 2014.



On our primary business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. However, the pattern of claims frequency can be affected by many factors, including persistency and deteriorating economic conditions. Low persistency can accelerate 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. As of March 31, 2015, 37% of our primary risk in force was written subsequent to December 31, 2012, 47% of our primary risk in force was written subsequent to December 31, 2011, and 50% of our primary risk in force was written subsequent to December 31, 2010.

#### Underwriting and other expenses

Underwriting and other expenses for the first quarter of 2015 increased when compared to the same period last year primarily due to an increase in employee costs.

#### Ratios

The table below presents our GAAP loss, expense and combined ratios for our combined insurance operations for the three months ended March 31, 2015 and 2014.

|                            | Three<br>Months<br>Ended March<br>31,<br>2015    2014 |       |
|----------------------------|-------------------------------------------------------|-------|
| Loss ratio                 | 37.6%                                                 | 57.2% |
| Underwriting expense ratio | 16.4%                                                 | 15.7% |
| Combined ratio             | 54.0%                                                 | 72.9% |

The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The loss ratio does not reflect any effects due to premium deficiency. The decrease in the loss ratio in the first quarter of 2015, compared to the first quarter of 2014, was primarily due to a decrease in losses incurred. The underwriting expense ratio is the ratio, expressed as a percentage, of the underwriting expenses of our combined insurance operations (which excludes the cost of non-insurance operations) to net premiums written. The increase in the expense ratio in the first quarter of 2015, compared to the first quarter of 2014, was due to an increase in underwriting expenses for our combined insurance operations primarily due to an increase in employee costs, partially offset by an increase in net premiums written. The combined ratio is the sum of the loss ratio and the expense ratio.

## Interest expense

Interest expense for the first quarter of 2015 remained relatively constant period over period.

## Income taxes

The effective tax rate on our pre-tax income was 2.5% and 1.2% in the first three months of 2015 and 2014, respectively. During those periods, the provision for income taxes was reduced by the change in the valuation allowance.

See Note 11 – “Income Taxes” to our consolidated financial statements for a discussion of our tax position.

## Financial Condition

At March 31, 2015 the total fair value of our investment portfolio, excluding cash and cash equivalents, was \$4.6 billion. In addition, at March 31, 2015 our total assets included approximately \$233 million of cash and cash equivalents as shown on our consolidated balance sheets. At March 31, 2015, based on fair value, all of our fixed income securities were investment grade securities. The composition of ratings at March 31, 2015, December 31, 2014 and March 31, 2014 are shown in the table below.

|                              | March<br>31,<br>2015 |   | December<br>31,<br>2014 |   | March<br>31,<br>2014 |   |
|------------------------------|----------------------|---|-------------------------|---|----------------------|---|
| Investment Portfolio Ratings |                      |   |                         |   |                      |   |
| AAA                          | 29                   | % | 31                      | % | 39                   | % |
| AA                           | 18                   | % | 17                      | % | 17                   | % |
| A                            | 34                   | % | 35                      | % | 30                   | % |
| BBB                          | 19                   | % | 17                      | % | 14                   | % |
| Investment grade             | 100                  | % | 100                     | % | 100                  | % |
| Below investment grade       | -                    |   | -                       |   | -                    |   |
| Total                        | 100                  | % | 100                     | % | 100                  | % |

The ratings above are provided by one or more of: Moody’s, Standard & Poor’s and Fitch Ratings. If three ratings are available the middle rating is utilized, otherwise the lowest rating is utilized.

Approximately 2% of our investment portfolio, excluding cash and cash equivalents, is guaranteed by financial guarantors. We evaluate the credit risk of securities through analysis of the underlying fundamentals. The extent of our analysis depends on a variety of factors, including the issuer’s sector, scale, profitability, debt cover, ratings and the tenor of the investment.

We primarily place our investments in investment grade securities pursuant to our investment policy guidelines. The policy guidelines also limit the amount of our credit exposure to any one issuer and limit the types of eligible investments. At March 31, 2015, the modified duration of our fixed income investment portfolio was 4.1 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 4.1% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. See Note 7 – “Investments” to our consolidated financial statements for additional disclosure surrounding our investment portfolio.



At March 31, 2015, we had outstanding \$62 million, 5.375% Senior Notes due in November 2015, with an approximate fair value of \$63 million; \$345 million principal amount of 5% Convertible Senior Notes outstanding due in 2017, with an approximate fair value of \$383 million; \$500 million principal amount of 2% Convertible Senior Notes outstanding due in 2020, with an approximate fair value of \$736 million; and \$390 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, with an approximate fair value of \$497 million. See Note 3 – “Debt” to our consolidated financial statements for additional disclosure on our debt.

See Note 11 – “Income Taxes” to our consolidated financial statements for a description of our federal income tax contingencies.

Our principal exposure to loss is our obligation to pay claims under MGIC’s mortgage guaranty insurance policies. At March 31, 2015, MGIC’s direct (before any reinsurance) primary and pool risk in force, which is the unpaid principal balance of insured loans as reflected in our records multiplied by the coverage percentage, and taking account of any loss limit, was approximately \$44 billion. In addition, as part of our contract underwriting activities provided through a non-insurance subsidiary, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. The related contract underwriting remedy expense was approximately \$4 million and \$5 million for the years ended December 31, 2014 and 2013, respectively. There was no underwriting remedy expense incurred in the first quarter of 2015, but it may increase in the future.

## Liquidity and Capital Resources

### Overview

Our sources of funds consist primarily of:

- our investment portfolio (which is discussed in “Financial Condition” above), and interest income on the portfolio, premiums, net of reinsurance, that we will receive from our existing insurance in force as well as policies that we write in the future and
- amounts that we expect to recover from reinsurance agreements.

