FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended June 30, 2017

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

For the transition period from ______ to ______

Commission file number 1-10816

MGIC INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

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

(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 x NO o

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 x NO o

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

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

Emerging growth company o If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

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

CLASS OF STOCK	PAR VALUE	DATE	NUMBER OF SHARES
Common stock	$1.00	July 31, 2017	370,561,601

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.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2017

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GLOSSARY OF TERMS AND ACRONYMS

/ A

ARMs
Adjustable rate mortgages

ABS
Asset-backed securities

ASC
Accounting Standards Codification

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

/ B

Book or book year
A group of loans insured in a particular calendar year

BPMI
Borrower-paid mortgage insurance

/ C

CFPB
Consumer Financial Protection Bureau

CLO
Collateralized loan obligations

CMBS
Commercial mortgage-backed securities

/ D

DAC
Deferred insurance policy acquisition costs

/ F

Fannie Mae
Federal National Mortgage Association

FCRA
Fair Credit Reporting Act

FHA
Federal Housing Administration

FHFA
Federal Housing Finance Agency

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

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

Freddie Mac
Federal Home Loan Mortgage Corporation

/ G

GAAP
Generally Accepted Accounting Principles in the United States

GSEs
Collectively, Fannie Mae and Freddie Mac

/ H

HAMP
Home Affordable Modification Program

HARP
Home Affordable Refinance Program

HOPA
Homeowners Protection Act

/ I

IBNR
Losses incurred but not reported

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

/ J

JCT
Joint Committee on Taxation

/ L

LAE
Loss adjustment expenses

Legacy book
Mortgage insurance policies written prior to 2009

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

Long-term debt:

5% Notes
5% Convertible Senior Notes due on May 1, 2017, with interest payable semi-annually on May 1 and November 1 of each year

2% Notes
2% Convertible Senior Notes due on April 1, 2020, with interest payable semi-annually on April 1 and October 1 of each year

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

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

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

Loss ratio
The ratio, expressed as a percentage, of the sum of incurred losses and LAE to NPE

Low down payment loans or mortgages
Loans with less than 20% down payments

LPMI
Lender-paid mortgage insurance

/ M

MBS
Mortgage-backed securities

MD&A
Management's discussion and analysis of financial condition and results of operations

MGIC
Mortgage Guaranty Insurance Corporation, a subsidiary of MGIC Investment Corporation

MIC
MGIC Indemnity Corporation, a subsidiary of MGIC

Minimum Required Assets
The minimum amount of Available Assets that must be held under the PMIERs, which is generally the greater of $400 million or an amount based upon a percentage of RIF weighted by certain risk attributes

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

/ N

N/A
Not applicable for the period presented

NAIC
The National Association of Insurance Commissioners

NIW
New Insurance Written

N/M
Data, or calculation, deemed not meaningful for the period presented

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

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

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

/ O

OCI
Office of the Commissioner of Insurance of the State of Wisconsin

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/ P

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

PMI
Private Mortgage Insurance (as an industry or product type)

PMIERs
Private Mortgage Insurer Eligibility Requirements issued by the GSEs

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

/ Q

QSR Transaction
Quota share reinsurance transaction

/ R

REMIC
Real Estate Mortgage Investment Conduit

RESPA
Real Estate Settlement Procedures Act

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

Risk-to-capital
The ratio of RIF, net of reinsurance and exposure on policies currently in default and for which loss reserves have been established, to the level of statutory capital

RMBS
Residential mortgage-backed securities

/ U

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

Underwriting profit
NPE minus incurred losses

/ V

VA
U.S. Department of Veterans Affairs

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands)	Note		**June 30, 2017**		December 31, 2016
ASSETS					
Investment portfolio:	7 / 8				
Securities, available-for-sale, at fair value:					
Fixed income (amortized cost, 2017 - $4,674,965; 2016 - $4,717,211)		**$**	**4,701,211**	$	4,685,222
Equity securities			**7,209**		7,128
Total investment portfolio			**4,708,420**		4,692,350
Cash and cash equivalents			**127,908**		155,410
Accrued investment income			**44,030**		44,073
Reinsurance recoverable on loss reserves	4		**44,783**		50,493
Reinsurance recoverable on paid losses			**6,151**		4,964
Premiums receivable			**51,344**		52,392
Home office and equipment, net			**42,212**		36,088
Deferred insurance policy acquisition costs			**18,677**		17,759
Deferred income taxes, net	11		**481,389**		607,655
Other assets			**75,254**		73,345
Total assets		**$**	**5,600,168**	$	5,734,529
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Loss reserves	12	**$**	**1,187,089**	$	1,438,813
Unearned premiums			**352,010**		329,737
Federal Home Loan Bank advance	3		**155,000**		155,000
Senior notes	3		**417,983**		417,406
Convertible senior notes	3		**—**		349,461
Convertible junior subordinated debentures	3		**256,872**		256,872
Other liabilities			**236,153**		238,398
Total liabilities			**2,605,107**		3,185,687
Contingencies	5				
Shareholders' equity:	13				
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2017 - 370,557; 2016 - 359,400; shares outstanding 2017 - 370,557; 2016 - 340,663)			**370,557**		359,400
Paid-in capital			**1,842,601**		1,782,337
Treasury stock at cost (shares 2016 - 18,737)			**—**		(150,359)
Accumulated other comprehensive loss, net of tax			**(37,494)**		(75,100)
Retained earnings			**819,397**		632,564
Total shareholders' equity			**2,995,061**		2,548,842
Total liabilities and shareholders' equity		**$**	**5,600,168**	$	5,734,529

See accompanying notes to consolidated financial statements.

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

		Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	Note	**2017**	2016	**2017**	2016
Revenues:					
Premiums written:					
Direct		**$ 275,245**	$ 282,113	**$ 541,068**	$ 547,404
Assumed		**685**	182	**1,973**	390
Ceded	4	**(30,096)**	(32,280)	**(60,505)**	(66,498)
Net premiums written		**245,834**	250,015	**482,536**	481,296
Increase in unearned premiums, net		**(14,698)**	(18,559)	**(22,297)**	(28,499)
Net premiums earned		**231,136**	231,456	**460,239**	452,797
Investment income, net of expenses		**29,716**	27,248	**59,193**	55,057
Net realized investment (losses) gains	7	**(42)**	836	**(164)**	3,892
Other revenue		**2,502**	3,994	**4,924**	10,367
Total revenues		**263,312**	263,534	**524,192**	522,113
Losses and expenses:					
Losses incurred, net	12	**27,339**	46,590	**54,958**	131,602
Amortization of deferred policy acquisition costs		**2,584**	2,245	**4,814**	4,206
Other underwriting and operating expenses, net		**38,511**	35,348	**79,276**	75,125
Interest expense		**14,197**	12,244	**30,506**	26,945
Loss on debt extinguishment		**65**	1,868	**65**	15,308
Total losses and expenses		**82,696**	98,295	**169,619**	253,186
Income before tax		**180,616**	165,239	**354,573**	268,927
Provision for income taxes	11	**61,994**	56,018	**146,153**	90,515
Net income		**$ 118,622**	$ 109,221	**$ 208,420**	$ 178,412
Earnings per share:					
Basic	6	**$ 0.32**	$ 0.32	**$ 0.59**	$ 0.52
Diluted	6	**$ 0.31**	$ 0.26	**$ 0.55**	$ 0.43
Weighted average common shares outstanding - basic	6	**366,918**	340,678	**354,035**	340,411
Weighted average common shares outstanding - diluted	6	**394,470**	446,139	**398,302**	450,354

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands)	Note	Three Months Ended June 30, **2017**	Three Months Ended June 30, 2016	Six Months Ended June 30, **2017**	Six Months Ended June 30, 2016
Net income		**$ 118,622**	$ 109,221	**$ 208,420**	$ 178,412
Other comprehensive (loss) income, net of tax:	9				
Change in unrealized investment gains and losses	7	**25,749**	56,338	**37,870**	107,165
Benefit plan adjustments		**(142)**	(173)	**(295)**	(481)
Foreign currency translation adjustment		**—**	11	**31**	(964)
Other comprehensive income, net of tax		**25,607**	56,176	**37,606**	105,720
Comprehensive income		**$ 144,229**	$ 165,397	**$ 246,026**	$ 284,132

See accompanying notes to consolidated financial statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

		Six Months Ended June 30,	
(In thousands)	Note	**2017**	2016
Common stock			
Balance, beginning of period		**$ 359,400**	$ 340,097
Net common stock issued under share-based compensation plans		**771**	979
Issuance of common stock	13	**10,386**	—
Balance, end of period		**370,557**	341,076
Paid-in capital			
Balance, beginning of period		**1,782,337**	1,670,238
Net common stock issued under share-based compensation plans		**(7,494)**	(5,954)
Issuance of common stock	13	**60,903**	—
Tax benefit from share-based compensation		**—**	115
Equity compensation		**6,855**	6,017
Reacquisition of convertible junior subordinated debentures-equity component		**—**	(6,337)
Balance, end of period		**1,842,601**	1,664,079
Treasury stock			
Balance, beginning of period		**(150,359)**	(3,362)
Reissuance of treasury stock, net		**150,359**	—
Balance, end of period		**—**	(3,362)
Accumulated other comprehensive loss			
Balance, beginning of period		**(75,100)**	(60,880)
Other comprehensive income, net of tax	9	**37,606**	105,720
Balance, end of period		**(37,494)**	44,840
Retained earnings			
Balance, beginning of period	2 / 13	**632,717**	290,047
Net income		**208,420**	178,412
Reissuance of treasury stock, net		**(21,740)**	—
Balance, end of period		**819,397**	468,459
Total shareholders' equity		**$ 2,995,061**	$ 2,515,092

See accompanying notes to consolidated financial statements.

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MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	**$ 208,420**	$ 178,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**33,191**	28,477
Deferred tax expense	**106,163**	88,157
Net realized investment losses (gains)	**164**	(3,892)
Loss on debt extinguishment	**65**	15,308
Change in certain assets and liabilities:		
Accrued investment income	**43**	515
Prepaid insurance premium	**25**	48
Reinsurance recoverable on loss reserves	**5,710**	(728)
Reinsurance recoverable on paid losses	**(1,187)**	(1,454)
Premium receivable	**1,048**	1,867
Deferred insurance policy acquisition costs	**(918)**	(1,439)
Profit commission receivable	**(4,603)**	(2,793)
Loss reserves	**(251,724)**	(261,069)
Unearned premiums	**22,273**	28,451
Return premium accrual	**(11,900)**	(7,300)
Income taxes payable - current	**32,991**	523
Other, net	**(14,205)**	(8,090)
Net cash provided by operating activities	**125,556**	54,993
Cash flows from investing activities:		
Purchases of investments:		
Fixed income	**(545,281)**	(723,409)
Equity securities	**(38)**	(3,128)
Proceeds from sales of fixed income	**166,606**	649,776
Proceeds from maturity of fixed income	**390,344**	313,484
Proceeds from sale of equity securities	**—**	2,525
Net increase in payable for securities	**3,447**	24,519
Additions to property and equipment	**(9,659)**	(2,724)
Net cash provided by investing activities	**5,419**	261,043
Cash flows from financing activities:		
Proceeds from revolving credit facility	**150,000**	—
Repayment of revolving credit facility	**(150,000)**	—
Proceeds from issuance of long-term debt	**—**	155,000
Purchase or repayment of convertible senior notes	**(145,620)**	(182,846)
Payment of original issue discount - convertible senior notes	**(4,504)**	(5,655)
Purchase of convertible junior subordinated debentures	**—**	(100,860)
Payment of original issue discount - convertible junior subordinated debentures	**—**	(41,540)
Cash portion of loss on debt extinguishment	**—**	(15,308)
Payment of debt issuance costs	**(1,630)**	—
Payment of withholding taxes related to share-based compensation net share settlement	**(6,723)**	(4,973)
Net cash used in financing activities	**(158,477)**	(196,182)
Net (decrease) increase in cash and cash equivalents	**(27,502)**	119,854
Cash and cash equivalents at beginning of period	**155,410**	181,120
Cash and cash equivalents at end of period	**$ 127,908**	$ 300,974

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(Unaudited)

Note 1. Nature of Business and Basis of Presentation

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC") is principally engaged in the mortgage insurance business. We provide mortgage insurance to lenders throughout the United States and to government sponsored entities ("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, 2016 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 consolidated financial position and consolidated results of operations for the periods indicated. The consolidated results of operations for the interim period may not be indicative of the results that may be expected for the year ending December 31, 2017.

Substantially all of our insurance written since 2008 has been for loans purchased by the GSEs. We operate under the Private Mortgage Insurer Eligibility Requirements ("PMIERs") of the GSEs that became effective December 31, 2015 and have been amended from time to time. The financial requirements of the PMIERs require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). Based on our interpretation of the PMIERs, as of June 30, 2017, MGIC's Available Assets are in excess of its Minimum Required Assets; and MGIC is in compliance with the financial requirements of the PMIERs and eligible to insure loans purchased by the GSEs.

Reclassifications

Certain reclassifications to 2016 amounts have been made in the accompanying financial statements to conform to the 2017 presentation.

Subsequent events

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

Note 2. New Accounting Pronouncements

Adopted Accounting Standards

Improvements to Employee Share-Based Compensation Accounting

In March 2016, the Financial Accounting Standards Board ("FASB") issued updated guidance that simplifies several aspects of the accounting for employee share-based compensation including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. The updated guidance requires that, prospectively, all tax effects related to share-based compensation be made through the statement of operations at the time of settlement. In contrast, the previous guidance required excess tax benefits to be recognized in paid-in capital. The updated guidance also removes the requirement to delay recognition of a tax benefit until it reduces current taxes payable. This change is required to be applied on a modified retrospective basis, with a cumulative effect adjustment to opening retained earnings. Additionally, all tax related cash flows resulting from share-based compensation are to be reported as operating activities on the statement of cash flows, a change from the existing requirement to present tax benefits as an inflow from financing activities and an outflow from operating activities. Finally, for tax withholding purposes, entities will be allowed to withhold an amount of shares up to the employee's maximum individual tax rate (as opposed to the minimum statutory tax rate) in the relevant jurisdiction without resulting in liability classification of the award. The change in tax withholding is to be applied on a modified retrospective approach. This updated guidance became effective January 1, 2017. We adopted this guidance in the first quarter of 2017 and as a result of the adoption:

- We recognized discrete tax benefits of $1.5 million in the provision for income taxes on our statement of operations for the six months ended June 30, 2017 related to excess tax benefits upon vesting of share-based awards during the period.
- We recognized a cumulative effect adjustment related to the recognition of a deferred tax asset related to

suspended tax benefits from vesting transactions occurring in prior years and from the elimination of our forfeiture estimate on share-based awards, which was previously applied only to awards with service conditions.

- Prior to adoption, cash flows related to excess tax benefits from share-based compensation were included in financing activities. We have reclassified excess tax benefits related to share-based compensation for the prior year period to operating activities.
- Prior to adoption, cash flows related to employee taxes paid for withheld shares were included in operating activities. We have reclassified employee taxes paid for withheld shares for the prior year period to financing activities.

Prospective Accounting Standards

Stock Compensation - Scope of Modification Accounting

In May 2017, the FASB issued updated guidance related to a change in the terms or conditions (modification) of a share-based award. The updated guidance provides that an entity should account for the effects of a modification unless the fair value and vesting conditions of the modified award and the classification of the award (equity or liability instrument) are the same as the original award immediately before the modification. The updated guidance addresses the current diversity in practice on applying modification accounting, as some entities evaluate whether changes to awards are substantive, which is not prescribed within the current accounting guidance. The updated guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted, including adoption in any interim period. We are currently evaluating the impacts the adoption of this guidance will have on our consolidated financial statements, but do not expect it to have a material impact on our consolidated financial statements or disclosures.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued updated guidance to amend the amortization period for certain purchased callable debt securities held at a premium shortening the amortization period to the earliest call date. Under current GAAP, there is diversity in practice in the amortization period for premiums of callable debt securities and in how the potential for exercise of a call is factored into current impairment assessments. This updated guidance aligns with how callable debt securities, in the United States, are generally quoted, priced, and traded assuming a model that incorporates consideration of calls (also referred to as “yield-to-worst” pricing). The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impacts the adoption of this guidance will have on our consolidated financial statements, but do not expect it to have a material impact on our consolidated financial statements or disclosures. We currently account for premium amortization on our purchased callable debt securities on a yield-to-worst basis, which generally aligns with the earliest call date.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued updated guidance that improves the reporting of net benefit cost in the financial statements. The updated guidance requires that an employer report the service cost component in the same financial statement caption as other compensation costs arising from services rendered by employees during the period. The other components of net benefit cost are required to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations, if one is presented. Current guidance does not prescribe where the amount of net benefit cost should be presented in an employer’s statement of operations and does not require entities to disclose by line item the amount of net benefit cost that is included in the statement of operations. The updated guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. We are currently evaluating the impacts the adoption of this guidance will have on our consolidated financial statements, but do not expect it to have a material impact on our consolidated financial statements or disclosures.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued updated guidance that requires immediate recognition of estimated credit losses expected to occur over the remaining life of many financial instruments. Entities will be required to utilize a current expected credit losses (“CECL”) methodology that incorporates their forecasts of future economic conditions into their loss estimate unless such forecast is not reasonable and supportable, in which case the entity will revert to historical loss experience. Any allowance for CECL reduces the amortized cost basis of the financial instrument to the amount an entity expects to collect. Credit losses relating to available-for-sale fixed maturity securities are to be recorded through an allowance for credit losses, rather than a write-down of the asset, with the amount of the allowance limited to the amount by which fair value is less than amortized cost. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists. The updated guidance is not prescriptive about certain aspects of estimating expected credit losses, including the specific methodology to use, and therefore will require significant judgment in application. The updated guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted for annual and interim periods in fiscal years beginning after December 15, 2018. We are currently evaluating the impacts the adoption of this guidance will have on our consolidated financial statements, but do not expect it to have a material impact on our consolidated financial statements or disclosures.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued updated guidance to address the recognition, measurement, presentation, and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have a readily determinable fair value to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. Further, the updated guidance clarifies that entities should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entities other deferred tax assets. The updated guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods and will require recognition of a cumulative effect adjustment at adoption. We do not currently expect the adoption of this guidance to impact our consolidated financial position or liquidity.

Note 3. Debt

2017 debt transactions

2% Notes

On March 21, 2017, we issued an irrevocable notice of redemption in respect of our outstanding 2% Notes, with a redemption date of April 21, 2017. In April, holders of approximately $202.5 million of the outstanding principal exercised their rights to convert their notes into shares of our common stock. The remaining $5.1 million of outstanding principal was redeemed for cash. The conversions of the 2% Notes at a rate of 143.8332 shares per $1,000 principal amount resulted in the issuance of approximately 29.1 million shares of our common stock in April. The conversions and cash redemption eliminated our debt obligation. A loss on debt extinguishment of $0.07 million was recognized on the redemption of the $5.1 million of 2% Notes. No gain or loss was recognized from the conversions as the outstanding debt issuance costs associated with the conversions are included in the debt carrying value, which was credited to shareholders' equity at the time of conversion.

Credit Facility

On March 21, 2017, we entered into a Credit Agreement with various lenders which provides for a $175 million unsecured revolving credit facility maturing on March 21, 2020. Revolving credit borrowings bear interest at a floating rate, which will be, at our option, either a eurocurrency rate or a base rate, in each case plus an applicable margin. The applicable margins are subject to adjustment based on our senior unsecured long-term debt rating, or if we do not have such a rating, our corporate or issuer rating. Amounts under the facility may be borrowed, repaid and reborrowed from time to time until the maturity of the revolving credit facility. Voluntary prepayments and commitment reductions are permitted at any time without fee subject to a minimum dollar requirement and, for outstanding eurocurrency loans, customary breakage costs.

We are required under the Credit Agreement to pay commitment fees on the average daily amount of the unused revolving commitments of the lenders, and an annual administrative fee to the administrative agent. The Credit Agreement contains affirmative, negative and financial covenants which are customary for financings of this type, including, among other things, limits on the creation of liens, limits on the incurrence of indebtedness, restrictions on dispositions, maximum debt-to-capital ratio, minimum consolidated stockholders' equity, minimum policyholder's position of MGIC, and compliance with the financial requirements of the PMIERs. The Credit Agreement includes customary events of default for facilities of this type (with customary grace periods, as applicable) and provides that, upon the occurrence of an event of default, payments of all outstanding loans may be accelerated and/or the lenders' commitments may be terminated. Upon the occurrence of certain insolvency or bankruptcy related events of default, all amounts payable under the Credit Agreements shall automatically become immediately due and payable, and the lenders' commitments will automatically terminate. In addition, upon the occurrence of certain insolvency or bankruptcy related events of default, or the failure to pay interest, principal or fees, the interest rates on all outstanding obligations will be increased.

In March, we borrowed $150 million under the revolving credit facility, to fund a portion of the redemption price of the 2% Notes if holders did not elect to convert their 2% Notes. In April, we repaid the amount borrowed under the revolving credit facility because most holders elected to convert their notes. Costs incurred to enter into the Credit Agreement have been deferred and recorded as Other assets and will be amortized over the term of the Credit Agreement.

5% Notes

On May 1, 2017, our 5% Notes due in 2017 ("5% Notes") matured and we repaid the outstanding $145 million in aggregate par value, plus accrued interest with cash at our holding company.

First half 2016 debt transactions

5% Notes

During the first six months of 2016, we purchased $188.5 million in aggregate par value of our 5% Notes at an aggregate purchase price of $195.5 million for which we recognized losses on debt extinguishment on our consolidated statements of operations for the three and six months ended June 30, 2016.

9% Debentures

In February 2016, MGIC purchased $132.7 million in aggregate par value of our 9% Debentures at a purchase price of $150.7 million. The purchase of the 9% Debentures resulted in an $8.3 million loss on debt extinguishment on the consolidated statement of operations for the six months ended June 30, 2016, which represents the difference between the fair value and the carrying value of the liability component on the purchase date. Our shareholders' equity was separately reduced by $6.3 million related to the reacquisition of the equity component. For GAAP accounting purposes, the 9% Debentures owned by MGIC are considered retired and are eliminated in our consolidated financial statements and the underlying common stock equivalents, approximately 9.8 million shares, are not included in the computation of diluted shares.

Debt obligations

The par value of our long-term debt obligations and their aggregate carrying values as of June 30, 2017 and December 31, 2016 were as follows.

(In millions)	**June 30, 2017**	December 31, 2016
FHLB Advance	**$ 155.0**	$ 155.0
5% Notes	**—**	145.0
2% Notes	**—**	207.6
5.75% Notes	**425.0**	425.0
9% Debentures(1)	**256.9**	256.9
Long-term debt, par value	**836.9**	1,189.5
Debt issuance costs	**(7.0)**	(10.8)
Long-term debt, carrying value	**$ 829.9**	$ 1,178.7

(1) 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 shares 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 5.75% Senior Notes due 2023 ("5.75% Notes") and 9% Convertible Junior Subordinated Debentures due in 2063 ("9% Debentures") are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. The Federal Home Loan Bank Advance (the "FHLB Advance") is an obligation of MGIC.

Interest payments on our debt obligations appear below.

	Six Months Ended June 30,	
(In millions)	**2017**	2016
Revolving credit facility	**$ 0.5**	$ —
FHLB Advance	**1.5**	0.9
5% Notes	**3.6**	6.9
2% Notes	**2.1**	5.0
5.75% Notes	**12.9**	—
9% Debentures	**11.6**	15.9
Total interest payments	**$ 32.2**	$ 28.7

Note 4. Reinsurance

The reinsurance agreements we have entered into are discussed below. The effect of all of our reinsurance agreements on premiums earned and losses incurred is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2017**	2016	**2017**	2016
Premiums earned:				
Direct	**$ 261,180**	$ 263,566	**$ 520,608**	$ 518,953
Assumed	**62**	182	**160**	390
Ceded	**(30,106)**	(32,292)	**(60,529)**	(66,546)
Net premiums earned	**$ 231,136**	$ 231,456	**$ 460,239**	$ 452,797
Losses incurred:				
Direct	**$ 31,396**	$ 54,863	**$ 63,809**	$ 147,295
Assumed	**61**	339	**166**	440
Ceded	**(4,118)**	(8,612)	**(9,017)**	(16,133)
Losses incurred, net	**$ 27,339**	$ 46,590	**$ 54,958**	$ 131,602

Quota share reinsurance

In March 2017, we entered into a quota share reinsurance agreement ("2017 QSR Transaction") with an effective date of January 1, 2017 with a group of unaffiliated reinsurers, each with a financial strength rating of A- or better by Standard and Poor's, A.M. Best or both. We utilize quota share reinsurance to manage our exposure to losses resulting from our mortgage guaranty insurance policies and to provide reinsurance capital credit under the PMIERs. Our 2017 QSR Transaction provides coverage on new business written January 1, 2017 through December 29, 2017 that meets certain eligibility requirements. Under the agreement we cede losses incurred and premiums on or after the effective date through December 31, 2028, at which time the agreement expires. Early termination of the agreement can be elected by us effective December 31, 2021 for a fee, or under specified scenarios for no fee upon prior written notice including if we will receive less than 90% of the full credit amount under the PMIERs for the risk ceded in any required calculation period.

Our 2015 quota share reinsurance agreement ("2015 QSR Transaction"), which became effective on July 1, 2015, covers eligible risk in force written before 2017. The group of unaffiliated reinsurers under our 2015 QSR Transaction each has an insurer financial strength rating of A- or better by Standard and Poor's Rating Services, A.M. Best or both. The 2015 QSR Transaction cedes losses incurred and premiums through December 31, 2024, at which time the agreement expires. Early termination of the agreement can be elected by us effective December 31, 2018 for a fee, or under specified scenarios for no fee upon prior written notice, including if we will receive less than 90% of the full credit amount under the PMIERs for the risk ceded in any required calculation period.

The structure of both the 2017 QSR Transaction and 2015 QSR Transaction is a 30% quota share for all policies covered, with a 20% ceding commission as well as a profit commission. Generally, under the QSR Transactions, we will receive a profit commission provided that the loss ratio on the loans covered under the agreement remains below 60%.

Following is a summary of our quota share reinsurance agreements, excluding captive agreements discussed below, for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2017**	2016	**2017**	2016
Ceded premiums written and earned, net of profit commission (1)	**$ 28,917**	$ 29,961	**$ 57,812**	$ 61,627
Ceded losses incurred	**4,424**	6,070	**9,111**	14,583
Ceding commissions (2)	**12,248**	11,946	**24,251**	23,522
Profit commission	**32,325**	29,767	**63,442**	55,982

(1) Under our QSR Transactions, premiums are ceded on an earned and received basis as defined in the agreements.

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

Under the terms of QSR Transactions, ceded premiums, ceding commission and profit commission are settled net on a quarterly basis. The ceded premium due after deducting the related ceding commission and profit commission is reported within "Other liabilities" on the consolidated balance sheets.

The reinsurance recoverable on loss reserves related to our QSR Transactions was $33.1 million as of June 30, 2017 and $31.8 million as of December 31, 2016. The reinsurance recoverable balance is secured by funds on deposit from the reinsurers which are based on the funding requirements of PMIERs that address ceded risk.

Captive reinsurance

In the past, MGIC also obtained 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") in 2013 and with the Minnesota Department of Commerce in 2015, MGIC has agreed to 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 subsequent to the respective settlements. In accordance with the CFPB settlement, all of our active captive arrangements were placed into run-off. In addition, the GSEs will not approve any future reinsurance or risk sharing transaction with a mortgage enterprise or an affiliate of a mortgage enterprise.

The reinsurance recoverable on loss reserves related to captive agreements was $12.0 million as of June 30, 2017, which was supported by $86.0 million of trust assets, while as of December 31, 2016, the reinsurance recoverable on loss reserves related to captive agreements was $19.0 million, which was supported by $91.0 million of trust assets. Each captive reinsurer is required to maintain a separate trust account to support its combined reinsured risk on all annual books. MGIC is the sole beneficiary of the trusts.

Note 5. Litigation and Contingencies

Before paying an insurance claim, we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage on the loan. In our SEC reports, we refer to insurance rescissions and denials of claims collectively as "rescissions" and variations of that term. In addition, 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. We call such reduction of claims “curtailments.” In recent quarters, an immaterial percentage of claims received in a quarter have been resolved by rescissions. In each of 2016 and the first half of 2017, curtailments reduced our average claim paid by approximately 5.5%.

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

When the insured disputes our right to rescind coverage or curtail claims, we generally engage in discussions in an attempt to settle the dispute. If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings.

Under ASC 450-20, until a liability associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss. Where we have determined that a loss is probable and can be reasonably estimated, we have recorded our best estimate of our probable loss. If we are not able to implement settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

In addition to matters for which we have recorded a probable loss, we are involved in other discussions and/or proceedings with insureds with respect to our claims paying practices. Although it is reasonably possible that when these matters are resolved 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 matters where a loss is reasonably possible to be approximately $291 million, although we believe (but can give no assurance that) we will ultimately resolve these matters for significantly less than this amount. This estimate of our maximum exposure does not include interest or consequential or exemplary damages.

Mortgage insurers, including MGIC, have been involved in litigation and regulatory actions related to alleged 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. While these proceedings in the aggregate have not resulted in material liability for MGIC, there can be no assurance that the outcome of future proceedings, if any, under these laws would not have a material adverse affect on us. In addition, various regulators, including the CFPB, state insurance commissioners and state attorneys general may bring other actions seeking various forms of relief in connection with alleged 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.

Through a non-insurance subsidiary, we utilize our underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of the contract underwriting activities, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to its customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. The underwriting remedy expense for 2016 and the first half of 2017 was immaterial to our consolidated financial statements.

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

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 shares of common stock outstanding. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common stock equivalents. We calculate diluted EPS using the treasury stock method and if-converted method. Under the if-converted method, diluted EPS reflects the potential dilution that could occur if our convertible debt instruments result in the issuance of common stock. The determination of potentially issuable shares does not consider the satisfaction of the conversion requirements and the shares are included in the determination of diluted EPS as of the beginning of the period, if dilutive. During the quarter ended June 30, 2017, we had several debt issuances that could result in contingently issuable shares and consider each potential issuance of shares separately to reflect the maximum potential dilution. Nonetheless, our dilutive common stock equivalents may not reflect all of the contingently issuable shares that could be required to be issued upon any debt conversion. For purposes of calculating basic and diluted EPS, vested restricted stock and restricted stock units ("RSUs") are considered outstanding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	**2017**	2016	**2017**	2016
Basic earnings per share:				
Net income	**$ 118,622**	$ 109,221	**$ 208,420**	$ 178,412
Weighted average common shares outstanding - basic	**366,918**	340,678	**354,035**	340,411
Basic earnings per share	**$ 0.32**	$ 0.32	**$ 0.59**	$ 0.52
Diluted earnings per share:				
Net income	**$ 118,622**	$ 109,221	**$ 208,420**	$ 178,412
Interest expense, net of tax (1):				
2% Notes	**84**	1,982	**907**	3,964
5% Notes	**427**	1,728	**1,709**	4,406
9% Debentures	**3,757**	3,757	**7,514**	8,379
Diluted income available to common shareholders	**$ 122,890**	$ 116,688	**$ 218,550**	$ 195,161
Weighted average common shares outstanding - basic	**366,918**	340,678	**354,035**	340,411
Effect of dilutive securities:				
Unvested RSUs	**1,140**	1,209	**1,314**	1,444
2% Notes	**3,827**	71,917	**16,771**	71,917
5% Notes	**3,557**	13,307	**7,154**	15,449
9% Debentures	**19,028**	19,028	**19,028**	21,133
Weighted average common shares outstanding - diluted	**394,470**	446,139	**398,302**	450,354
Diluted earnings per share	**$ 0.31**	$ 0.26	**$ 0.55**	$ 0.43

(1) Tax effected at a rate of 35%.

Note 7. Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at June 30, 2017 and December 31, 2016 are shown below.

June 30, 2017

(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses (1)**	**Fair Value**
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 64,043**	**$ 364**	**$ (478)**	**$ 63,929**
Obligations of U.S. states and political subdivisions	**2,131,471**	**42,983**	**(9,165)**	**2,165,289**
Corporate debt securities	**1,823,823**	**12,699**	**(8,897)**	**1,827,625**
ABS	**21,988**	**10**	**(11)**	**21,987**
RMBS	**209,874**	**78**	**(7,612)**	**202,340**
CMBS	**310,997**	**1,548**	**(5,467)**	**307,078**
CLOs	**112,769**	**332**	**(138)**	**112,963**
Total debt securities	**4,674,965**	**58,014**	**(31,768)**	**4,701,211**
Equity securities	**7,183**	**41**	**(15)**	**7,209**
Total investment portfolio	**$ 4,682,148**	**$ 58,055**	**$ (31,783)**	**$ 4,708,420**

December 31, 2016

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 73,847	$ 407	$ (724)	$ 73,530
Obligations of U.S. states and political subdivisions	2,147,458	20,983	(25,425)	2,143,016
Corporate debt securities	1,756,461	6,059	(18,610)	1,743,910
ABS	59,519	74	(28)	59,565
RMBS	231,733	102	(7,626)	224,209
CMBS	327,042	769	(7,994)	319,817
CLOs	121,151	226	(202)	121,175
Total debt securities	4,717,211	28,620	(60,609)	4,685,222
Equity securities	7,144	8	(24)	7,128
Total investment portfolio	$ 4,724,355	$ 28,628	$ (60,633)	$ 4,692,350

(1) At June 30, 2017 and December 31, 2016, there were no other-than-temporary impairment losses recorded in other comprehensive income.