Our obligations consist primarily of:

- claim payments under MGIC's mortgage guaranty insurance policies,
- \$62 million in par value of 5.375% Senior Notes due in November 2015, with an annual interest cost of \$3.3 million;
- \$345 million in par value of 5% Convertible Senior Notes due in 2017, with an annual interest cost of \$17 million;
- \$500 million in par value of 2% Convertible Senior Notes due in 2020, with an annual interest cost of \$10 million;
- \$390 million in par value of 9% Convertible Junior Debentures due in 2063, with an annual interest cost of \$35 million;
- interest on the foregoing debt instruments, and
- other costs and operating expenses of our business.

Subject to certain limitations and restrictions prescribed under the terms of their issuances, holders of each of the convertible debt issues may convert their notes into shares of our common stock at their option, in which case our corresponding obligation will be eliminated.

Since 2009, our claim payments have exceeded our premiums received. Due to the uncertainty regarding how factors such as new loss mitigation protocols established by servicers and changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation process, will affect our future paid claims it remains difficult to estimate the amount and timing of future claim payments. We continued to experience net cash outflow from operations during the first quarter of 2015. When we experience cash shortfalls, we can fund them through sales of short-term investments and other investment portfolio securities, subject to insurance regulatory requirements regarding the payment of dividends to the extent funds were required by an entity other than the seller. In addition, we align the maturities of our investment portfolio with our estimate of future obligations. A significant portion of our investment portfolio securities are held by our insurance subsidiaries.

The following table summarizes our consolidated cash flows from operating, investing and financing activities, as well as the effects of changes in exchange rates:

|                                                  | Three Months Ended<br>March 31, |             |
|--------------------------------------------------|---------------------------------|-------------|
|                                                  | 2015                            | 2014        |
|                                                  | (In thousands)                  |             |
| Total cash (used in) provided by:                |                                 |             |
| Operating activities                             | (29,676)                        | (157,887)   |
| Investing activities                             | 64,881                          | 141,918     |
| Financing activities                             | 2,638                           | (21,767 )   |
| Effect of exchange rate changes on cash          | (3,102 )                        | 1,931       |
| Increase (decrease) in cash and cash equivalents | \$34,741                        | \$(35,805 ) |

Cash used in operating activities in the quarter ended March 31, 2015 was lower than the same period in 2014 driven in large part by a decrease in losses paid, and an increase in premiums collected due to a higher level of single premium insurance written.

Cash flows provided by investing activities for the quarter ended March 31, 2015 and 2014 primarily reflect proceeds from the sale and maturity of fixed maturity securities, offset in part by purchases of fixed maturity securities. The reduction in restricted cash during the quarter ended March 31, 2015 also increased the cash provided by investing activities.

Cash flows provided by financing activities for the quarter ended March 31, 2015 primarily reflect the tax benefits realized on stock based compensation awards vesting during the quarter. Cash flows used in financing activities for the quarter ended March 31, 2014 reflect the repurchase of \$20.9 million in par value of our Senior Notes due 2015 at a cost slightly above par.

#### Debt at Our Holding Company and Holding Company Capital Resources

The senior notes, convertible senior notes and convertible debentures are obligations of MGIC Investment Corporation and not of its subsidiaries. The payment of dividends from our insurance subsidiaries, which other than investment income and raising capital in the public markets is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. Since 2008, MGIC has not paid any dividends to our holding company. Through 2015, MGIC cannot pay any dividends to our holding company without approval from the OCI.

At March 31, 2015, we had approximately \$494 million in cash and investments at our holding company.

As of March 31, 2015, our holding company's debt obligations were \$1,297 million in par value, as listed above.

See Note 8 – "Debt" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014 for additional information about this indebtedness, including restrictive covenants in our Senior Notes and our option to defer interest on our Convertible Junior Debentures. Any deferred interest compounds at the stated rate of 9%. The description in Note 8 - "Debt" to our consolidated financial statements in our Annual Report on Form 10-K is qualified in its entirety by the terms of the notes and debentures.

We may from time to time continue to seek to acquire our debt obligations through cash purchases and/or exchanges for other securities. We may do this in open market purchases, privately negotiated acquisitions or other transactions. The amounts involved may be material.

The remaining Senior Notes outstanding mature in November 2015 and we expect to settle these notes at, or prior to maturity, with cash on hand.

#### Capital Contributions to Subsidiaries

In recent years our holding company has made material contributions to our insurance operations. Any further contributions to our insurance operations or other non-insurance affiliates would further decrease our holding company cash and investments. See discussion of our non-insurance contract underwriting services under “Financial Condition” above and in Note 5 – “Litigation and Contingencies” to our consolidated financial statements.

In April 2015, the GSEs issued their revised private mortgage insurer eligibility requirements, PMIERS, which will become effective on December 31, 2015. The PMIERS replace the existing financial requirements under the current GSE eligibility requirements. Under the PMIERS' financial requirements, we will be required to maintain “Available Assets” that meet or exceed “Minimum Required Assets” that are calculated based on our book of business and a variety of factors that are designed to measure credit quality of the insured loans. During 2015, we anticipate restructuring our existing reinsurance agreement to receive full credit under the PMIERS and transferring assets from MGICs MIC subsidiary which we expect will allow our MGIC subsidiary to meet the revised capital requirements on their effective date.

While we expect to meet the capital requirements under PMIERS prior to their effective date, our capital requirements under such standards may increase in the future because the GSEs have indicated that the tables of factors used to determine the Minimum Required Assets will be updated every two years, or more frequently, to reflect changes in macroeconomic conditions or loan performance. Our plan is to maintain continual compliance with the existing PMIERS through our operational activities, or through the contribution of funds from our Holding Company, subject to the obligations of the Holding Company as outlined above. In addition, we could seek non-dilutive debt capital to mitigate a capital shortfall under PMIERS.

See “Overview – Capital” above for further discussion of the GSE financial requirements and our capital position as of March 31, 2015, as well as the risk factor titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility” for factors that may negatively impact our compliance.

#### Risk-to-Capital

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

The premium deficiency reserve discussed in Note 13 – “Premium Deficiency Reserve” to our consolidated financial statements is not recorded as a liability on the statutory balance sheet and is not a component of statutory net income. The present value of expected future premiums and already established loss reserves and statutory contingency reserves, exceeds the present value of expected future losses and expenses on our total in force book, so no deficiency is recorded on a statutory basis. On a GAAP basis, contingency loss reserves are not established and thus not considered when calculating premium deficiency reserve and policies are grouped based on how they are acquired, serviced and measured.

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

|                                   | March<br>31,<br>2015           | December<br>31, 2014 |
|-----------------------------------|--------------------------------|----------------------|
|                                   | (In millions, except<br>ratio) |                      |
| Risk in force - net (1)           | \$26,090                       | \$ 25,735            |
| Statutory policyholders' surplus  | \$1,543                        | \$ 1,518             |
| Statutory contingency reserve     | 355                            | 247                  |
| Statutory policyholders' position | \$1,897                        | \$ 1,765             |
| Risk-to-capital                   | 13.7:1                         | 14.6:1               |

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

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

|                                   | March<br>31,<br>2015<br>(In millions, except<br>ratio) | December<br>31,<br>2014 |
|-----------------------------------|--------------------------------------------------------|-------------------------|
| Risk in force - net (1)           | \$31,637                                               | \$31,272                |
| Statutory policyholders' surplus  | \$1,612                                                | \$1,585                 |
| Statutory contingency reserve     | 442                                                    | 318                     |
| Statutory policyholders' position | \$2,053                                                | \$1,903                 |
| Risk-to-capital                   | 15.4:1                                                 | 16.4:1                  |

Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default (1)(\$3.5 billion at March 31, 2015 and \$3.8 billion at December 31, 2014) for which loss reserves have been established.

Our risk-to-capital ratio will increase if (i) the percentage decrease in capital exceeds the percentage decrease in insured risk, or (ii) the percentage increase in capital is less than the percentage increase in insured risk.

For additional information regarding regulatory capital see Note 1 – “Nature of Business – Capital - GSEs” and Note 16 – “Statutory Capital” to our consolidated financial statements as well as our risk factor titled “State Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.”

#### Financial Strength Ratings

The financial strength of MGIC, our principal mortgage insurance subsidiary, is rated Ba1 by Moody's Investors Service with a positive outlook. Standard & Poor's Rating Services' insurer financial strength rating of MGIC is BB+ with a positive outlook. For further information about the importance of MGIC's ratings, see our risk factor titled “Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or, or increase our losses.”

## Contractual Obligations

At March 31, 2015, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

| <u>Contractual Obligations (In millions)</u>  | Payments due by period |                  |           |           |                   |
|-----------------------------------------------|------------------------|------------------|-----------|-----------|-------------------|
|                                               | Total                  | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term debt obligations                    | \$3,098                | \$128            | \$461     | \$90      | \$2,419           |
| Operating lease obligations                   | 3                      | 1                | 2         | -         | -                 |
| Tax obligations                               | 19                     | -                | 19        | -         | -                 |
| Purchase obligations                          | 3                      | 2                | 1         | -         | -                 |
| Pension, SERP and other post-retirement plans | 272                    | 24               | 49        | 55        | 144               |
| Other long-term liabilities                   | 2,245                  | 1,055            | 808       | 382       | -                 |
| Total                                         | \$5,640                | \$1,210          | \$1,340   | \$527     | \$2,563           |

Our long-term debt obligations at March 31, 2015 include, \$61.9 million of 5.375% Senior Notes due in November 2015, \$345.0 million of 5% Convertible Senior Notes due in 2017, \$500 million 2% Convertible Senior Notes due in 2020 and \$389.5 million in convertible debentures due in 2063, including related interest, as discussed in Note 3 – “Debt” to our consolidated financial statements and under “Liquidity and Capital Resources” above. Our operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 19 – “Leases” to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014. Tax obligations primarily relate to our current dispute with the IRS, as discussed in Note 11 – “Income Taxes.” Purchase obligations consist primarily of agreements to purchase data processing hardware or services made in the normal course of business. See Note 13 – “Benefit Plans” to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of expected benefit payments under our benefit plans.

Our other long-term liabilities represent the loss reserves established to recognize the liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The timing of the future claim payments associated with the established loss reserves was determined primarily based on two key assumptions: the length of time it takes for a notice of default to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge significantly different than this estimate. Due to the uncertainty regarding how certain factors, such as new loss mitigation protocols established by servicers and changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation process, will affect our future paid claims it remains difficult to estimate the amount and timing of future claim payments. See Note 12 – “Loss Reserves” to our consolidated financial statements. In accordance with GAAP for the mortgage insurance industry, we establish loss reserves only for loans in default. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our financial statements or in the table above.

## Forward Looking Statements and Risk Factors

General: Our revenues and losses could be affected by the risk factors referred to under “Location of Risk Factors” below. These risk factors are an integral part of Management’s Discussion and Analysis.

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. 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 we may make even though these statements may be affected by events or circumstances occurring after the forward looking 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.

Location of Risk Factors: The risk factors are in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2014, as supplemented by Part II, Item 1 A of this Quarterly Report on Form 10-Q. The risk factors in the 10-K, as supplemented by this 10-Q and through updating of various statistical and other information, are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

At March 31, 2015, the derivative financial instruments in our investment portfolio were immaterial. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines; the policy also limits the amount of credit exposure to any one issuer and limit the types of eligible investments. At March 31, 2015, the modified duration of our fixed income investment portfolio was 4.1 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 4.1% in the market value of our fixed income portfolio. For an upward shift in the yield curve, the market value of our portfolio would decrease and for a downward shift in the yield curve, the market value would increase.

### Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures were effective as of the end of such period. There was no change in our internal control over financial reporting that occurred during the first quarter of 2015 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Since December 2011, MGIC, together with various mortgage lenders and other mortgage insurers has been named as a defendant in twelve lawsuits, alleged to be class actions, filed in various U.S. District Courts. The complaints in all of the cases alleged various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the lenders’ captive reinsurers received excessive premiums in relation to the risk assumed by those captives, thereby violating the Real Estate Settlement Procedures Act (“RESPA”). Seven of those cases had been dismissed prior to 2015 without any further opportunity to appeal. The remaining five cases (listed below) were dismissed with prejudice in the first quarter of 2015 pursuant to stipulations of dismissal from the plaintiffs.



| Date Filed | Court                                              | Date Terminated |
|------------|----------------------------------------------------|-----------------|
| 12/31/2011 | U.S. District Court for the Eastern District of PA | 03/04/2015      |
| 04/05/2012 | U.S. District Court for the Western District of PA | 03/02/2015      |
| 06/28/2012 | U.S. District Court for the Middle District of PA  | 02/24/2015      |
| 12/06/2012 | U.S. District Court for the Western District of PA | 02/26/2015      |
| 01/04/2013 | U.S. District Court for the Eastern District of PA | 02/24/2015      |

In December 2009, Countrywide filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco against MGIC. In October 2011, the United States District Court for the Northern District of California, to which the case had been removed, entered an order staying the litigation in favor of the arbitration proceeding we commenced against Countrywide in February 2010. In these proceedings, Countrywide alleged that MGIC denied valid mortgage insurance claims. (In our SEC reports, we refer to insurance rescissions and denials of claims collectively as “rescissions” and variations of that term.) In addition to the claim amounts it alleged MGIC had improperly denied, Countrywide contended it was entitled to other damages of almost \$700 million as well as exemplary damages. We sought a determination in those proceedings that we were entitled to rescind coverage on the applicable loans. From January 1, 2008 through September 30, 2013, rescissions of coverage on Countrywide-related loans mitigated our paid losses on the order of \$445 million. This amount is the amount we estimate we would have paid had the coverage not been rescinded. In addition, in connection with the mediation referred to below, we voluntarily suspended rescissions related to loans that we believed could be covered by a settlement.

We held a mediation to resolve this dispute and in 2013, MGIC entered into separate settlement agreements with Countrywide Home Loans, Inc. (“CHL”) and its affiliate, Bank of America, N.A., as successor to Countrywide Home Loans Servicing LP (“BANA”), pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC’s rescission practices (as amended, the “Agreements”). The original Agreements are described in our Form 8-K filed with the SEC on April 25, 2013 and are filed as exhibits to that Form 8-K. Amendments to the Agreement with BANA were filed with our Forms 10-Q for the quarters ended September 30, 2013 and June 30, 2014. The Company has filed with its periodic reports from time to time various amendments to the Agreement with CHL. On March 2, 2015, the parties to the Agreement with CHL amended and restated that Agreement. The amended and restated Agreement is described in our Form 8-K filed March 5, 2015 and is filed as an exhibit to that Form 8-K. Certain portions of the Agreements are redacted and covered by confidential treatment requests that have been granted.

The Agreement with BANA covers loans purchased by the GSEs. That original Agreement was implemented beginning in November 2013 and we resolved all related suspended rescissions in November and December 2013 by paying the associated claim or processing the rescission. The pending arbitration proceedings concerning the loans covered by that agreement have been dismissed, the mutual releases between the parties regarding such loans have become effective and the litigation between the parties regarding such loans is to be dismissed.

The Agreement with CHL covers loans that were purchased by non-GSE investors, including securitization trusts (the “other investors”). The original Agreement addressed rescission and denial rights; the amended and restated Agreement also addresses curtailment rights. That Agreement will be implemented only as and to the extent that it is consented to by or on behalf of the other investors. While there can be no assurance that the Agreement with CHL will be implemented, we have determined that its implementation is probable.

The estimated impact of the Agreements has been recorded in our financial statements. If we are not able to implement the Agreement with CHL, we intend to defend MGIC vigorously against any related legal proceedings.

The flow policies at issue with Countrywide are in the same form as the flow policies that we used with all of our customers during the period covered by the Agreements, 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.

The Internal Revenue Service (“IRS”) completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits (“REMICs”). 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 these assessments within the IRS and in August 2010, we reached a tentative settlement agreement with the IRS which was not finalized.

On September 10, 2014, we received Notices of Deficiency (commonly referred to as “90 day letters”) covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of \$197.5 million and at March 31, 2015, there would also be interest related to these matters of approximately \$171.9 million. In 2007, we made a payment of \$65.2 million to the United States Department of the Treasury which will reduce any amounts we would ultimately owe. The Notices of Deficiency also reflect additional amounts due of \$261.4 million, which are primarily associated with the disallowance of the carryback of the 2009 net operating loss to the 2004-2007 tax years. We believe the IRS included the carryback adjustments as a precaution to keep open the statute of limitations on collection of the tax that was refunded when this loss was carried back, and not because the IRS actually intends to disallow the carryback permanently.

We filed a petition with the U.S. Tax Court contesting most of the IRS’ proposed adjustments reflected in the Notices of Deficiency and the IRS has filed an answer to our petition which continues to assert their claim. Litigation to resolve our dispute with the IRS could be lengthy and costly in terms of legal fees and related expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached and finalized. Depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of March 31, 2015, those state taxes and interest would approximate \$47.7 million. In addition, there could also be state tax penalties. Our total amount of unrecognized tax benefits as of March 31, 2015 is \$106.4 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows, available assets and statutory capital. In this regard, see our risk factors titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility” and “State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” in Item 1A.

In addition to the above litigation, we face other litigation, regulatory risks and disputes. For additional information about such other litigation and regulatory risks, you should review our risk factor titled “We are defendants in private and government litigation and are subject to the risk of additional private litigation, government litigation and regulatory proceedings in the future.”