The FHLB Advance is secured by eligible collateral whose fair value must be maintained at 102% of the outstanding principal balance. As of June 30, 2017 that collateral is included in our total investment portfolio amount shown above with a total fair value of $165.9 million.

The amortized cost and fair values of debt securities at June 30, 2017, by contractual maturity, are shown in the following table. 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 in separate categories.

June 30, 2017 *(In thousands)*	Amortized Cost	Fair Value
Due in one year or less	$ 341,831	$ 342,028
Due after one year through five years	1,356,023	1,362,799
Due after five years through ten years	1,026,851	1,030,223
Due after ten years	1,294,632	1,321,793
	$ 4,019,337	$ 4,056,843
ABS	21,988	21,987
RMBS	209,874	202,340
CMBS	310,997	307,078
CLOs	112,769	112,963
Total as of June 30, 2017	$ 4,674,965	$ 4,701,211

At June 30, 2017 and December 31, 2016, the investment portfolio had gross unrealized losses of $31.8 million and $60.6 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

June 30, 2017	Less Than 12 Months		12 Months or Greater		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 52,769	$ (471)	$ 993	$ (7)	$ 53,762	$ (478)
Obligations of U.S. states and political subdivisions	622,767	(8,595)	17,400	(570)	640,167	(9,165)
Corporate debt securities	649,134	(7,664)	27,241	(1,233)	676,375	(8,897)
ABS	3,362	(11)	—	—	3,362	(11)
RMBS	43,815	(885)	155,030	(6,727)	198,845	(7,612)
CMBS	172,505	(5,439)	7,237	(28)	179,742	(5,467)
CLOs	7,275	(138)	—	—	7,275	(138)
Equity securities	455	(7)	139	(8)	594	(15)
Total	$ 1,552,082	$ (23,210)	$ 208,040	$ (8,573)	$ 1,760,122	$ (31,783)

December 31, 2016	Less Than 12 Months		12 Months or Greater		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 48,642	$ (724)	$ —	$ —	$ 48,642	$ (724)
Obligations of U.S. states and political subdivisions	1,136,676	(24,918)	13,681	(507)	1,150,357	(25,425)
Corporate debt securities	915,777	(16,771)	35,769	(1,839)	951,546	(18,610)
ABS	3,366	(28)	656	—	4,022	(28)
RMBS	46,493	(857)	171,326	(6,769)	217,819	(7,626)
CMBS	205,545	(7,529)	38,587	(465)	244,132	(7,994)
CLOs	13,278	(73)	34,760	(129)	48,038	(202)
Equity securities	568	(15)	137	(9)	705	(24)
Total	$ 2,370,345	$ (50,915)	$ 294,916	$ (9,718)	$ 2,665,261	$ (60,633)

The unrealized losses in all categories of our investments at June 30, 2017 and December 31, 2016 were primarily caused by the difference in interest rates at each respective period, compared to interest rates at the time of purchase. There were 404 and 607 securities in an unrealized loss position at June 30, 2017 and December 31, 2016, respectively.

During each of the three and six months ended June 30, 2017 and 2016 there were no other-than-temporary impairments ("OTTI") recognized. The net realized investment gains (losses) on the investment portfolio are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2017**	2016	**2017**	2016
Realized investment gains (losses) on investments:				
Fixed maturities	**$ (52)**	$ 831	**$ (177)**	$ 3,886
Equity securities	**10**	5	**13**	6
Net realized investments (losses) gains	**$ (42)**	$ 836	**$ (164)**	$ 3,892

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2017**	2016	**2017**	2016
Realized investment gains (losses) on investments:				
Gains on sales	**$ 644**	$ 1,404	**$ 829**	$ 5,509
Losses on sales	**(686)**	(568)	**(993)**	(1,617)
Net realized investments (losses) gains	**$ (42)**	$ 836	**$ (164)**	$ 3,892

Note 8. Fair Value Measurements

Under the authoritative guidance, fair value is disclosed using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and categorizes assets and liabilities into Levels 1, 2, and 3 based on inputs available to determine their fair values. 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. This model combines all inputs to arrive at a value assigned to each security. Quality controls are performed by the independent pricing sources throughout this process, which include reviewing tolerance reports, trading information, data changes, and directional moves compared to market moves. In addition, on a quarterly basis, we perform quality controls over values received from the pricing sources which also includes reviewing tolerance reports, trading information, data changes, and directional moves compared to market moves. We have not made any adjustments to the prices obtained from the independent pricing sources.

In accordance with fair value accounting 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 and equity securities.

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

The independent pricing sources utilize these approaches to determine the fair value of the instruments in Level 2 of the fair value hierarchy based on type of instrument:

Corporate Debt & U.S. Government and Agency Bonds are evaluated by surveying the dealer community, obtaining relevant trade data, benchmark quotes and spreads and incorporating this information into the evaluation process.

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

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

Commercial Mortgage-Backed Securities (“CMBS”) are evaluated using valuation techniques that reflect market participants’ assumptions and maximize the use of relevant observable inputs including quoted prices for similar assets, benchmark yield curves and market corroborated inputs. The inputs for securities covered, including executed trades, broker quotes, credit information, collateral attributes and/or cash flow waterfall as applicable, are regularly reviewed as part of the evaluation.

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

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

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable or from par values for equity securities restricted in their ability to be redeemed or sold. The inputs used to derive the fair value of Level 3 securities reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. Financial assets utilizing Level 3 inputs primarily include equity securities that can only be redeemed or sold at their par value and only to the security issuer and a state premium tax credit investment. The state premium tax credit investment has a maturity of less than 2 years, a credit rating of AAA, and its balance reflects its remaining scheduled payments discounted at an average annual rate of 7.1%. 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.

Fair value measurements for assets measured at fair value included the following as of June 30, 2017 and December 31, 2016:

June 30, 2017

(In thousands)	**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.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 63,929**	$ 13,342	$ 50,587	$ —
Obligations of U.S. states and political subdivisions	**2,165,289**	—	2,164,712	577
Corporate debt securities	**1,827,625**	—	1,827,625	—
ABS	**21,987**	—	21,987	—
RMBS	**202,340**	—	202,340	—
CMBS	**307,078**	—	307,078	—
CLOs	**112,963**	—	112,963	—
Total debt securities	**4,701,211**	13,342	4,687,292	577
Equity securities (1)	**7,209**	2,941	—	4,268
Total investment portfolio	**$ 4,708,420**	$ 16,283	$ 4,687,292	$ 4,845
Real estate acquired (2)	**$ 10,271**	$ —	$ —	$ 10,271

(1) Equity securities in Level 3 are carried at cost, which approximates fair value.

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

December 31, 2016

(In thousands)		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.S. Treasury securities and obligations of U.S. government corporations and agencies	$	73,530	$	30,690	$	42,840	$	—
Obligations of U.S. states and political subdivisions		2,143,016		—		2,142,325		691
Corporate debt securities		1,743,910		—		1,743,910		—
ABS		59,565		—		59,565		—
RMBS		224,209		—		224,209		—
CMBS		319,817		—		319,817		—
CLOs		121,175		—		121,175		—
Total debt securities		4,685,222		30,690		4,653,841		691
Equity securities (1)		7,128		2,860		—		4,268
Total investment portfolio	$	4,692,350	$	33,550	$	4,653,841	$	4,959
Real estate acquired (2)	$	11,748	$	—	$	—	$	11,748

(1) Equity securities in Level 3 are carried at cost, which approximates fair value.

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

For assets measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the three and six months ended June 30, 2017 and 2016 is shown in the following tables. There were no transfers into or out of Level 3 in those periods and there were no losses included in earnings for those periods attributable to the change in unrealized losses on assets still held at the end of the applicable period.

Three Months Ended June 30, 2017

(In thousands)		Debt Securities		Equity Securities		Total Investments		Real Estate Acquired
Balance at March 31, 2017	$	683	$	4,268	$	4,951	$	10,730
Total realized/unrealized gains (losses):								
Included in earnings and reported as losses incurred, net		**—**		**—**		**—**		**(63)**
Purchases		**—**		**—**		**—**		**9,421**
Sales		**(106)**		**—**		**(106)**		**(9,817)**
Balance at June 30, 2017	**$**	**577**	**$**	**4,268**	**$**	**4,845**	**$**	**10,271**

Three Months Ended June 30, 2016

(In thousands)		Debt Securities		Equity Securities		Total Investments		Real Estate Acquired
Balance at March 31, 2016	$	1,192	$	3,421	$	4,613	$	12,849
Total realized/unrealized gains (losses):								
Included in other comprehensive income		—		3,519		3,519		—
Included in earnings and reported as losses incurred, net		—		—		—		651
Purchases		—		—		—		6,748
Sales		(136)		—		(136)		(10,606)
Balance at June 30, 2016	$	1,056	$	6,940	$	7,996	$	9,642

Six Months Ended June 30, 2017

(In thousands)	Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
Balance at December 31, 2016	$ 691	$ 4,268	$ 4,959	$ 11,748
Total realized/unrealized gains (losses):				
Included in earnings and reported as losses incurred, net	**—**	**—**	**—**	**(226)**
Purchases	**—**	**—**	**—**	**18,104**
Sales	**(114)**	**—**	**(114)**	**(19,355)**
Balance at June 30, 2017	**$ 577**	**$ 4,268**	**$ 4,845**	**$ 10,271**

Six Months Ended June 30, 2016

(In thousands)	Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
Balance at December 31, 2015	$ 1,228	$ 2,855	$ 4,083	$ 12,149
Total realized/unrealized gains (losses):				
Included in other comprehensive income	—	3,519	3,519	—
Included in earnings and reported as losses incurred, net	—	—	—	358
Purchases	—	3,091	3,091	19,015
Sales	(172)	(2,525)	(2,697)	(21,880)
Balance at June 30, 2016	$ 1,056	$ 6,940	$ 7,996	$ 9,642

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.”

Financial Liabilities Not Measured at Fair Value

We incur financial liabilities in the normal course of our business. The following table presents the carrying value and fair value of our financial liabilities disclosed, but not carried, at fair value at June 30, 2017 and December 31, 2016. The fair values of our 5% Notes, 2% Notes, 5.75% Notes, and 9% Debentures were based on observable market prices. The fair value of the FHLB Advance was estimated using discounted cash flows on current incremental borrowing rates for similar borrowing arrangements. In all cases the fair values of the financial liabilities below are categorized as Level 2.

	June 30, 2017		December 31, 2016	
(In thousands)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial liabilities:				
FHLB Advance	**155,000**	**154,140**	$ 155,000	$ 151,905
5% Notes	**—**	**—**	144,789	147,679
2% Notes	**—**	**—**	204,672	308,605
5.75% Notes	**417,983**	**457,878**	417,406	445,987
9% Debentures	**256,872**	**338,190**	256,872	323,040
Total financial liabilities	**$ 829,855**	**$ 950,208**	$ 1,178,739	$ 1,377,216

Note 9. Other Comprehensive Income

The pretax and related income tax (expense) benefit components of our other comprehensive income (loss) for the three and six months ended June 30, 2017 and 2016 are included in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2017**	2016	**2017**	2016
Net unrealized investment gains arising during the period	**$ 39,614**	$ 86,674	**$ 58,261**	$ 165,058
Income tax expense	**(13,865)**	(30,336)	**(20,391)**	(57,893)
Net of taxes	**25,749**	56,338	**37,870**	107,165
Net changes in benefit plan assets and obligations	**(220)**	(266)	**(454)**	(740)
Income tax benefit	**78**	93	**159**	259
Net of taxes	**(142)**	(173)	**(295)**	(481)
Net changes in unrealized foreign currency translation adjustment	**—**	16	**45**	(1,480)
Income tax (expense) benefit	**—**	(5)	**(14)**	516
Net of taxes	**—**	11	**31**	(964)
Total other comprehensive income	**39,394**	86,424	**57,852**	162,838
Total income tax expense	**(13,787)**	(30,248)	**(20,246)**	(57,118)
Total other comprehensive income, net of tax	**$ 25,607**	$ 56,176	**$ 37,606**	$ 105,720

The pretax and related income tax (expense) benefit components of the amounts reclassified from our accumulated other comprehensive loss ("AOCL") to our consolidated statements of operations for the three and six months ended June 30, 2017 and 2016 are included in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2017**	2016	**2017**	2016
Reclassification adjustment for net realized (losses) gains (1)	**$ (1,392)**	$ 98	**$ (2,139)**	$ 710
Income tax benefit (expense)	**487**	(34)	**748**	(126)
Net of taxes	**(905)**	64	**(1,391)**	584
Reclassification adjustment related to benefit plan assets and obligations (2)	**220**	266	**454**	740
Income tax expense	**(78)**	(93)	**(159)**	(259)
Net of taxes	**142**	173	**295**	481
Reclassification adjustment related to foreign currency (3)	**—**	—	**—**	1,467
Income tax expense	**—**	—	**—**	(513)
Net of taxes	**—**	—	**—**	954
Total reclassifications	**(1,172)**	364	**(1,685)**	2,917
Total income tax benefit (expense)	**409**	(127)	**589**	(898)
Total reclassifications, net of tax	**$ (763)**	$ 237	**$ (1,096)**	$ 2,019

(1) Increases (decreases) Net realized investment (losses) gains on the consolidated statements of operations.

(2) Decreases (increases) Other underwriting and operating expenses, net on the consolidated statements of operations.

(3) Increases (decreases) Other revenue on the consolidated statements of operations.

A rollforward of AOCL for the six months ended June 30, 2017, including amounts reclassified from AOCL, are included in the table below.

	Six Months Ended June 30, 2017			
(In thousands)	Net unrealized gains and losses on available-for-sale securities	Net benefit plan assets and obligations recognized in shareholders' equity	Net unrealized foreign currency translation	Total AOCL
Balance, December 31, 2016, net of tax	$ (20,797)	$ (54,272)	$ (31)	$ (75,100)
Other comprehensive income before reclassifications	**36,479**	**—**	**31**	**36,510**
Less: Amounts reclassified from AOCL	**(1,391)**	**295**	**—**	**(1,096)**
Balance, June 30, 2017, net of tax	**$ 17,073**	**$ (54,567)**	**$ —**	**$ (37,494)**

Note 10. Benefit Plans

The following tables provide the components of net periodic benefit cost for our pension, supplemental executive retirement and other postretirement benefit plans for three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefit Plans	
(In thousands)	**2017**	2016	**2017**	2016
Service cost	**$ 2,484**	$ 2,402	**$ 220**	$ 201
Interest cost	**3,879**	4,024	**186**	180
Expected return on plan assets	**(5,013)**	(4,865)	**(1,312)**	(1,221)
Recognized net actuarial loss	**1,549**	1,567	**—**	—
Amortization of prior service cost	**(106)**	(171)	**(1,663)**	(1,663)
Net periodic benefit cost (benefit)	**$ 2,793**	$ 2,957	**$ (2,569)**	$ (2,503)

	Six Months Ended June 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefit Plans	
(In thousands)	**2017**	2016	**2017**	2016
Service cost	**$ 4,778**	$ 4,565	**$ 407**	$ 376
Interest cost	**7,737**	7,953	**353**	352
Expected return on plan assets	**(10,049)**	(9,754)	**(2,624)**	(2,443)
Recognized net actuarial loss	**3,084**	2,928	**—**	—
Amortization of prior service cost	**(213)**	(343)	**(3,325)**	(3,325)
Net periodic benefit cost (benefit)	**$ 5,337**	$ 5,349	**$ (5,189)**	$ (5,040)

We currently intend to make contributions totaling $9.4 million to our qualified pension plan and supplemental executive retirement plan in 2017.

Note 11. Income Taxes

We have approximately $1.2 billion of net operating loss ("NOL") carryforwards on a regular tax basis and $0.3 billion of NOL carryforwards for computing the alternative minimum tax as of June 30, 2017. Any unutilized carryforwards are scheduled to expire at the end of tax years 2031 through 2033.

We evaluate the realizability of our deferred tax assets including our NOL carryforwards on a quarterly basis. Based on our analysis, we have concluded that all of our deferred tax assets are fully realizable and therefore no valuation allowance existed at June 30, 2017 and December 31, 2016.

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.

In 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 June 30, 2017, there would also be interest related to these matters of approximately $195.7 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. 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 June 30, 2017, those state taxes and interest would approximate $82.4 million. In addition, there could also be state tax penalties. Our total amount of unrecognized tax benefits as of June 30, 2017 is $140.8 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 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 filed an answer to our petition which continued to assert their claim. The case has twice been scheduled for trial and in each instance, the parties jointly filed, and the U.S. Tax Court approved (most recently in February 2016), motions for continuance to postpone the trial date. Also in February 2016, the U.S. Tax Court approved a joint motion to consolidate for trial, briefing and opinion, our case with similar cases of Radian Group, Inc., as successor to Enhance Financial Services Group, Inc., et al. The parties informed the Tax Court in January 2017 that they had reached a basis for settlement of the major issues in the case and in June 2017 that there was only one remaining unresolved secondary issue (a factual determination arising from the 2002-2004 audit that is unrelated to the REMIC matter which the parties continue to work toward resolving). Any agreed settlement terms will ultimately be subject to review by the Joint Committee on Taxation ("JCT") before a settlement can be completed and there is no assurance that a settlement will be completed. Based on information that we currently have regarding the status of our ongoing dispute, we recorded a provision for additional taxes and interest of $27.8 million in the first half of 2017.

Should a settlement not be completed, ongoing litigation to resolve our dispute with the IRS could be lengthy and costly in terms of legal fees and related expenses. We would need to make further 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 15 - “Statutory Information.”

The total amount of the unrecognized tax benefits, related to our aforementioned REMIC issue that would affect our effective tax rate is $119.1 million. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. As of June 30, 2017 and December 31, 2016, we had accrued $49.9 million and $28.9 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.

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment and the current and future strength of local housing markets; exposure on insured loans; the amount of time between default and claim filing; and curtailments and rescissions. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers’ 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 “Losses incurred” section of the table below shows losses incurred on defaults that occurred in the current year and in prior years. The amount of losses incurred relating to defaults that occurred in the current year represents the estimated amount to be ultimately paid on such defaults. The amount of losses incurred relating to defaults that occurred in prior years represents the actual claim rate and severity associated with those defaults 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 continuing from the end of the prior year. This re-estimation of the claim rate and severity is the result of our review of current trends in the default inventory, such as percentages of defaults that have resulted in a claim, the amount of the claims relative to the average loan exposure, changes in the relative level of defaults by geography and changes in average loan exposure.

Losses incurred on defaults that occurred in the current year decreased in the first six months of 2017 compared to the same period in 2016, primarily due to a decrease in the estimated claim rate on recently reported defaults and a decrease in the number of new defaults, net of related cures.

For the six months ended June 30, 2017 and 2016 we experienced favorable prior year loss reserve development. This development was, in part, due to the resolution of approximately 48% and 43% of the prior year default inventory during the six months ended June 30, 2017 and 2016, respectively. During the first six months of 2017 and 2016, we experienced improved cure rates on prior year defaults, which were offset in part by an increase in severity on the prior year defaults in both periods.

The “Losses paid” section of the table below shows the breakdown between claims paid on new default notices in the current year and claims paid on defaults from 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.

During the first six months of 2017 and 2016, our losses paid included amounts paid in connection with disputes concerning our claims paying practices and settlements of coverage on pools of non-performing loans ("NPLs"). The impacts of the settlements were as follows:

- 2017 - Items removed from inventory totaled 1,128 notices with an amount paid of $45 million.
- 2016 - Items removed from inventory totaled 1,273 notices with an amount paid of $51 million.

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at June 30, 2017 and December 31, 2016 and approximated $74 million and $85 million, respectively. This liability was included in "Other liabilities" on our consolidated balance sheets.

The following table provides a reconciliation of beginning and ending loss reserves as of and for the six months ended June 30, 2017 and 2016:

	Six months ended June 30,			
(In thousands)	**2017**		2016	
Reserve at beginning of period	**$**	**1,438,813**	$	1,893,402
Less reinsurance recoverable		**50,493**		44,487
Net reserve at beginning of period		**1,388,320**		1,848,915
Losses incurred:				
Losses and LAE incurred in respect of default notices received in:				
Current year		**158,906**		196,543
Prior years (1)		**(103,948)**		(64,941)
Total losses incurred		**54,958**		131,602
Losses paid:				
Losses and LAE paid in respect of default notices received in:				
Current year		**2,125**		1,396
Prior years		**298,847**		392,007
Reinsurance terminations		**—**		(4)
Total losses paid		**300,972**		393,399
Net reserve at end of period		**1,142,306**		1,587,118
Plus reinsurance recoverables		**44,783**		45,215
Reserve at end of period	**$**	**1,187,089**	$	1,632,333

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

The prior year development of the reserves in the first six months of 2017 and 2016 is reflected in the following table.

	Six months ended June 30,			
(In millions)	**2017**		2016	
Decrease in estimated claim rate on primary defaults	**$**	**(104)**	$	(76)
Increase in estimated severity on primary defaults		**2**		17
Change in estimates related to pool reserves, LAE reserves and reinsurance		**(2)**		(6)
Total prior year loss development (1)	**$**	**(104)**	$	(65)

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

Default inventory

A rollforward of our primary default inventory for the three and six months ended June 30, 2017 and 2016 appears in the following table. 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 accuracy of the data provided by servicers, the number of business days in a month, transfers of servicing between loan servicers and whether all servicers have provided the reports in a given month.

	Three months ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
Default inventory at beginning of period	**45,349**	55,590	**50,282**	62,633
New notices	**14,463**	16,080	**29,402**	32,811
Cures	**(14,708)**	(15,640)	**(31,836)**	(34,693)
Paids (including those charged to a deductible or captive)	**(2,573)**	(3,195)	**(5,208)**	(6,568)
Rescissions and denials	**(100)**	(142)	**(195)**	(352)
Other items removed from inventory	**(1,114)**	(135)	**(1,128)**	(1,273)
Default inventory at end of period	**41,317**	52,558	**41,317**	52,558

The decrease in the primary default inventory experienced during 2017 and 2016 was generally across all markets and primarily in book years 2008 and prior. Historically as a default ages it becomes more likely to result in a claim.

Consecutive months in default

	June 30, 2017		December 31, 2016		June 30, 2016	
3 months or less	**10,299**	**25%**	12,194	24%	11,547	22%
4 - 11 months	**11,018**	**27%**	13,450	27%	12,680	24%
12 months or more (1) (2)	**20,000**	**48%**	24,638	49%	28,331	54%
Total primary default inventory	**41,317**	**100%**	50,282	100%	52,558	100%
Primary claims received inventory included in ending default inventory:						
	1,258	**3%**	1,385	3%	1,829	3%

(1) Approximately 46%, 47%, and 49% of the primary default inventory in default for 12 consecutive months or more has been in default for at least 36 consecutive months as of June 30, 2017, December 31, 2016, and June 30, 2016, respectively.

(2) The majority of items removed from our default inventory under NPL settlements during the six months ended June 30, 2017 were in default for 12 consecutive months or more as of December 31, 2016.

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.

Number of payments delinquent

	June 30, 2017		December 31, 2016		June 30, 2016	
3 payments or less	**15,858**	**38%**	18,419	36%	17,299	33%
4 - 11 payments	**10,560**	**26%**	12,892	26%	12,746	24%
12 payments or more (1)	**14,899**	**36%**	18,971	38%	22,513	43%
Total primary default inventory	**41,317**	**100%**	50,282	100%	52,558	100%

(1) The majority of items removed from our default inventory under NPL settlements during the six months ended June 30, 2017 had 12 or more payments delinquent as of December 31, 2016.

Pool insurance default inventory decreased to 1,511 at June 30, 2017 from 1,883 at December 31, 2016, and 2,024 at June 30, 2016.

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 and is included in "Other liabilities" on our consolidated balance sheets.

For information about discussions and legal proceedings with customers with respect to our claims paying practices see Note 5 – "Litigation and Contingencies."

Note 13. Shareholders' Equity

Change in accounting principle

As described in Note 2 - "New Accounting Pronouncements," during the first quarter of 2017 we adopted the updated guidance of "*Improvements to Employee Share-Based Compensation Accounting*." The adoption of this guidance resulted in an immaterial cumulative effect adjustment to our 2017 beginning retained earnings.

2% Notes

As described in Note 3 - "Debt," on March 21, 2017, we issued an irrevocable notice of redemption in respect of our outstanding 2% Notes, with a redemption date of April 21, 2017. Subsequent to our notice of redemption, in April, holders of approximately $202.5 million of the outstanding principal amount exercised their rights to convert their notes into shares of our common stock. As a result, we issued approximately 29.1 million shares of our common stock, of which 18.7 million shares were reissued from our treasury stock and 10.4 million were newly issued shares. The conversions of the notes increased our shareholders' equity by the carrying value of the notes, which included outstanding debt issuance costs, at the time of conversion.

Shareholders Rights Agreement

Our Amended and Restated Rights Agreement dated July 23, 2015 seeks to diminish the risk that our ability to use our 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 $45 per full share (equivalent to $4.50 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, 2018, 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 14. Share-Based Compensation

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

The number of shares granted to employees and the weighted average fair value per share during the periods presented were (shares in thousands):

	Six months ended June 30,			
	2017		2016	
	Shares Granted	**Weighted Average Share Fair Value**	Shares Granted	Weighted Average Share Fair Value
RSUs subject to performance conditions	**1,237**	**$ 10.41**	1,257	$ 5.66
RSUs subject only to service conditions	**395**	**10.41**	433	5.67

Note 15. Statutory Information

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." 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 June 30, 2017, MGIC's risk-to-capital ratio was 10.2 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $1.8 billion above the required MPP of $1.1 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transactions with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the financial requirements of the PMIERs, MGIC may terminate the reinsurance transactions, 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 June 30, 2017, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 11.3 to 1. Reinsurance agreements with an affiliate 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 affiliate, additional capital contributions to the reinsurance affiliate could be needed.

We ask the Commissioner of Insurance of the State of Wisconsin (the "OCI") not to object before MGIC pays dividends. In the second quarter of 2017, MGIC paid a $30 million dividend to our holding company. MGIC is subject to statutory regulations as to payment of dividends. The maximum amount of dividends that MGIC may pay in any twelve-month period without regulatory approval by the OCI is the lesser of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years. The OCI recognizes only statutory accounting practices prescribed or permitted by the State of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company. The OCI has adopted certain prescribed accounting practices that differ from those found in other states. Specifically, Wisconsin domiciled companies record changes in the contingency reserves through the income statement as changes in underwriting deductions. As a result, in periods in which MGIC is increasing contingency reserves, statutory net income is lowered. For the year ended December 31, 2016, MGIC's statutory net income was reduced by $490 million to account for the increase in contingency reserves.

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. In May 2016, a working group of state regulators released an exposure draft of a risk-based capital framework to establish capital requirements for mortgage insurers, although no date has been established by which the NAIC must propose revisions to the capital requirements. We are currently evaluating the impact of the framework contained in the exposure draft, including the potential impact of certain items that have not yet been completely addressed by the framework which include: the treatment of ceded risk, minimum capital floors, and action level triggers.

While MGIC currently meets the State Capital Requirements of Wisconsin and all other jurisdictions, it could be prevented from writing new business in the future in all jurisdictions if it fails to meet the State Capital Requirements of Wisconsin, or it could be prevented from writing new business in another jurisdiction if it fails to meet the State Capital Requirements of that jurisdiction, and in each case MGIC does not obtain a waiver of such requirements. It is possible that regulatory action by one or more jurisdictions, including those that do not have specific State Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions.

If we are unable to write business in all jurisdictions, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the future ability of our insurance operations to meet the State Capital Requirements or the PMIERs may affect its willingness to procure insurance from us. A possible future failure by MGIC to meet the State Capital Requirements or the PMIERs will not necessarily mean that MGIC lacks sufficient resources to pay claims on its insurance liabilities. While we believe MGIC has sufficient claims paying resources to meet its claim obligations on its 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.

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

Introduction

The following is management's discussion and analysis of the financial condition and results of operations of MGIC Investment Corporation for the second quarter and first six months of 2017. As used below, "we" and "our" refer to MGIC Investment Corporation's consolidated operations. This form 10-Q 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, 2016. See the "Glossary of terms and acronyms" for definitions and descriptions of terms used throughout this 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.

Through our subsidiary MGIC, we are a leading provider of PMI in the United States, as measured by $187.3 billion of primary IIF at June 30, 2017.

Overview

Summary Financial Results of MGIC Investment Corporation

(In millions, except per share data, unaudited)	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Selected statement of operations data						
Total revenues	**$ 263.3**	$ 263.5	—	**$ 524.2**	$ 522.1	—
Losses incurred, net	**27.3**	46.6	(41)	**55.0**	131.6	(58)
Loss on debt extinguishment	**0.1**	1.9	N/M	**0.1**	15.3	N/M
Income before tax	**180.6**	165.2	9	**354.6**	268.9	32
Provision for income taxes	**62.0**	56.0	11	**146.2**	90.5	62
Net income	**118.6**	109.2	9	**208.4**	178.4	17
Diluted income per share	**$ 0.31**	$ 0.26	19	**$ 0.55**	$ 0.43	28
Non-GAAP Financial Measures (1)						
Adjusted pre-tax operating income	**$ 180.7**	$ 166.3	9	**$ 354.8**	$ 280.3	27
Adjusted net operating income	**119.3**	110.0	8	**236.4**	186.2	27
Adjusted net operating income per diluted share	**$ 0.31**	$ 0.26	19	**$ 0.62**	$ 0.44	41

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

SUMMARY OF SECOND QUARTER AND YEAR TO DATE 2017 RESULTS

Comparative quarterly results

We recorded second quarter 2017 net income of $118.6 million, or $0.31 per diluted share. Net income increased by $9.4 million compared with net income of $109.2 million in the prior year, primarily due to lower losses incurred, net. In addition to the increase in net income, our diluted weighted average shares outstanding decreased from the prior year, resulting in a 19% increase in diluted income per share.

Adjusted net operating income for the second quarter 2017 was $119.3 million (Q2 2016: $110.0 million) and adjusted net operating income per diluted share was $0.31 (Q2 2016: $0.26). The 8% increase in adjusted net operating income was driven primarily by lower losses incurred, net. In addition to the increase in adjusted net operating income, our diluted weighted average shares outstanding decreased from the prior year, resulting in a 19% increase in adjusted net operating income per diluted share.

The decrease in our diluted weighted average shares during the three months ended June 30, 2017 was primarily due to the repayment at maturity of our 5% Notes on May 1, 2017.

Losses incurred, net were $27.3 million, down 41% compared to the prior year. New delinquency notices in the second quarter were 10% lower than the prior year and the claim rate applied to the new notices was approximately 11%, down from approximately 13% in the prior year. Our estimated claim rate on new notices reflects the current economic environment and anticipated cure activity on the notices received.

The increase in our provision for income taxes in the second quarter of 2017 as compared to the same period in the prior year was primarily due to an increase in our income before tax.

In June 2017, MGIC paid a dividend of $30 million to our holding company and we expect to continue to pay quarterly dividends through the remainder of the year.

Comparative year to date results

We recorded net income of $208.4 million, or $0.55 per diluted share during the first six months 2017. Net income increased by $30.0 million compared with net income of $178.4 million in the same period of 2016, primarily due to lower losses incurred, net and lower losses from debt extinguishment activity in the current year period, partially offset by an increase in our effective tax rate due to an additional provision related to our IRS litigation recorded in the first half of 2017. In addition to the increase in net income, our diluted weighted average shares outstanding decreased from the prior year, resulting in a 28% increase in diluted income per share.

Adjusted net operating income for the first six months of 2017 was $236.4 million (2016: $186.2 million) and adjusted net operating income per diluted share was $0.62 (2016: $0.44). The 27% increase in adjusted net operating income was driven primarily by lower losses incurred, net. In addition to the increase in adjusted net operating income, our weighted average shares outstanding decreased from the prior year, resulting in a 41% increase in adjusted net operating income per diluted share.

The decrease in our diluted weighted average shares during the six months ended June 30, 2017 was primarily due to the repayment at maturity of our 5% Notes on May 1, 2017.

Losses incurred, net were $55.0 million down 58% compared to the prior year. New delinquency notices in the first half of 2017 were 10% lower than the prior year and the claim rate applied to the new notices was approximately 11%, down from approximately 13% in the prior year.

Loss on debt extinguishment in the prior year reflects the repurchases of a portion of our outstanding debt at amounts above our carrying value for our 5% Notes and above fair value of the liability component for our 9% Debentures.