#### Item 1 A. Risk Factors

With the exception of the changes described and set forth below, there have been no material changes in our risk factors from the risk factors disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 as supplemented by Part II, Item I A of this Quarterly Report on Form 10-Q. The risk factors in the 10-K, as supplemented by this 10-Q, and through updating of various statistical and other information, are reproduced in their entirety in Exhibit 99 to this Quarterly Report on Form 10-Q.

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

Since 2008, substantially all of our insurance written has been for loans sold to Fannie Mae and Freddie Mac (the “GSEs”). In April 2015, the GSEs each released revised private mortgage insurer eligibility requirements (the “PMIERs”) that become effective December 31, 2015. The PMIERs include revised financial requirements for mortgage insurers (the “GSE Financial Requirements”) under which a mortgage insurer’s “Available Assets” (generally only the most liquid assets of an insurer) must meet or exceed “Minimum Required Assets” (which are based on an insurer’s book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

We expect that MGIC will be in compliance with the PMIERs, including the GSE Financial Requirements, when they become effective.

We estimate that as of March 31, 2015, before considering the effects of reinsurance, MGIC has a shortfall in Available Assets of approximately \$230 million. This shortfall estimate is based on our interpretation of the GSE Financial Requirements and assumes that the risk in force and assets of MGIC’s MIC subsidiary will be repatriated to MGIC. This shortfall estimate does not reflect the benefits from MGIC’s existing quota share reinsurance transaction or the anticipated restructure of that transaction; or the transfer of assets (including the \$45 million discussed below) from regulated insurance affiliates of MGIC that, subject to regulatory authorization, could increase the assets of MGIC. We believe that these benefits will eliminate our shortfall in Available Assets and each is discussed below.

As we previously disclosed, we did not expect to receive full credit under the PMIERs for our existing reinsurance transaction. However, we and the reinsurers have reached agreement to restructure the transaction in a manner that we believe will result in MGIC receiving full credit under the PMIERs. The effectiveness of the restructured transaction will be subject to approval by the GSEs and the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”). In addition, in April 2015, regulated insurance affiliates of MGIC transferred \$45 million of assets to MGIC, increasing the Available Assets of MGIC. Furthermore, if additional Available Assets are required, we believe that a portion of our holding company’s \$494 million of cash and investments at March 31, 2015, may be available for future contribution to MGIC. In addition, we could seek non-dilutive debt capital to mitigate a shortfall.

As noted above, we expect to be in compliance with the PMIERs, including the GSE Financial Requirements, by their effective date. However, if we are not in compliance with the GSE Financial Requirements by then, we could submit to the GSEs for approval, a transition plan having milestones for actions to achieve compliance. If the plan were approved, the GSEs would monitor our progress and we could have until June 2017 to meet the GSE Financial Requirements (the “transition period”). During the transition period, MGIC would be considered to be in remediation (a status similar to the one under which it has been operating with the GSEs for over five years) and eligible to provide mortgage insurance on loans acquired by the GSEs.



Factors that may negatively impact MGIC's ability to comply with the GSE Financial Requirements before their effective date include the following:

- The GSEs may not approve our restructured reinsurance transaction or they may not allow full credit under the GSE Financial Requirements for that transaction.

- We may not obtain regulatory authorization to transfer assets from MIC to MGIC to the extent we are assuming because regulators project higher losses than we project or require a level of capital be maintained in MIC higher than we are assuming.

- MGIC may not receive additional capital contributions from our holding company due to competing demands on the holding company resources, including for repayment of debt.

- Our future operating results may be negatively impacted by the matters discussed in the rest of these risk factors. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby increasing our shortfall in Available Assets.

- We may not be able to access the non-dilutive debt markets due to market conditions, concern about our creditworthiness, or other factors, in a manner sufficient to provide the funds we may seek.

There can be no assurance that the GSEs will not make the GSE Financial Requirements more onerous in the future; in this regard, the PMIERS provide that the tables of factors that determine Minimum Required Assets will be updated every two years and may be updated more frequently to reflect changes in macroeconomic conditions or loan performance. The GSEs will provide notice 180 days prior to the effective date of table updates. In addition, the GSEs may amend the PMIERS at any time. 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.

While on an overall basis, the amount of Available Assets we must hold in order to continue to insure GSE loans has increased under the PMIERS over what state regulation currently provides, reinsurance is one option we have to mitigate the effect of PMIERS on our returns. In this regard, see the first bullet point above.

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

Our private mortgage insurance competitors include:

- Arch Mortgage Insurance Company,
- Essent Guaranty, Inc.,
- Genworth Mortgage Insurance Corporation,
- National Mortgage Insurance Corporation,
- Radian Guaranty Inc., and
- United Guaranty Residential Insurance Company.

The level of competition within the private mortgage insurance industry is intense and is not expected to diminish. Price competition has been present for some time: in the third quarter of 2014, we reduced many of our standard lender-paid single premium rates to match competition; and in the fourth quarter of 2013, we reduced all of our standard borrower-paid monthly premium rates and most of our standard single premium rates to match competition. Currently, we are seeing price competition in the form of lender-paid single premium programs customized for individual lenders by using a rate card's authority to set premiums or adjust premiums on individual loans within a range of premiums. This has resulted in rates materially discounted from those on the standard rate card (i.e., one that does not use such authority). During most of 2013, when almost all of our lender-paid single premium rates were above those most commonly used in the market, lender-paid single premium policies were approximately 4% of our total new insurance written; they were approximately 11% in 2014 and 20% in the first quarter of 2015, primarily as a result of us selectively matching reduced rates. Prior to the fourth quarter of 2014, we did not use our rate card's authority to adjust premiums to offer significant discounts from our standard lender-paid single premium policy rate card. The average discount from our rate card on lender-paid single premium policies was 5% in the fourth quarter of 2014 and 13% in the first quarter of 2015. As a result of the recent increase in the percentage of our new business written as lender-paid single premium policies, our weighted average premium rate on new insurance written has decreased from 2013 to 2014. As the percentage of business written as lender-paid single premium policies increases, all other things equal, our weighted average premium rates on new insurance written will decrease. If we reduce or discount prices on any premium plan in response to future price competition, it may further decrease our weighted average premium rates.

During 2014 and the first quarter of 2015, approximately 4% and 5%, respectively, of our new insurance written was for loans for which one lender was the original insured. Our relationships with our customers could be adversely affected by a variety of factors, including premium rates higher than can be obtained from competitors, tightening of and adherence to our underwriting requirements, which may result in our declining to insure some of the loans originated by our customers, and insurance rescissions that affect the customer. We have ongoing discussions with lenders who are significant customers regarding their objections to our rescissions.

In the past several years, we believe many lenders considered financial strength and compliance with the State Capital Requirements as important factors when selecting a mortgage insurer. Lenders may consider compliance with the GSE Financial Requirements important when selecting a mortgage insurer in the future. As noted above, we expect MGIC to be in compliance with the GSE Financial Requirements when they become effective and we expect MGIC's risk-to-capital ratio to continue to comply with the current State Capital Requirements discussed below. However, we cannot assure you that we will comply with such requirements or that we will comply with any revised State Capital Requirements proposed by the National Association of Insurance Commissioners ("NAIC"). For more information, see our risk factors titled "We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility" and "State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."

We believe that financial strength ratings may be a significant consideration for participants seeking to secure credit enhancement in the non-GSE mortgage market, which includes most loans that are not “Qualified Mortgages” (for more information about “Qualified Mortgages,” 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”). While this market has been limited since the financial crisis, it may grow in the future. The financial strength ratings of our insurance subsidiaries are lower than those of some competitors and below investment grade levels; therefore, we may be competitively disadvantaged with some market participants. For each of MGIC and MIC, the financial strength rating from Moody’s is Ba1 (with a positive outlook) and from Standard & Poor’s is BB+ (with a positive outlook). It is possible that MGIC’s and MIC’s financial strength ratings could decline from these levels. Our ability to participate in the non-GSE market could depend on our ability to secure investment grade ratings for our mortgage insurance subsidiaries.

If the GSEs no longer operate in their current capacities, for example, due to legislative or regulatory action, we may be forced to compete in a new marketplace in which financial strength ratings play a greater role. If we are unable to compete effectively in the current or any future markets as a result of the financial strength ratings assigned to our mortgage insurance subsidiaries, our future new insurance written could be negatively affected.

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

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us “curtailments.” In 2014 and the first quarter of 2015, curtailments reduced our average claim paid by approximately 6.7% and 8.2%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid.

When reviewing the loan file associated with a claim, we may determine that we have the right to rescind coverage on the loan. In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009. We estimate rescissions mitigated our incurred losses by approximately \$2.5 billion in 2009 and \$0.2 billion in 2010 and have not significantly mitigated our incurred losses since then. Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, reversals of rescissions have been immaterial. A variance between ultimate actual rescission and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

If the insured disputes our right to rescind coverage, we generally engage in discussions in an attempt to settle the dispute. As part of those discussions, we may voluntarily suspend rescissions we believe may be part of a settlement. Certain settlements require GSE approval. The GSEs have consented to our settlement agreements with two customers, one of which is Countrywide, as discussed below, and have rejected other settlement agreements. We have reached and implemented settlement agreements that do not require GSE approval, but they have not been material in the aggregate.

If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings. Under our policies in effect prior to October 1, 2014, 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, and under our master policy effective October 1, 2014, such proceedings may be brought up to two years from the date of the notice of rescission. In a few jurisdictions there is a longer time to bring such proceedings.

Until a liability associated with a settlement agreement or litigation becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes even though discussions and legal proceedings have been initiated and are ongoing. Under ASC 450-20, an estimated loss from such discussions and proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated.

Since December 2009, we have been involved in legal proceedings with Countrywide Home Loans, Inc. (“CHL”) and its affiliate, Bank of America, N.A., as successor to Countrywide Home Loans Servicing LP (“BANA” and collectively with CHL, “Countrywide”) in which Countrywide alleged that MGIC denied valid mortgage insurance claims. (In our SEC reports, we refer to insurance rescissions and denials of claims collectively as “rescissions” and variations of that term.) In addition to the claim amounts it alleged MGIC had improperly denied, Countrywide contended it was entitled to other damages of almost \$700 million as well as exemplary damages. We sought a determination in those proceedings that we were entitled to rescind coverage on the applicable loans.

In April 2013, MGIC entered into separate settlement agreements with CHL and BANA, pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC’s rescission practices (as amended, the “Agreements”). The original Agreements are described in our Form 8-K filed with the SEC on April 25, 2013 and are filed as exhibits to that Form 8-K. Amendments to the Agreement with BANA were filed with our Forms 10-Q for the quarters ended September 30, 2013 and June 30, 2014. The Company has filed with its periodic reports from time to time various amendments to the Agreement with CHL. On March 2, 2015, the parties to the Agreement with CHL amended and restated that Agreement. The amended and restated Agreement is described in our Form 8-K filed March 5, 2015 and is filed as an exhibit to that Form 8-K. Certain portions of the Agreements are redacted and covered by confidential treatment requests that have been granted.

The Agreement with BANA covers loans purchased by the GSEs. That original Agreement was implemented beginning in November 2013 and we resolved all related suspended rescissions in November and December 2013 by paying the associated claim or processing the rescission. The pending arbitration proceedings concerning the loans covered by that agreement have been dismissed, the mutual releases between the parties regarding such loans have become effective and the litigation between the parties regarding such loans is to be dismissed.