The increase in our provision for income taxes for the first six months of 2017 as compared to the prior year was the result of an increase in our income before tax and an additional provision recorded for the expected settlement of our IRS litigation as more fully described in Note 11 - "Income Taxes" to our consolidated financial statements. Excluding the additional provision and interest related to our IRS litigation, the effective tax rate was approximately 33.4% in the first six months of 2017, compared to 33.5% in the prior year period.

See "Consolidated Results of Operations" below for additional discussion of our results for the three and six months ended June 30, 2017 compared to the respective prior year periods.

CAPITAL

The following debt transactions were completed during the second quarter of 2017:

- *2% Notes* - In April, holders of approximately $202.5 million of the outstanding principal amount of the notes exercised their rights to convert their notes to shares of our common stock and we issued approximately 29.1 million shares of our common stock, which included newly issued shares and the reissuance of treasury stock. The remaining $5.1 million of outstanding principal amount of the notes was redeemed for cash. The conversions and cash redemptions eliminated our debt obligation for the 2% Notes and the conversions increased our shareholders' equity by the carrying value of the converted notes, including outstanding debt issuance costs. The notes redeemed for cash eliminated approximately 0.7 million potentially dilutive shares. These shares had previously been included in our calculation of diluted weighted average shares and diluted EPS up to the date of the notes redemption.
- *5% Notes* - On May 1, 2017, our 5% Notes matured and were repaid with $145 million of holding company cash. The repayment of our 5% Notes eliminated approximately 10.8 million potentially dilutive shares. These shares were included in our calculation of diluted weighted average shares and diluted EPS up to the date of the notes repayment.
- *Revolving credit facility* - In March, we borrowed $150 million on our revolving credit facility to fund, as necessary, the redemption price of our 2% Notes. In April, we repaid the amount borrowed because most holders of our 2% Notes elected to convert their notes.

The above debt transactions allowed us to lower our long-term debt to shareholders' equity ratio. As of June 30, 2017, our ratio of long-term debt to shareholders' equity was approximately 28%, down from approximately 47% as of December 31, 2016. While the repayment at maturity of our 5% Notes, partial redemption of our 2% Notes, and the repayment of the amount borrowed on our revolving credit facility reduced the cash and investments at our holding company during the second quarter, we expect to provide additional liquidity to our holding company during 2017 through quarterly dividends from MGIC.

GSEs

We must comply with the PMIERs to be eligible to insure loans purchased by the GSEs. The PMIERs include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERs require a mortgage insurer's Available Assets to equal or exceed its Minimum Required Assets. Based on our interpretation of the PMIERs, as of June 30, 2017, MGIC's Available Assets totaled approximately $4.7 billion, an excess of approximately $815 million over its Minimum Required Assets of approximately $3.8 billion. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs.

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. Factors that may negatively impact MGIC's ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs could make the PMIERs more onerous in the future; in this regard, the PMIERs provide that the 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 have informed us that they currently do not expect any updates to be effective before the fourth quarter of 2018 and we expect the GSEs will provide notice 180 days prior to the effective date of such updates. The GSEs may amend the PMIERs at any time.
- The GSEs may reduce the amount of credit they allow under the PMIERs for the risk ceded under our quota share reinsurance transactions. The GSEs' ongoing approval of those transactions is subject to several conditions and the transactions will be reviewed under the PMIERs at

least annually by the GSEs. For more information about the transactions, see Note 4 - "Reinsurance" to our consolidated financial statements.

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

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

While on an overall basis, the amount of Available Assets MGIC must hold in order to continue to insure loans purchased by the GSEs increased under the PMIERs over what state regulation currently requires, our reinsurance transactions mitigate the negative effect of the PMIERs on our returns. In this regard, see the second bullet point above.

State Regulations

The insurance laws of 16 jurisdictions, including Wisconsin, MGIC's domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to its risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the "State Capital Requirements." While they vary among jurisdictions, the most common State Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if (i) the percentage decrease in capital exceeds the percentage decrease in insured risk, or (ii) the percentage increase in capital is less than the percentage increase in insured risk. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires an MPP.

At June 30, 2017, MGIC's risk-to-capital ratio was 10.2 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $1.8 billion above the required MPP of $1.1 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transactions with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance transactions, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, refer to our risk factor titled "State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis" for more information about matters that could negatively affect such compliance.

The NAIC plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. In May 2016, a working group of state regulators released an exposure draft of a risk-based capital framework to establish capital requirements for mortgage insurers, although no date has been established by which the NAIC must propose revisions to the capital requirements. We continue to evaluate the impact of the framework contained in the exposure draft, including the potential impact of certain items that have not yet been completely addressed by the framework which include: the treatment of ceded risk, minimum capital floors, and action level triggers. Currently we believe that the PMIERs contain the more restrictive capital requirements in most circumstances.

GSE REFORM

The FHFA has been the conservator of the GSEs since 2008 and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential housing finance system through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us and that the charters of the GSEs are changed by new federal legislation. In the past, members of Congress have introduced several bills intended to change the business practices of the GSEs and the FHA; however, no legislation has been enacted. The Administration has indicated that the conservatorship of the GSEs should end; however, it is unclear whether and when that would occur and how that would impact us. 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.

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 MODIFICATIONS AND OTHER SIMILAR PROGRAMS

The federal government, including through the U.S. Department of the Treasury and the GSEs, and several lenders have modification and refinance programs to make loans more affordable to borrowers with the goal of reducing the number of foreclosures. These programs have included HAMP, which expired at the end of 2016, and HARP, which is scheduled to expire at the end of September 2017. The

GSEs have introduced the "Flex Modification" program to replace HAMP effective in October 2017. Until it becomes effective, loan servicers must still evaluate borrowers for other GSE modification programs.

During 2016 and the first half of 2017, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $0.5 billion and $0.2 billion, respectively, of estimated claim payments. These levels are down from a high of $3.2 billion in 2010.

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

As shown in the following table, as of June 30, 2017 approximately 18% of our primary RIF has been modified.

Policy year	HARP Modifications (1)	HAMP & Other Modifications
2003 and prior	11.1%	38.3%
2004	18.8%	38.7%
2005	25.4%	37.9%
2006	28.7%	37.4%
2007	39.7%	30.2%
2008	54.5%	17.9%
2009	32.6%	4.5%
2010 - Q2 2017	—%	0.2%
Total	9.3%	8.2%

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

As of June 30, 2017 based on loan count, the loans associated with 97.8% of HARP modifications and 78.1% of HAMP and other modifications were current.

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:

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

- Cancellations, which reduce IIF. Cancellations due to refinancings are affected by the level of current mortgage interest rates compared to the mortgage coupon rates throughout the in force book, current home values compared to values when the loans in the in force book were insured and the terms on which mortgage credit is available. Home price appreciation can give homeowners the right to cancel mortgage insurance on their loans if sufficient home equity is achieved. Cancellations also result from policy rescissions, which require us to return any premiums received on the rescinded policies and claim payments, which require us to return any premium received on the related policies from the date of default on the insured loans. Cancellations of single premium policies, which are generally non-refundable, results in immediate recognition of any remaining unearned premium.

- Premium rates, which are affected by product type, competitive pressures, the risk characteristics of the insured loans and the percentage of coverage on the insured loans. The substantial majority of our monthly and annual mortgage insurance premiums are under premium plans for which, for the first ten years of the policy, the amount of premium is determined by multiplying the initial premium rate by the original loan balance; thereafter, the premium resets and a lower premium rate is used for the remaining life of the policy. However, for loans that have utilized HARP, the initial ten-year period resets as of the date of the HARP transaction. The remainder of our monthly and annual premiums are under premium plans for which premiums are determined by a fixed percentage of the loan's amortizing balance over the life of the policy.

- Premiums ceded, net of a profit commission, under reinsurance agreements. See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of our 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 IIF in the current period compared to an earlier period is a factor that will increase (when the average in force is higher) or reduce (when it is lower) premiums written and earned in the current period, although this effect may be enhanced (or mitigated) by differences in the average premium rate between the two periods as well as by premiums that are returned or expected to be returned in connection with claim payments and rescissions, and premiums ceded under reinsurance agreements. Also, NIW 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 composed principally of investment grade fixed income securities. The principal factors that influence investment income are the size of the portfolio and its yield. As measured by amortized cost (which excludes changes in fair value, such as from changes in interest rates), the size of the investment portfolio is mainly a function of cash generated from (or used in) operations, such as NPW, investment income, net claim payments and expenses, and cash provided by (or used for) non-operating activities, such as debt or stock issuances or repurchases.

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. 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. Losses incurred are generally affected by:

- The state of the economy, including unemployment and housing values, each of which affects the likelihood that loans will become delinquent and whether loans that are delinquent cure their delinquency.

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

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

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

- The rate at which we rescind policies or curtail claims. Our estimated loss reserves incorporate our estimates of future rescissions of policies and curtailments of claims, and reversals of rescissions and curtailments. We collectively refer to such rescissions and denials as "rescissions" and variations of this term. We call reductions to or denials of claims "curtailments."

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

- Losses ceded under reinsurance agreements. See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance agreements.

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. See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance agreements.

Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. For information about our outstanding debt obligations, see Note 3 - "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" below.

Other

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

Net realized investment gains (losses)

Realized gains and losses are a function of the difference between the amount received on the sale of a security and the security's cost basis, as well as any "other than temporary" impairments ("OTTI") 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.

Loss on debt extinguishment

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

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

MORTGAGE INSURANCE EARNINGS AND CASH FLOW CYCLE

In general, the majority of any underwriting profit that a book generates occurs in the early years of the book, with the largest portion of any underwriting profit realized in the first year following the year the book was written. Subsequent years of a book generally result in either less underwriting profit or in 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 revenue, as the number of insured loans decreases (primarily due to loan prepayments) and increasing losses. The typical pattern is also a function of premium rates generally resetting to lower levels after ten years.

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

Non-GAAP financial measures

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

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

Adjusted net operating income (loss) is defined as GAAP net income (loss) excluding the after-tax effects of net realized investment gains (losses), gain (loss) on debt extinguishment, net impairment losses recognized in income (loss), and infrequent or unusual non-operating items where applicable. The amounts of adjustments to GAAP income (loss) before tax are generally tax effected using a federal statutory tax rate of 35%.

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

Although pretax operating income (loss) and net operating income (loss) exclude certain items that have occurred in the past and are expected to occur in the future, the excluded items are: (1) not viewed as part of the operating performance of our primary activities; or (2) impacted by both discretionary and other economic factors and are not necessarily indicative of operating trends. These adjustments, along with the reasons for their treatment, are described below. Other companies may calculate these measures differently, and, therefore, their measures may not be comparable to those used by us.

(1) *Net realized investment gains (losses).* The recognition of net realized investment gains or losses can vary significantly across periods as the timing of individual securities sales is highly discretionary and is influenced by such factors as market opportunities, our tax and capital profile, and overall market cycles.

Trends in the profitability of our fundamental operating activities can be more clearly identified without the fluctuations of these realized gains and losses.

(2) *Gains and losses on debt extinguishment.* Gains and losses on debt extinguishment result from discretionary activities that are undertaken to enhance our capital position, improve our debt profile, and/or reduce potential dilution from our outstanding convertible debt.

(3) *Net impairment losses recognized in earnings.* The recognition of net impairment losses on investments can vary significantly in both size and timing, depending on market credit cycles, individual issuer performance, and general economic conditions.

(4) *Infrequent or unusual non-operating items.* In 2017, this adjustment reflects income tax expense related to our IRS dispute, which is related to past transactions which are non-recurring in nature and are not part of our primary operating activities.

Non-GAAP Reconciliations

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

	Three Months Ended June 30,					
	2017			2016		
(In thousands, except per share amounts)	**Pre-tax**	**Tax provision (benefit)**	**Net (after-tax)**	Pre-tax	Tax provision (benefit)	Net (after-tax)
Income before tax / Net income	**$ 180,616**	**$ 61,994**	**$ 118,622**	$ 165,239	$ 56,018	$ 109,221
Adjustments:						
Additional income tax provision related to IRS litigation	**—**	**(559)**	**559**	—	(152)	152
Net realized investment losses (gains)	**42**	**15**	**27**	(836)	(293)	(543)
Loss on debt extinguishment	**65**	**23**	**42**	1,868	654	1,214
Adjusted pre-tax operating income / Adjusted net operating income	**$ 180,723**	**$ 61,473**	**$ 119,250**	$ 166,271	$ 56,227	$ 110,044

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

	2017	2016
Weighted average diluted shares outstanding	**394,470**	446,139
Net income per diluted share	**$ 0.31**	$ 0.26
Additional income tax provision related to IRS litigation	**—**	—
Net realized investment losses (gains)	**—**	—
Loss on debt extinguishment	**—**	—
Adjusted net operating income per diluted share	**$ 0.31**	$ 0.26

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

	Six Months Ended June 30,					
	2017			2016		
(In thousands, except per share amounts)	**Pre-tax**	**Tax provision (benefit)**	**Net (after-tax)**	Pre-tax	Tax provision (benefit)	Net (after-tax)
Income before tax / Net income	**$ 354,573**	**$ 146,153**	**$ 208,420**	$ 268,927	$ 90,515	$ 178,412
Adjustments:						
Additional income tax provision related to IRS litigation	**—**	**(27,783)**	**27,783**	—	(341)	341
Net realized investment losses (gains)	**164**	**57**	**107**	(3,892)	(1,362)	(2,530)
Loss on debt extinguishment	**65**	**23**	**42**	15,308	5,358	9,950
Adjusted pre-tax operating income / Adjusted net operating income	**$ 354,802**	**$ 118,450**	**$ 236,352**	$ 280,343	$ 94,170	$ 186,173

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

	2017	2016
Weighted average diluted shares outstanding	**398,302**	450,354
Net income per diluted share	**$ 0.55**	$ 0.43
Additional income tax provision related to IRS litigation	**0.07**	—
Net realized investment losses (gains)	**—**	(0.01)
Loss on debt extinguishment	**—**	0.02
Adjusted net operating income per diluted share	**$ 0.62**	$ 0.44

Mortgage Insurance Portfolio

NEW INSURANCE WRITTEN

According to *Inside Mortgage Finance* and GSE estimates, total mortgage originations for the second quarter and first six months of 2017 decreased from the respective prior year periods due to a decline in refinance originations that was somewhat offset by an increase in purchase originations. Total mortgage originations in the second quarter of 2017 are estimated to have been higher than the first quarter primarily due to seasonal factors. PMI market share of total mortgage originations is generally influenced by the mix of purchase and refinance originations as PMI market share is 3-4 times higher for purchase originations than refinance originations. PMI market share is also impacted by the market share of total originations for FHA, VA, and USDA.

NIW for the second quarter of 2017 was $12.9 billion (Q2 2016: $12.6 billion) and for the first half of 2017 was $22.2 billion (YTD 2016: $20.9 billion) and continued to have what we believe are favorable risk characteristics (see tables 01 and 02). The percentage of purchase mortgages insured increased in the three and six months ended June 30, 2017 compared to the same periods of the prior year because the level of refinance transactions declined as mortgage interest rates in the current year were generally higher than those in the latter half of 2016, and the prior year periods experienced declining mortgage interest rates (see table 04).

01 PRIMARY NIW BY FICO SCORE IN BILLIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
740 and greater	**58.9%**	58.1%	**58.9%**	56.7%
700-739	**26.0%**	25.6%	**26.0%**	25.9%
660-699	**11.9%**	13.0%	**11.9%**	13.7%
659 and less	**3.2%**	3.3%	**3.2%**	3.7%

02 LOAN-TO-VALUE % OF PRIMARY NIW

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
95.01% and above	**9.7%**	5.4%	**9.0%**	5.1%
90.01% to 95.00%	**48.1%**	49.7%	**47.7%**	50.1%
85.01% to 90.00%	**29.9%**	31.4%	**30.1%**	31.8%
80.01% to 85%	**12.3%**	13.5%	**13.2%**	13.0%

03 POLICY PAYMENT TYPE % OF PRIMARY NIW

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
Monthly premiums	**81.7%**	78.5%	**82.3%**	78.3%
Single premiums	**18.0%**	21.2%	**17.4%**	21.4%
Annual premiums	**0.3%**	0.3%	**0.3%**	0.3%

04 TYPE OF MORTGAGE % OF PRIMARY NIW

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
Purchases	**91.3%**	83.1%	**87.9%**	82.7%
Refinances	**8.7%**	16.9%	**12.1%**	17.3%

INSURANCE AND RISK IN FORCE (see table 05)

The amount of our IIF and RIF is impacted by the amount of NIW and cancellations of primary IIF during the period. Cancellation activity is primarily due to refinancing activity, but is also impacted by rescissions, cancellations due to claim payment, and policies cancelled when borrowers achieve the required amount of home equity. Refinancing activity has historically been affected by the level of mortgage interest rates and the level of home price appreciation. Cancellations generally move inversely to the change in the direction of interest rates, although they generally lag a change in direction.