The Agreement with CHL covers loans that were purchased by non-GSE investors, including securitization trusts (the “other investors”). The original Agreement addressed rescission and denial rights; the amended and restated Agreement also addresses curtailment rights. That Agreement will be implemented only as and to the extent that it is consented to by or on behalf of the other investors. While there can be no assurance that the Agreement with CHL will be implemented, we have determined that its implementation is probable.

The estimated impact of the Agreements and other probable settlements have been recorded in our financial statements. The estimated impact that we recorded for probable settlements is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is \$441 million, of which about 72% is related to claims paying practices subject to the Agreement with CHL. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

The flow policies at issue with Countrywide are in the same form as the flow policies that we used with all of our customers during the period covered by the Agreements, 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.

We are involved in discussions and legal and consensual proceedings with customers with respect to our claims paying practices. Although it is reasonably possible that when these discussions or proceedings are completed we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and proceedings to be approximately \$29 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

The estimates of our maximum exposure referred to above do not include interest or consequential or exemplary damages.

Consumers continue to bring lawsuits against home mortgage lenders and settlement service providers. Mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC’s settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs’ claims in litigation against it under FCRA in December 2004, following denial of class certification in June 2004. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. Beginning in December 2011, MGIC, together with various mortgage lenders and other mortgage insurers, has been named as a defendant in twelve lawsuits, alleged to be class actions, filed in various U.S. District Courts. The complaints in all of the cases allege various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the lenders’ captive reinsurers received excessive premiums in relation to the risk assumed by those captives, thereby violating RESPA. Seven of those cases had been dismissed prior to February 2015 without any further opportunity to appeal. The remaining five cases were dismissed with prejudice in the first quarter of 2015 pursuant to stipulations of dismissal from the plaintiffs. There can be no assurance that we will not be subject to further litigation under RESPA (or FCRA) or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us.

In 2013, the U.S. District Court for the Southern District of Florida approved a settlement with the CFPB that resolved a federal investigation of MGIC's participation in captive reinsurance arrangements in the mortgage insurance industry. The settlement concluded the investigation with respect to MGIC without the CFPB or the court making any findings of wrongdoing. As part of the settlement, MGIC agreed that it would not enter into any new captive reinsurance agreement or reinsure any new loans under any existing captive reinsurance agreement for a period of ten years. MGIC had voluntarily suspended most of its captive arrangements in 2008 in response to market conditions and GSE requests. In connection with the settlement, MGIC paid a civil penalty of \$2.65 million and the court issued an injunction prohibiting MGIC from violating any provisions of RESPA.

We received requests from the Minnesota Department of Commerce (the "MN Department") beginning in February 2006 regarding captive mortgage reinsurance and certain other matters in response to which MGIC has provided information on several occasions, including as recently as May 2011. Since August 2013, MGIC and several competitors have exchanged drafts of a proposed Consent Order with the MN Department, containing terms and conditions, including unspecified civil penalties, that would resolve the MN Department's investigation. We received the latest draft of the Consent Order from the MN Department in March 2015. We continue to be engaged in discussions with the MN Department regarding the draft Consent Order. We also received a request in June 2005 from the New York Department of Financial Services for information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. Other insurance departments or other officials, including attorneys general, may also seek information about, investigate, or seek remedies regarding captive mortgage reinsurance.

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. State insurance regulatory authorities could take actions, including changes in capital requirements, that could have a material adverse effect on us. In addition, the CFPB may issue additional rules or regulations, which may materially affect our business.

In December 2013, the U.S. Treasury Department's Federal Insurance Office released a report that calls for federal standards and oversight for mortgage insurers to be developed and implemented. It is uncertain what form the standards and oversight will take and when they will become effective.

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

A non-insurance subsidiary of our holding company is a shareholder of the corporation that operates the Mortgage Electronic Registration System ("MERS"). Our subsidiary, as a shareholder of MERS, has been named as a defendant (along with MERS and its other shareholders) in eight lawsuits asserting various causes of action arising from allegedly improper recording and foreclosure activities by MERS. Seven of these lawsuits have been dismissed without any further opportunity to appeal. The remaining lawsuit had also been dismissed by the U.S. District Court, however, the plaintiff in that lawsuit filed a motion for reconsideration by the U.S. District Court and to certify a related question of law to the Supreme Court of the State in which the U.S. District Court is located. That motion for reconsideration was denied, however, in May 2014, the plaintiff appealed the denial. The damages sought in this remaining case are substantial. We deny any wrongdoing and intend to defend ourselves vigorously against the allegations in the lawsuit.

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.

The mix of business we write affects the likelihood of losses occurring, our Minimum Required Assets for purposes of the GSE Financial Requirements, and our premium yields.

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics 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 higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of March 31, 2015, approximately 18.1% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 5.5% had FICO credit scores below 620, and 5.3% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material number of these loans were originated in 2005 — 2007 or the first half 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 (2) to the composition of primary default inventory table under "Results of Consolidated Operations-Losses-Losses incurred" in Management's Discussion and Analysis of Financial Condition and Results of Operations..

The Minimum Required Assets for purposes of the GSE Financial Requirements are, in part, a function of the direct risk-in-force and the risk profile of the loans we insure, considering loan-to-value ratio, credit score, vintage, HARP status and delinquency status. Therefore, if our direct risk-in-force increases through increases in new insurance written, or if our mix of business changes to include loans with higher loan-to-value ratios or lower credit scores, for example, we will be required to hold more Available Assets in order to maintain GSE eligibility.