Persistency

Our persistency was 77.8% at June 30, 2017 compared to 76.9% at December 31, 2016 and 79.6% at June 30, 2016. 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. With the current and expected level of mortgage interest rates we expect a low level of refinance activity and that our persistency will trend higher during 2017 from the level experienced at the end of 2016.

05 INSURANCE AND RISK IN FORCE IN BILLIONS

(In billions)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
NIW	**$ 12.9**	$ 12.6	**$ 22.2**	$ 20.9
Cancellations	**(9.1)**	(10.1)	**(16.9)**	(17.9)
Increase in primary IIF	**$ 3.8**	$ 2.5	**$ 5.3**	$ 3.0

(In billions)	As of June 30, 2017	June 30, 2016
Direct primary IIF	**$ 187.3**	$ 177.5
Direct primary RIF	**$ 48.5**	$ 46.2

CREDIT PROFILE OF OUR PRIMARY RIF (see table 06)

Our total primary RIF written after 2008 as a percentage of total primary RIF has been steadily increasing. Our 2009 and later books possess significantly improved credit characteristics when compared to our 2005-2008 books. The loans we insured beginning in 2009, on average, have substantially higher FICO scores and lower LTVs than those insured in 2005-2008. The credit profile of our RIF has also benefited from programs such as HARP. HARP allows borrowers who are not delinquent, but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, due to, for example, the current LTV exceeding 100%, to refinance and lower their note rate. Loans associated with 97.8% of all of our HARP modifications were current as of June 30, 2017. The aggregate of our 2009-2017 book years and our HARP modifications accounted for approximately 83% of our total primary RIF at June 30, 2017 (see table 06).

06 PRIMARY RIF IN BILLIONS

	June 30, 2017		December 31, 2016		June 30, 2016	
Policy Year	**RIF**	**% of RIF**	RIF	% of RIF	RIF	% of RIF
2009+	**$ 35,996**	**74%**	$ 33,368	71%	$ 30,762	66%
2005 - 2008 (HARP)	**4,169**	**8%**	4,489	9%	4,913	11%
Other years (HARP)	**354**	**1%**	396	1%	455	1%
Subtotal	**40,519**	**83%**	38,253	81%	36,130	78%
Other years (Non-HARP)	**1,292**	**3%**	1,475	3%	1,686	4%
2005- 2008 (Non-HARP)	**6,660**	**14%**	7,467	16%	8,419	18%
Subtotal	**7,952**	**17%**	8,942	19%	10,105	22%
Total Primary RIF	**$ 48,471**	**100%**	$ 47,195	100%	$ 46,235	100%

Pool insurance

MGIC has written no new pool insurance since 2009, however, for a variety of reasons, including responding to capital market alternatives to PMI and customer demands, MGIC may write pool risk in the future. Our direct pool risk in force was $506 million ($239 million on pool policies with aggregate loss limits and $267 million on pool policies without aggregate loss limits) at June 30, 2017 compared to $547 million ($244 million on pool policies with aggregate loss limits and $303 million on pool policies without aggregate loss limits) at December 31, 2016. If claim payments associated with a specific pool reach the aggregate loss limit, the remaining IIF within the pool would be cancelled and any remaining defaults under the pool would be removed from our default inventory.

Consolidated Results of Operations

The following section of the MD&A provides a comparative discussion of MGIC Investment Corporation's Consolidated Results of Operations for the three and six months ended June 30, 2017 and 2016.

Revenues

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2017**	2016	% Change	**2017**	2016	% Change
Net premiums written	**$ 245.8**	$ 250.0	(2)	**$ 482.5**	$ 481.3	—
Net premiums earned	**$ 231.1**	$ 231.5	—	**$ 460.2**	$ 452.8	2
Investment income, net of expenses	**29.7**	27.2	9	**59.2**	55.1	7
Net realized investment (losses) gains	**—**	0.8	N/M	**(0.2)**	3.9	N/M
Other revenue	**2.5**	4.0	(38)	**4.9**	10.4	(53)
Total revenues	**$ 263.3**	$ 263.5	—	**$ 524.1**	$ 522.2	—

NET PREMIUMS WRITTEN AND EARNED

Comparative quarterly results

NPW declined 2% due to lower premium rates on our IIF and a decrease in premiums from single premium policies. NPE declined marginally due to lower premiums from our IIF during the period, mostly offset by declines in ceded premiums and premium refunds when compared to the prior year.

Comparative year to date results

NPW was relatively consistent with the prior year reflecting lower premium rates on our IIF and a decrease in premiums from single premium policies, mostly offset by a decline in ceded premiums. NPE increased 2% due to declines in premium refunds and ceded premiums, offset in part by a decrease in premiums from our IIF during the period compared to the prior year.

See *"Overview - Factors Affecting Our Results"* above for additional factors that influenced the amount of net premiums written and earned during the period.

Premium Yield (see table 07)

Premium yield (NPE divided by average IIF) decreased from the prior year periods to 49.9 and 50.0 basis points for Q2 and YTD 2017, respectively, (Q2 2016: 52.5 basis points, YTD 2016: 51.6 basis points) and is influenced by a number of key drivers, which have a varying impact from period to period.

The decline in our premium yield compared to the respective prior year periods reflects:

- A larger percentage of our earned premiums generated from IIF book years with lower premium rates due to a decline in premium rates in recent periods and a portion of our book years undergoing premium rate resets on their ten-year anniversary, as well as less of a positive impact from acceleration of premium recognition upon cancellation of single premium policies; offset in part by,
- less of an adverse impact from premium refunds and reinsurance, each primarily due to lower claim activity.

The following table reconciles our premium yield for the three and six months ended June 30, 2017 from the respective prior year periods.

07 **PREMIUM YIELD** IN BASIS POINTS

	Three Months Ended	Six Months Ended
Premium yield - June 30, 2016	52.5	51.6
Reconciliation:		
Change in premium rates	**(3.6)**	**(3.6)**
Change in premium refunds and accruals	**0.7**	**1.4**
Single premium policy persistency	**(0.5)**	**(0.4)**
Reinsurance	**0.8**	**1.0**
Premium yield - June 30, 2017	**49.9**	**50.0**

Reinsurance agreements (see tables 08 and 09)

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

- We cede a fixed percentage of premiums on insurance covered by the agreements.

- We receive the benefit of a profit commission through a reduction in the premiums we cede. The profit commission varies directly and inversely with the level of losses on a “dollar for dollar” basis and is eliminated at levels of losses that we do not expect to occur. As a result, lower levels of losses result in a higher profit commission and less benefit from ceded losses; higher levels of losses result in more benefit from ceded losses and a lower profit commission (or for levels of losses we do not expect, its elimination).

- We receive the benefit of a ceding commission through a reduction in underwriting expenses equal to 20% of premiums ceded (before the effect of the profit commission).

- We cede a fixed percentage of losses incurred on insurance covered by the agreements.

The effects described above result in a net cost of the reinsurance, with respect to a covered loan, of 6% (but can be lower if losses are materially higher than we expect). This cost is derived by dividing the reduction in our pre-tax net income from such loans with reinsurance by our direct (that is, without reinsurance) premiums from such loan. Although the net cost of the reinsurance is generally constant at 6%, the effect of the reinsurance on the various components of pre-tax income discussed above will vary from period to period, depending on the level of ceded losses.

The amount of our NIW subject to our QSR Transactions (see table 08) will vary from period to period due to loan level exclusion terms. For example, our 2017 QSR Transaction excludes NIW with amortization terms of 20 years or less, but allows higher limits on debt-to-income and loan levels than our 2015 QSR Transaction. In addition, the QSR Transactions contain coverage thresholds that may be triggered depending on the mix of our risk written during the period.

The following table provides additional information related to our reinsurance agreements for 2017 and 2016.

08 QUOTA SHARE REINSURANCE

	As of and For the Six Months Ended June 30,	
($ in thousands, unless otherwise stated)	**2017**	2016
NIW subject to quota share reinsurance agreements	**87%**	90%
IIF subject to quota share reinsurance agreements	**78%**	75%
Statements of operations:		
Ceded premiums written, net	**$ 57,812**	$ 61,627
% of direct premiums written	**11%**	11%
Ceded premiums earned, net	**$ 57,812**	$ 61,627
% of direct premiums earned	**11%**	12%
Profit commission	**$ 63,442**	$ 55,982
Ceding commissions	**$ 24,251**	$ 23,522
Ceded losses incurred	**$ 9,111**	$ 14,583
Mortgage insurance portfolio:		
Ceded RIF *(in millions)*	**$ 11,286**	$ 10,313

09 CAPTIVE REINSURANCE

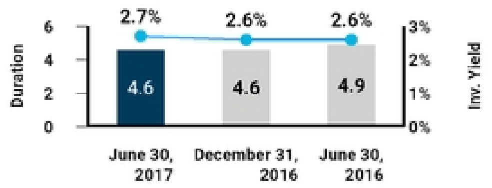
	As of and For the Six Months Ended June 30,	
($ in thousands)	**2017**	2016
IIF subject to captive reinsurance agreements	**1%**	2%
Statements of operations:		
Ceded premiums written	**$ 2,519**	$ 4,630
% of direct premiums written	**0.5%**	0.8%
Ceded premiums earned	**$ 2,542**	$ 4,679
% of direct premiums earned	**0.5%**	0.9%

INVESTMENT INCOME

Comparative quarterly and year to date results

Net investment income in the second quarter of 2017 was $29.7 million, up from $27.2 million in the prior year period. Net investment income in the first six months of 2017 was $59.2 million, up from $55.1 million in the prior year period. The increase in investment income in both periods was due to an increase in the average balance of the investment portfolio along with higher investment yields (see chart 10) over the periods.

10 **PORTFOLIO DURATION** IN YEARS
INVESTMENT YIELD % OF AVERAGE INVESTMENT PORTFOLIO ASSETS



NET REALIZED INVESTMENT (LOSSES) GAINS

Comparative quarterly and year to date results

Net realized losses for the second quarter and first six months of 2017 were immaterial to our consolidated financial statements in both periods, whereas we recorded net realized gains of $0.8 million and $3.9 million for the second quarter and first six months of 2016, respectively.

The net unrealized gains (losses) position of our investment portfolio (see chart 11) as of June 30, 2017 and December 31, 2016 is as follows.

11 **NET UNREALIZED INVESTMENT GAINS (LOSSES)** IN MILLIONS

OTHER REVENUE

Comparative quarterly results

Other revenue for the second quarter of 2017 was $2.5 million, down from $4.0 million in the prior year primarily due to a decline in contract underwriting fees.

Comparative year to date results

Other revenue for the first six months of 2017 was $4.9 million, down from $10.4 million in the prior year period. Contract underwriting fees were lower in the current year and the prior year included approximately $4 million of gains recognized upon the substantial liquidation of our Australian operations resulting from changes in foreign currency exchange rates.

Losses and expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2017**	2016	**2017**	2016
Losses incurred, net	**$ 27.3**	$ 46.6	**$ 55.0**	$ 131.6
Amortization of deferred policy acquisition costs	**2.6**	2.2	**4.8**	4.2
Other underwriting and operating expenses, net	**38.5**	35.3	**79.3**	75.1
Interest expense	**14.2**	12.2	**30.5**	26.9
Loss on debt extinguishment	**0.1**	1.9	**0.1**	15.3
Total losses and expenses	**$ 82.7**	$ 98.2	**$ 169.7**	$ 253.1

LOSSES INCURRED, NET

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 borrower income and thus their ability to make mortgage payments, and a drop in housing values that could result in, among other things, greater losses on loans, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new notice activity and a lower cure rate. 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 consolidated results of operations and capital position, even in a stable economic environment.

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Losses incurred, net (see table 12)

Comparative quarterly results

Losses incurred, net in the second quarter of 2017 decreased 41% to $27 million compared to $47 million in the prior year. The decrease was due to a decrease in losses and LAE incurred on defaults reported in the current year, offset in part, by a lower amount of favorable development on prior year defaults. Losses incurred on current year defaults declined due to a 10% reduction in new notices received and a lower claim rate on new notices (see chart 14). Favorable development on prior year defaults occurred in the second quarter of 2017 and 2016 due to a lower claim rate on those defaults, offset in part, by increases in our severity assumption (see table 16).

Comparative year to date results

Losses incurred, net in the first six months of 2017 decreased 58% to $55 million compared to $132 million in the prior year. The decrease was due to a decrease in losses and LAE incurred on defaults reported in the current year and higher favorable development on prior year defaults. Losses incurred on current year defaults declined due to a 10% reduction in new notices received and a lower claim rate on new notices (see chart 14). Favorable development on prior year defaults occurred in both the 2017 and 2016 period due to a lower claim rate on those defaults, offset in part, by increases in our severity assumption. The increases in our severity assumption generally reflect a rising trend in our average claim paid (see table 16).

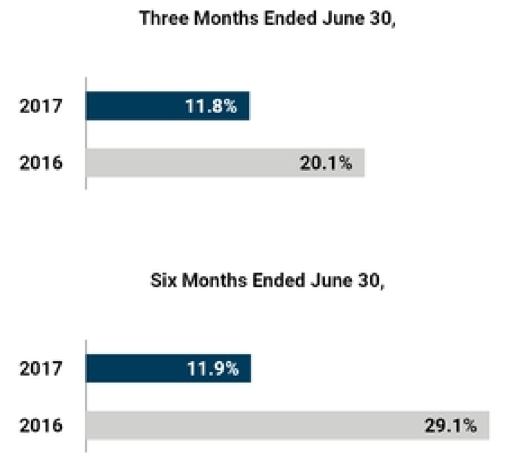
12 **COMPOSITION OF LOSSES INCURRED**
$ IN MILLIONS

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Current year / New notices	**$ 78.5**	$ 104.1	(25)	**$ 158.9**	$ 196.5	(19)
Prior year reserve development	**(51.2)**	(57.5)	(11)	**(103.9)**	(64.9)	60
Losses incurred, net	**$ 27.3**	$ 46.6	(41)	**$ 55.0**	$ 131.6	(58)

Loss Ratio (see chart 13)

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 decline in the loss ratio in the three and six months ended June 30, 2017 compared to the respective prior year periods was primarily due to a lower level of losses incurred, net.

13 **LOSS RATIO**



New Notice Claim Rate (see chart 14)

- Q2 2017: ~11% compared to Q2 2016: ~13%
- YTD 2017: ~11% compared to YTD 2016: ~13%
- The new notice claim rate for the second quarter of 2017 increased from that in the first quarter (Q1 2017: ~10.5%) which is directionally consistent with the seasonal pattern in which we experience better cure rates early in the year. The quarterly new notice claim rate during 2016 generally ranged from 12% to 13% and we expect our new notice claim rates during 2017 to be lower than the comparable 2016 rates.
- New notice activity continues to be primarily driven by loans insured in 2008 and prior (see chart 15), which continue to experience a cycle whereby many loans default, cure, and re-default. This cycle, along with the duration that defaults may ultimately remain in our notice inventory, results in significant judgment in establishing the estimated claim rate.

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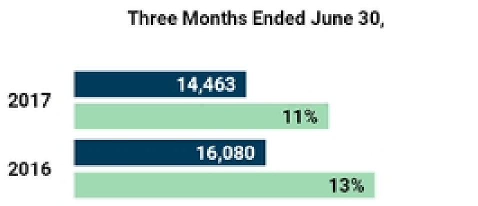
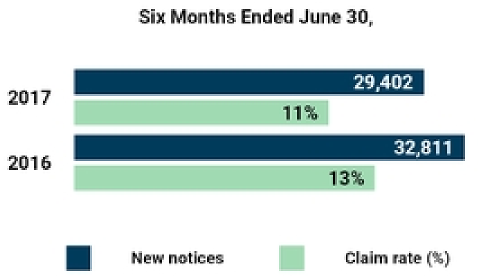
14 PRIMARY NEW NOTICES IN VOLUME NEW NOTICE CLAIM RATE (1)(2) %

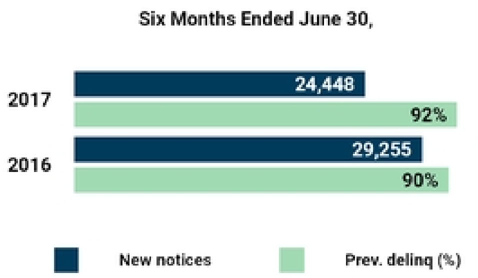


(1) Claim rate is the approximate quarterly rate.



(2) Claim rate is the approximate year-to-date rate.

15 NEW NOTICES FROM BOOK YEARS 2008 AND PRIOR IN VOLUME PREVIOUSLY DELINQUENT %



Claims Severity (see table 16)

Factors that impact claim severity include the exposure on the loan (the unpaid principal balance of the loan times our insurance coverage percentage), the amount of time between default and claim filing (which impacts the amount of interest and expenses) and curtailments. All else being equal, the longer the period between default and claim filing, the greater the severity. The majority of loans from 2005-2008 (which represent the majority of loans in the delinquent inventory) are covered by master policy terms that, except under certain circumstances, do not limit the number of years that an insured can include interest when filing a claim if they comply with their obligations under the terms of the master policy.

Changes in our severity estimates resulted in unfavorable development on defaults that occurred in prior years in each of the six months ended June 30, 2017 and 2016, with a higher amount of unfavorable development in the 2016 period. As shown in the following table, the average paid claim, expressed as a percentage of our exposure, following periods of stability increased resulting in a higher severity estimates.

16 CLAIMS SEVERITY TREND

Note: Table excludes material settlements(1).

Period	Average exposure on claim paid	Average claim paid	% Paid to exposure	Average number of missed payments at claim received date
Q2 2017	**$ 44,747**	**$ 49,105**	**109.7%**	**35**
Q1 2017	$ 44,238	$ 49,110	111.0%	35
Q4 2016	43,200	48,297	111.8%	35
Q3 2016	43,747	48,050	109.8%	34
Q2 2016	43,709	47,953	109.7%	35
Q1 2016	44,094	49,281	111.8%	34
Q4 2015	44,342	49,134	110.8%	35
Q3 2015	44,159	48,156	109.1%	33
Q2 2015	44,683	48,587	108.7%	34
Q1 2015	44,403	47,366	106.7%	33

(1) Settlements include amounts paid in settlement disputes for claims paying practices and NPL settlements.

In considering the potential sensitivity of the factors underlying our estimate of loss reserves, it is possible that even a relatively small change in our estimated claim rate or severity could have a material impact on reserves and, correspondingly, on our consolidated results of operations even in a stable economic environment. For example, as of June 30, 2017, assuming all other factors remain constant, a $1,000 increase/decrease in the average severity reserve factor would change the reserve amount by approximately +/- $22 million. A 1 percentage point increase/decrease in the average claim rate reserve factor would change the reserve amount by approximately +/- $23 million.

See Note 12 – "Loss Reserves" to our consolidated financial statements for a discussion of our losses incurred and claims paying practices (including curtailments).

Net losses and LAE paid

Net losses and LAE paid in the three months ended June 30, 2017 compared to the prior year were relatively unchanged due to losses paid in the current year period under settlement agreements offsetting the decline in losses paid on our primary and pool RIF. Net losses and LAE paid in the six months ended June 30, 2017 declined 24% due to lower claim activity on our primary and pool business and a reduction in losses paid under settlement agreements. The credit profile of our RIF continues to improve and we believe paid claims will continue to decline in 2017 compared to 2016.

The following table presents our net losses and LAE paid for the three and six months ended June 30, 2017 and 2016.

Net Losses and LAE Paid

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2017**	2016	**2017**	2016
Total primary (excluding settlements)	**$ 126**	$ 153	**$ 256**	$ 319
Claims paying practices and NPL settlements(1)	**45**	4	**45**	51
Pool (2)	**4**	14	**6**	28
Direct losses paid	**175**	171	**307**	398
Reinsurance	**(6)**	(4)	**(15)**	(14)
Net losses paid	**169**	167	**292**	384
LAE	**4**	5	**9**	10
Net losses and LAE paid	**$ 173**	$ 172	**301**	$ 394

(1) See Note 12 - "Loss Reserves" for additional information on our settlements of disputes for claims paying practices and NPL settlements.

(2) The three and six months ended June 30, 2016 includes $11 million and $21 million, respectively, paid under the terms of the settlement with Freddie Mac. The final payment under this settlement was made on December 1, 2016.

Primary claims paid for the top 15 jurisdictions (based on 2017 losses paid) and all other jurisdictions for the three and six months ended June 30, 2017 and 2016 appears in the following table.

Paid Losses by Jurisdiction

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2017**	2016	**2017**	2016
New Jersey	**$ 18**	$ 15	**35**	$ 31
Florida	**14**	24	**30**	50
New York	**11**	8	**21**	16
Illinois	**7**	12	**15**	23
Pennsylvania	**6**	7	**14**	14
Maryland	**7**	7	**14**	16
Puerto Rico	**5**	4	**10**	8
California	**6**	6	**10**	13
Ohio	**4**	5	**8**	10
Massachusetts	**4**	3	**8**	7
Connectictut	**3**	3	**6**	7
Georgia	**2**	3	**6**	7
Indiana	**3**	2	**5**	5
Virginia	**2**	3	**5**	8
Washington	**2**	5	**5**	9
All other jurisdictions	**32**	46	**64**	95
Total primary (excluding settlements)	**$ 126**	$ 153	**256**	319

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

The primary average claim paid for the top 5 states (based on 2017 losses paid) for the three and six months ended June 30, 2017 and 2016 appears in the following table.

Primary Average Claim Paid

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
New Jersey	**$ 85,846**	$ 77,922	$ 86,363	$ 81,898
Florida	**64,355**	59,824	65,712	62,039
New York	**79,821**	69,563	82,911	67,408
Illinois	**43,363**	48,778	46,506	48,586
Pennsylvania	**42,146**	44,040	44,581	43,224
All other jurisdictions	**41,465**	41,779	40,714	42,546
All jurisdictions	**49,105**	47,953	49,108	48,635

Note: Jurisdictions in italics in the table above are those that predominately use a judicial foreclosure process, which generally increases the amount of time it takes for a foreclosure to be completed.

The primary average exposure of our primary RIF at June 30, 2017, December 31, 2016 and June 30, 2016 and for the top 5 jurisdictions (based on 2017 losses paid) appears in the following table.

Primary Average Exposure

	June 30, 2017	December 31, 2016	June 30, 2016
New Jersey	**$ 63,785**	$ 63,351	$ 62,795
Florida	**50,286**	49,908	49,650
New York	**52,373**	52,006	51,623
Illinois	**41,162**	40,696	40,707
Pennsylvania	**45,031**	44,213	43,675
All other jurisdictions	**48,036**	47,038	46,272
All jurisdictions	**48,163**	47,276	46,604

Loss reserves

Our primary default rate at June 30, 2017 was 4.11% (YE 2016: 5.04%, June 30, 2016: 5.30%). Our primary default inventory was 41,317 loans at June 30, 2017, representing a decrease of 18% from December 31, 2016 and 21% from June 30, 2016. The reduction in our primary default inventory is the result of the total number of defaulted loans: (1) that have cured; (2) for which claim payments have been made; or (3) that have resulted in rescission, claim denial, or removal from inventory due to settlements, collectively exceeding the total number of new defaults on insured loans. In recent periods we have experienced improved cure rates and the overall mix of our default inventory, as represented by the number of missed payments, has improved compared to the prior years. As of June 30, 2017, the percentage of our default inventory that has 12 or more missed payments was 36% (YE 2016: 38%, June 30, 2016: 43%). Generally, the fewer missed payments a defaulted loan has the lower the likelihood it will result in a claim. We expect our default inventory to continue to decline in 2017 from 2016 levels; however, the pace of decline is expected to moderate as our more recent books naturally season.

The gross reserves at June 30, 2017, December 31, 2016 and June 30, 2016 appear in the table below.

Gross Reserves	**June 30, 2017**		December 31, 2016		June 30, 2016	
Primary:						
Direct loss reserves (in millions)	**$ 1,093**		$ 1,334		$ 1,483	
IBNR and LAE	**72**		79		91	
Total primary loss reserves	**$ 1,165**		$ 1,413		$ 1,574	
Ending default inventory		**41,317**		50,282		52,558
Percentage of loans delinquent (default rate)		**4.11%**		5.04%		5.30%
Average total primary loss reserves per default		**$ 28,206**		$ 28,104		$ 29,939
Primary claims received inventory included in ending default inventory		**1,258**		1,385		1,829
Pool(1)**:**						
Direct loss reserves (in millions):						
With aggregate loss limits	**$ 15**		$ 18		$ 29	
Without aggregate loss limits	**6**		7		8	
Reserve related to Freddie Mac Settlement(2)	**—**		—		21	
Total pool direct loss reserves	**$ 21**		$ 25		$ 58	
Ending default inventory:						
With aggregate loss limits		**1,124**		1,382		1,492
Without aggregate loss limits		**387**		501		532
Total pool ending default inventory		**1,511**		1,883		2,024
Pool claims received inventory included in ending default inventory		**63**		72		95
Other gross reserves (in millions)	**$ 1**		$ 1		$ —	

(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. As of December 31, 2016 we had completed our obligation under this settlement agreement.

The primary default inventory for the top 15 jurisdictions (based on 2017 losses paid) at June 30, 2017, December 31, 2016 and June 30, 2016 appears in the following table.

Primary Default Inventory by Jurisdiction

	June 30, 2017	December 31, 2016	June 30, 2016
New Jersey	**2,003**	2,586	2,878
Florida	**3,311**	4,150	4,626
New York	**2,587**	3,171	3,377
Illinois	**2,195**	2,649	2,748
Pennsylvania	**2,488**	2,984	3,003
Maryland	**1,098**	1,312	1,344
Puerto Rico	**1,614**	1,844	2,012
California	**1,371**	1,590	1,660
Ohio	**2,096**	2,614	2,726
Massachusetts	**867**	1,108	1,192
Connecticut	**577**	690	698
Georgia	**1,577**	1,853	1,864
Indiana	**1,246**	1,532	1,593
Virginia	**705**	885	932
Washington	**589**	754	851
All other jurisdictions	**16,993**	20,560	21,054
Total primary default inventory	**41,317**	50,282	52,558

Note: Jurisdictions in italics in the table above are those that predominately use a judicial foreclosure process, which generally increases the amount of time it takes for a foreclosure to be completed.

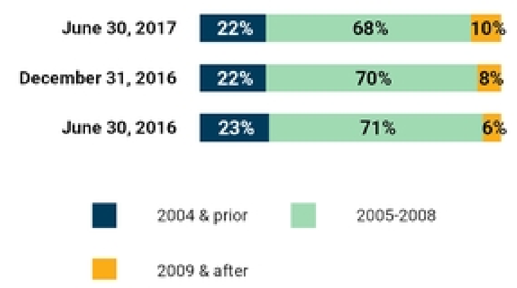
The primary default inventory by policy year at June 30, 2017, December 31, 2016 and June 30, 2016 appears in the following table.

Primary Default Inventory by Policy Year

	June 30, 2017	December 31, 2016	June 30, 2016
Policy year:			
2004 and prior	**9,016**	11,116	12,134
2005	**4,739**	5,826	6,479
2006	**7,476**	9,267	9,928
2007	**12,642**	15,816	16,564
2008	**3,352**	4,140	4,376
2009	**319**	421	424
2010	**178**	222	214
2011	**203**	246	242
2012	**327**	364	332
2013	**581**	686	595
2014	**1,044**	1,142	846
2015	**947**	814	405
2016	**469**	222	19
2017	**24**	—	—
Total primary default inventory	**41,317**	50,282	52,558

Our results of operations continue to be negatively impacted by the mortgage insurance we wrote during 2005 through 2008 (see chart 17). Although uncertainty remains with respect to the ultimate losses we may experience on those books of business, as we continue to write new insurance on high-quality mortgages, those books have become a smaller percentage of our total portfolio, and we expect this trend to continue. Our 2005 through 2008 books of business represented approximately 23% and 25% of our total primary RIF at June 30, 2017 and December 31, 2016, respectively. Approximately 38% of the remaining primary RIF on our 2005-2008 books of business benefited from HARP as of June 30, 2017 and December 31, 2016.

17 **DEFAULT INVENTORY MIX BY BOOK YEAR**
% OF TOTAL INVENTORY



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 claim 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 June 30, 2017, 50% of our primary RIF was written subsequent to December 31, 2014, 61% of our primary RIF was written subsequent to December 31, 2013, and 67% of our primary RIF was written subsequent to December 31, 2012.

UNDERWRITING AND OTHER EXPENSES, NET

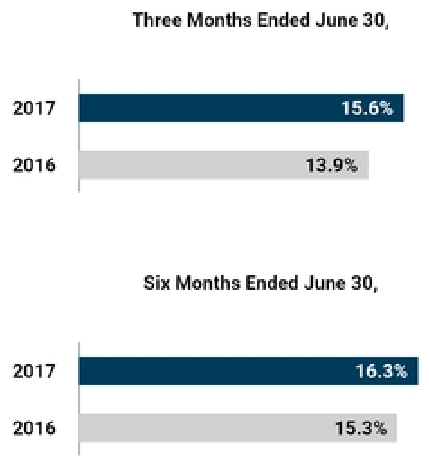
Comparative quarterly and year to date results

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

Underwriting and other expenses, net for the three and six months ended June 30, 2017 were $38.5 million and $79.3 million, respectively, up from $35.3 million and $75.1 million in the respective prior year periods. The increases were due to higher depreciation and compensation expenses.

Underwriting expense ratio (see chart 18). The underwriting expense ratio is the ratio, expressed as a percentage, of the underwriting and operating expenses, net and amortization of DAC of our combined insurance operations (which excludes underwriting and operating expenses of our non-insurance operations) to NPW. The underwriting expense ratio in the each of the three and six months ended June 30, 2017 increased compared to the respective prior year periods. The increase in the ratio in both periods was primarily due to higher depreciation and compensation expenses in the current year periods; however the three months ended June 30, 2017 was also impacted by lower NPW.

18 **UNDERWRITING EXPENSE RATIO**



INTEREST EXPENSE

Comparative quarterly and year to date results

Interest expense for the three and six months ended June 30, 2017 was $14.2 million and $30.5 million, respectively, up from $12.2 million and $26.9 million in the respective prior year periods. The increases were due to interest expense incurred on our 5.75% Notes and revolving credit facility, which offset the reduction in interest expense from the maturity of our 5% Notes and elimination of our 2% Notes through conversion and partial redemption during the quarter.

See Note 3 - "Debt" for debt transaction activity in 2017 pertaining to our 2% and 5% Notes and revolving credit facility that will impact the comparability of our interest expense in 2017 relative to 2016.

LOSS ON DEBT EXTINGUISHMENT

Comparative quarterly and year to date results

Loss on debt extinguishment of $1.9 million and $15.3 million for the three and six months ended June 30, 2016, respectively, reflects our repurchase of a portion of our 5% Notes at amounts above our carrying value and MGIC's purchase of a portion of our 9% Debentures at an amount above fair value, with each transaction resulting in losses. These transactions repositioned the maturity profile of our debt and reduced potentially dilutive shares at the time of their execution.

PROVISION FOR INCOME TAXES AND EFFECTIVE TAX RATE

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions, except rate)	**2017**	2016	% Change	**2017**	2016	% Change
Income before tax	**$ 180.6**	$ 165.2	9%	**$ 354.6**	$ 268.9	32%
Provision for income taxes	**$ 62.0**	$ 56.0	11%	**$ 146.2**	$ 90.5	62%
Effective tax rate	**34.3%**	33.9%	N/M	**41.2%**	33.7%	N/M

The difference between our statutory tax rate of 35% and our effective tax rate of 34.3% and 33.9% for the respective three months ended June 30, 2017 and 2016 was primarily due to the benefits of tax preferenced securities. The difference between our statutory rate of 35% and our effective tax rate of 41.2% for the six months ended June 30, 2017 is due to the $27.8 million additional provision recorded for the expected settlement of our IRS litigation more than offsetting benefits of tax preferenced securities. The difference between our statutory tax rate of 35% and our effective tax rate of 33.7% for the six months ended June 30, 2016 was primarily due to the benefits of tax preferenced securities.

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

Balance Sheet Review

Total assets and total liabilities

As of June 30, 2017, total assets were $5.6 billion and total liabilities were $2.6 billion. Compared to year-end 2016, this represented a decrease of $134.4 million in total assets and of $580.6 million in total liabilities.

The following sections mainly focus on our cash and cash equivalents and deferred income taxes, net, as these reflect the major developments in our assets and loss reserves and debt as these reflect the major developments in our liabilities since December 31, 2016.

ASSETS

Cash and cash equivalents - The decrease in our cash and cash equivalents reflects the repayment at maturity of our 5% Notes and redemption of a portion of our 2% Notes, offset in large part, by cash flows generated from our operating activities.

Deferred income taxes, net - The decrease in our deferred income taxes, net was primarily due to the utilization of federal net operating loss carryforwards as we generated net income during the first half of 2017.