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. In 2013, we liberalized our underwriting guidelines somewhat, in part through aligning most of our underwriting requirements with Fannie Mae and Freddie Mac for loans that receive and are processed in accordance with certain approval recommendations from a GSE automated underwriting system. As a result of the liberalization of our underwriting requirements and other factors, our business written beginning in the second half of 2013 is expected to have a somewhat higher claim incidence than business written in from 2009 through the first half of 2013. However, we believe this business presents an acceptable level of risk. Although the GSEs recently lowered their minimum downpayment requirements for certain loans from 5% to 3%, we may not insure a significant number of those loans in the near future because the FHA pricing on those loans may be more favorable for borrowers. Our underwriting requirements are available on our website at <http://www.mgic.com/underwriting/index.html>. We monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in 2014 and the first quarter of 2015.

As noted above in our risk factor titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility,” we have recently increased the percentage of our business from lender-paid single premium policies. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life. Currently, we expect to receive less lifetime premium from a new lender-paid single premium policy than we would from a new borrower-paid monthly premium policy.

As noted above in our risk factor titled “State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis,” in 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that we anticipate will be restructured. Although the transaction, as currently structured and as proposed to be restructured, reduces our premiums, it has a lesser impact on our overall results, as losses ceded under the transaction reduce our losses incurred and the ceding commission we receive reduces our underwriting expenses.

The circumstances in which we are entitled to rescind coverage have narrowed for insurance we have written in recent years. During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our then existing master policy (the “Gold Cert Endorsement”), which limited our ability to rescind coverage compared to that master policy. The Gold Cert Endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012).

To comply with requirements of the GSEs, in 2014 we introduced a new master policy. Our rescission rights under our new master policy are comparable to those under our previous master policy, as modified by the Gold Cert Endorsement, but may be further narrowed if the GSEs permit modifications to them. Our new master policy is filed as Exhibit 99.19 to our quarterly report on Form 10-Q for the quarter ended September 30, 2014 (filed with the SEC on November 7, 2014). All of our primary new insurance on loans with mortgage insurance application dates on or after October 1, 2014, will be written under our new master policy. As of March 31, 2015, approximately 34% of our flow, primary insurance in force was written under our Gold Cert Endorsement or our new master policy.

As of March 31, 2015, approximately 2.7% of our primary risk in force 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. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. 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 requirements. We do, however, believe that given the various changes in our underwriting requirements that were effective beginning in the first quarter of 2008, our insurance written beginning in the second half of 2008 will generate underwriting profits.

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

The premium from a single premium policy is collected upfront and generally earned over the estimated life of the policy. In contrast, premiums from a monthly premium policy are received and earned each month over the life of the policy. In each year, most of our premiums received 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. Future premiums on our monthly paid insurance policies in force represent a material portion of our claims paying resources and a low persistency rate will reduce those future premiums. In contrast, a higher than expected persistency rate will decrease the profitability from single premium policies because they will remain in force longer than was estimated when the policies were written.

Our persistency rate was 81.6% at March 31, 2015, compared to 82.8% at December 31, 2014, and 79.5% at December 31, 2013. 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.

Our persistency rate is primarily affected by the level of current mortgage interest rates compared to the mortgage coupon rates on our insurance in force, which affects the vulnerability of the insurance in force to refinancing. Our persistency rate is also affected by mortgage insurance cancellation policies of mortgage investors along with the current value of the homes underlying the mortgages in the insurance in force.

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

As noted above under our risk factor titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility,” we would consider seeking non-dilutive debt capital for the purpose of managing our capital position under the GSE Financial Requirements. However, there can be no assurance that we would not seek to raise additional equity capital for such purposes or for other purposes. Any future issuance of equity securities may dilute your ownership interest in our company. In addition, the market price of our common stock could decline as a result of sales of a large number of shares or similar securities in the market or the perception that such sales could occur.

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. We 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 convertible into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We may elect to pay cash for some or all of the shares issuable upon a conversion of the debentures. We also have \$345 million principal amount of 5% Convertible Senior Notes and \$500 million principal amount of 2% Convertible Senior Notes outstanding. The 5% Convertible Senior Notes are convertible, at the holder’s option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per \$1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately \$13.44 per share. Prior to January 1, 2020, the 2% Convertible Senior Notes are convertible only upon satisfaction of one or more conditions. One such condition is that conversion may occur during any calendar quarter commencing after March 31, 2014, if the last reported sale price of our common stock for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day. The notes are convertible at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per \$1,000 principal amount. This represents an initial conversion price of approximately \$6.95 per share. 130% of such conversion price is \$9.03. On or after January 1, 2020, holders may convert their notes irrespective of satisfaction of the conditions. We do not have the right to defer interest on our Convertible Senior Notes. For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 6 — Earnings per Share to our consolidated financial statements.

Item 6. Exhibits

The accompanying Index to Exhibits is incorporated by reference in answer to this portion of this Item, and except as otherwise indicated in the next sentence, the Exhibits listed in such Index are filed as part of this Form 10-Q. Exhibit 32 is not filed as part of this Form 10-Q but accompanies this Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on May 7, 2015.

MGIC INVESTMENT CORPORATION

/s/ Timothy J. Mattke

Timothy J. Mattke  
Executive Vice President and  
Chief Financial Officer

/s/ Julie K. Sperber

Julie K. Sperber  
Vice President, Controller and Chief Accounting Officer

INDEX TO EXHIBITS

(Part II, Item 6)

Exhibit

Number Description of Exhibit

31.1 Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002

31.2 Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002

32 Certification of CEO and CFO under Section 906 of Sarbanes-Oxley Act of 2002 (as indicated in Item 6 of Part II, this Exhibit is not being "filed")

99 Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarter ended March 31, 2015, and through updating of various statistical and other information

99.25 Endorsement to Mortgage Guaranty Insurance Corporation's "Flow" Master Insurance Policy Applicable to Lenders with Delegated Underwriting Authority, for loans with a mortgage insurance application date on or after October 1, 2014

101 The following financial information from MGIC Investment Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, (ii) Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014, (iv) Consolidated Statements of Shareholders' Equity for the three months ended March 31, 2015 and 2014, (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014, and (vi) the Notes to Consolidated Financial Statements.