As of June 30, 2017, our deferred tax asset was $481.4 million. A decrease in the federal statutory rate will result in a one-time reduction in the amount at which our deferred tax asset is recorded, thereby reducing our net income and book value; however, such a decrease will also reduce our effective tax rate in future periods, thereby increasing net income. We estimate that every 1 percentage point reduction in the federal statutory rate would result in a one-time reduction in our deferred tax asset of $13.4 million.

Investment portfolio

Our overall investment portfolio asset allocation (see table 19) and modified duration, remained relatively unchanged compared to December 31, 2016. Our lower level of invested assets (as measured by amortized cost) was offset by an increase in their fair values during the first half of 2017.

19 **FIXED INCOME SECURITY RATINGS (1)**
% OF FIXED INCOME SECURITIES AT FAIR VALUE

	Security Ratings			
Period	**AAA**	**AA**	**A**	**BBB**
June 30, 2017	**23%**	**28%**	**35%**	**14%**
December 31, 2016	25%	28%	32%	15%
June 30, 2016	23%	30%	32%	15%

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

LIABILITIES

Loss reserves - Our loss reserves can be split into two parts: (1) reserves representing estimates of losses and settlement expenses on known delinquencies and (2) IBNR. Our gross liability for both is reduced by reinsurance balances recoverable on our estimated losses and settlement expenses to calculate a net reserve balance. The net reserve balance decreased by 18% to $1.14 billion as of June 30, 2017, from $1.39 billion as of December 31, 2016. Reinsurance balances recoverable on our estimated losses and settlement expenses were $44.8 million and $50.5 million as of June 30, 2017 and December 31, 2016, respectively. The overall decrease in our loss reserves during the first half of 2017 was due to a higher level of losses paid ($301.0 million) relative to losses incurred ($55.0 million).

Debt - The decrease in our consolidated debt was due to the elimination of our 2% Notes in April through a combination of conversions and cash redemptions and repayment of our 5% Notes on May 1, 2017 with holding company cash. See Note 3 - "Debt" for further information on our 2017 debt transactions and remaining outstanding obligations.

Total shareholders' equity

As of June 30, 2017, total shareholders' equity amounted to $3.0 billion, an increase of $446.2 million compared to December 31, 2016. The increase in our total shareholders' equity was due to net income in the first half of 2017, issuance of common stock to holders of our 2% Notes that elected to convert their notes during the second quarter, and an increase in the fair value of our investment portfolio during the first half of 2017.

As described in Note 3 - "Debt", approximately $202.5 million of principal outstanding on our 2% Notes was converted to shares of common stock in April. This debt conversion resulted in an increase to our shareholders' equity for the carrying value of the notes, which included outstanding debt issuance costs, at the time of conversion.

Liquidity and Capital Resources

Consolidated Cash Flow Analysis

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

	Six Months Ended June 30,	
(In thousands)	**2017**	2016
Total cash provided by (used in):		
Operating activities	**125,556**	54,993
Investing activities	**5,419**	261,043
Financing activities	**(158,477)**	(196,182)
(Decrease) increase in cash and cash equivalents	**$ (27,502)**	$ 119,854

Net cash provided by operating activities for the six months ended June 30, 2017 increased compared to the same period of 2016 primarily due to a lower level of losses paid, net, offset in part by increases in payments for interest and other expenses and a decrease in premiums collected.

Net cash from investing activities for the six months ended June 30, 2017 decreased when compared to the same period of 2016, primarily due to an increase in the percentage of proceeds from the maturity and sales of fixed income securities that were reinvested, a decrease in unsettled investment purchase activity, and an increase in amounts spent on property and equipment.

Net cash used in financing activities for the six months ended June 30, 2017 includes the repayment at maturity of our 5% Notes and redemption of a portion of our 2% Notes, as well as, expenses paid to establish the revolving credit facility and cash remittance of withholding taxes paid by employees through shares withheld upon vesting of restricted stock units.

Net cash used by financing activities for the six months ended June 30, 2016 includes the repurchase of a portion of our 5% Notes and MGIC's purchase of a portion of our 9% Debentures and cash remittance of withholding taxes paid by employees through shares withheld upon vesting of restricted stock units. These cash uses were offset, in part, by a borrowing from the FHLB.

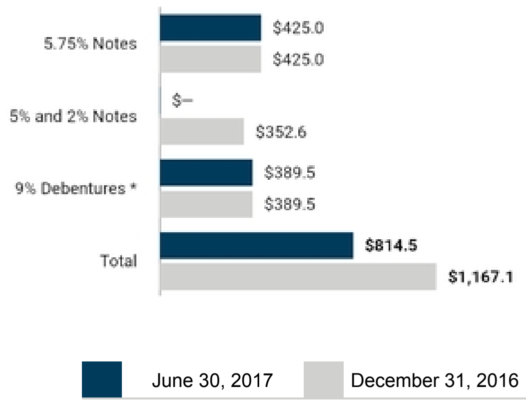
Capitalization

DEBT AT OUR HOLDING COMPANY AND HOLDING COMPANY LIQUIDITY

Debt - holding company (see charts 20 and 21)

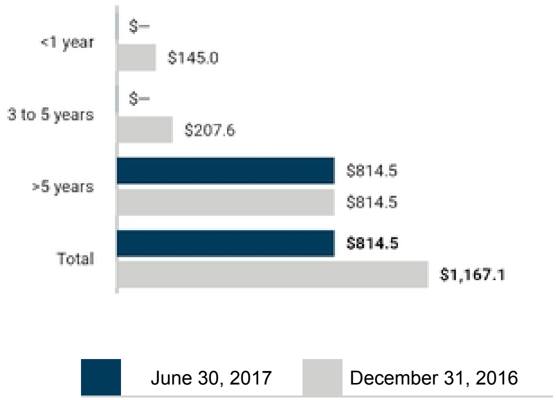
The 5.75% Notes and 9% Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. As of June 30, 2017, our holding company's debt obligations were $814.5 million in aggregate principal. In April 2017, prior to the redemption date of the 2% Notes, holders of approximately $202.5 million of the outstanding principal exercised their rights to convert their notes into shares of our common stock and we repaid the outstanding amount borrowed under our credit facility plus interest incurred. The remaining $5.1 million of our 2% Notes that did not convert were redeemed with holding company cash. The conversion of our 2% Notes into shares of our common stock, along with the cash redemption, eliminated our debt obligation. Our 5% Notes matured on May 1, 2017 and we repaid the $145 million of outstanding principal with holding company cash.

20 **HOLDING COMPANY DEBT** IN MILLIONS



* MGIC owns approximately $132.7 million of our 9% Debentures, which are eliminated in consolidation, but they remain outstanding obligations owed by our holding company to MGIC.

21 **REMAINING TIME TO MATURITY OF HOLDING COMPANY DEBT** IN MILLIONS



Liquidity analysis - holding company

As of June 30, 2017, we had approximately $149 million in cash and investments at our holding company. These resources are maintained primarily to service our debt interest expense, pay debt maturities, repurchase outstanding debt obligations from time to time, and to settle intercompany obligations. We may also use available holding company cash to repurchase shares of our common stock. While these assets are held, we generate investment income that serves to offset a portion of our interest expense. In addition to investment income, the payment of dividends from our insurance subsidiaries and/or raising capital in the public markets are the principal sources of holding company cash inflow. MGIC is the principal source of dividend-paying capacity, which is restricted by insurance regulation. The ability to raise capital in the public markets is subject to prevailing market conditions, investor demand for the securities to be issued, and our deemed creditworthiness.

In the second quarter of 2017, our holding company cash and investments decreased by $302 million, to $149 million as of June 30, 2017. Cash outflows during the quarter at our holding company included a $150 million repayment of our revolving credit facility, $150 million to repay or redeem outstanding debt obligations, $24 million of interest payments (of which $6 million was paid to MGIC), and $10 million to settle investment transactions. Cash inflows during the quarter included $30 million of dividends received from MGIC and other inflows of $2 million. We expect MGIC to continue to pay quarterly dividends. We ask the OCI not to object before MGIC pays dividends.

The net unrealized losses on our holding company investment portfolio were approximately $1 million at June 30, 2017 and the portfolio had a modified duration of approximately 2.7 years.

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 also from time to time seek to acquire our common stock through cash purchases, including with funds provided by debt. We may make such acquisitions in open market purchases, privately negotiated acquisitions or other transactions. The amounts involved may be material.

Subject to certain limitations and restrictions, holders of each of the 9% Debentures may convert their notes into shares of our common stock at their option prior to certain dates under the terms of their issuance, in which case our corresponding obligation will be eliminated.

See Note 7 – "Debt" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016 for additional information about our convertible debt, including our option to defer interest on our 9% Debentures. Any deferred interest compounds at the stated rate of 9%. The description in Note 7 - "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.

Although not anticipated in the near term, we may also contribute funds to our insurance operations to comply with the PMIERs or the State Capital Requirements. See "Overview - Capital" above for a discussion of these requirements. See discussion of our non-insurance contract underwriting services in Note 5 – "Litigation and Contingencies" to our consolidated financial statements.

DEBT AT SUBSIDIARIES

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

Capital Adequacy

PMIERs

We operate under the PMIERs of the GSEs that became effective December 31, 2015. The revisions to the PMIERS since then have had no impact on our calculation of Available Assets or Minimum Required Assets, or our operations. The GSEs may further amend the PMIERs at any time, and they have broad discretion to interpret the requirements, which could impact the calculation of our Available Assets and/or Minimum Required Assets. The

PMIERS provide that the 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 have informed us that they currently do not expect any updates to such factors to be effective before the fourth quarter of 2018 and we expect the GSEs will provide notice 180 days prior to the effective date of such updates.

As of June 30, 2017, MGIC's Available Assets under PMIERs totaled approximately $4.7 billion, an excess of approximately $815 million over its Minimum Required Assets of approximately $3.8 billion; and MGIC is in compliance with the requirements of the PMIERs and eligible to insure loans purchased by the GSEs. Our excess Available Assets allow MGIC to remain in compliance with the PMIERs financial requirements, including, we believe, to the extent they are modified further in the next scheduled review; and will also allow us flexibility to participate in additional business opportunities as they may arise. Our QSR Transactions provided an aggregate of approximately $764 million of PMIERs capital credit as of June 30, 2017.

We plan to continuously comply with the PMIERs through our operational activities or through the contribution of funds from our holding company, subject to demands on the holding company's resources, as outlined above.

RISK-TO-CAPITAL

We compute our risk-to-capital ratio on a separate company statutory basis, as well as on a combined insurance operation basis. The risk-to-capital ratio is our net RIF divided by our policyholders' position. Our net RIF 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, and those covered by reinsurance. The risk amount includes pools of loans with contractual aggregate loss limits and without these limits. Policyholders' position consists primarily of statutory policyholders' surplus (which increases as a result of statutory net income and decreases as a result of statutory net loss and dividends paid), plus the statutory contingency reserve, and a portion of the reserves for unearned premiums. The statutory contingency reserve is reported as a liability on the statutory balance sheet. A mortgage insurance company is required to make annual additions to 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 premiums in a calendar year.

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

(In millions, except ratio)		**June 30, 2017**		December 31, 2016
RIF - net (1)	**$**	**29,925**	$	28,668
Statutory policyholders' surplus		**1,518**		1,505
Statutory contingency reserve		**1,413**		1,181
Statutory policyholders' position	**$**	**2,931**	$	2,686
Risk-to-capital		**10.2:1**		10.7:1

(1) RIF – 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' risk-to-capital calculation appears in the table below.

(In millions, except ratio)		**June 30, 2017**		December 31, 2016
RIF - net (1)	**$**	**35,585**	$	34,465
Statutory policyholders' surplus		**1,520**		1,507
Statutory contingency reserve		**1,623**		1,360
Statutory policyholders' position	**$**	**3,143**	$	2,867
Risk-to-capital		**11.3:1**		12.0:1

(1) RIF – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default ($2.2 billion at June 30, 2017 and $2.6 billion at December 31, 2016) for which loss reserves have been established.

The reductions in MGIC's and our combined insurance companies' risk-to-capital in the first six months of 2017 were primarily due to an increase in statutory policyholders' position due to an increase in statutory contingency reserves, partially offset by an increase in net RIF in both calculations. Our RIF, net of reinsurance, increased in the first six months of 2017, due to an increase in our IIF. Our risk-to-capital ratio will decrease if the percentage increase in capital exceeds the percentage increase in insured risk.

For additional information regarding regulatory capital see Note 15 – "Statutory Information" to our consolidated financial statements as well as our risk factor titled "State Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."

Financial Strength Ratings

The financial strength of MGIC, our principal mortgage insurance subsidiary, is as follows:

Rating Agency	Rating	Outlook
Moody's Investor Services	Baa3	Stable
Standard and Poor's Rating Services'	BBB+	Stable

For further information about the importance of MGIC's ratings, see our risk factor titled "Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and / or increase our losses."

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Contractual Obligations

At June 30, 2017, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

Contractual Obligations

		Payments due by period			
(In millions)	**Total**	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	**$ 2,078.2**	$ 51.4	$ 102.5	$ 101.1	$ 1,823.2
Operating lease obligations	**2.6**	0.7	1.4	0.5	—
Tax obligations	**53.0**	53.0	—	—	—
Purchase obligations	**18.0**	14.0	4.0	—	—
Pension, SERP and other post-retirement plans	**287.1**	22.7	52.4	57.0	155.0
Other long-term liabilities	**1,187.1**	557.9	474.9	154.3	—
Total	**$ 3,626.0**	$ 699.7	$ 635.2	$ 312.9	$ 1,978.2

Our long-term debt obligations as of June 30, 2017 include their related interest and are 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 16 – "Leases" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016. 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 items related to our ongoing infrastructure projects and information technology investments in the normal course of business. See Note 11 – "Benefit Plans" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016 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 LAE related to existing 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 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 is 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 consolidated financial statements or in the table above.

Forward Looking Statements and Risk Factors

General: Our business, results of operations, and financial condition 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, 2016, as supplemented by Part II, Item 1 A of our Quarterly Report on Form 10-Q for the Quarter ended March 31, 2017, and by Part II, Item 1 A of this Quarterly Report on Form 10-Q. The risk factors in the 10-K, as supplemented by these 10-Qs 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

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

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

We manage credit risk via our investment policy guidelines which primarily place our investments in investment grade securities and limit the amount of our credit exposure to any one issue, issuer and type of instrument. Guideline and investment portfolio detail is available in "Business – Section C, Investment Portfolio" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2016.

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

One of the measures used to quantify this exposure is modified duration. Modified duration measures the price sensitivity of the assets to the changes in spreads. At June 30, 2017, the modified duration of our fixed income investment portfolio was 4.6 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 4.6% 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.

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 second quarter of 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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, 2016, as supplemented by Part II, Item I A of our Quarterly Report on Form 10-Q for the Quarter ended March 31, 2017. The risk factors in the 10-K, as supplemented by that 10-Q and 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.

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, and
- Radian Guaranty Inc.

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

Much of the competition in the industry has centered on pricing practices which, in the last few years included: (i) reductions in standard filed rates on borrower-paid policies, (ii) use by certain competitors of a spectrum of filed rates to allow for formulaic, risk-based pricing (commonly referred to as "black-box" pricing); and (iii) use of customized rates (discounted from published rates) on lender-paid, single premium policies. The willingness of mortgage insurers to offer reduced pricing (through filed or customized rates) has been met with an increased demand from various lenders for reduced rate products. There can be no assurance that pricing competition will not intensify further, which could result in a decrease in our new insurance written and/or returns.

In 2016 and the first half of 2017, approximately 5% and 4%, 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 if our premium rates are higher than those of our competitors, our underwriting requirements result in our declining to insure some of the loans originated by our customers, or our insurance rescissions and curtailments affect the customer.

Certain of our competitors have access to capital at a lower cost of capital than we do (including, as a result of off-shore reinsurance vehicles, which are also tax-advantaged). As a result, they may be better positioned to compete outside of traditional mortgage insurance, including if the GSEs pursue alternative forms of credit enhancement. In addition, because of their tax advantages, certain competitors may be able to achieve higher after-tax rates of return on their NIW compared to us, which could allow them to leverage reduced pricing to gain market share.

Substantially all of our insurance written since 2008 has been for loans purchased by Fannie Mae and Freddie Mac (the "GSEs"). The current private mortgage insurer eligibility requirements ("PMIERs") of the GSEs require a mortgage insurer to maintain a minimum amount of assets to support its insured risk, as discussed in our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility."* The PMIERs do not require an insurer to maintain minimum financial strength ratings; however, our financial strength ratings can affect us in the following ways:

- A downgrade in our financial strength ratings could result in increased scrutiny of our financial condition by the GSEs and/or our customers, potentially resulting in a decrease in the amount of our new insurance written.

- Our ability to participate in the non-GSE mortgage market (which has been limited since the financial crisis, but may grow in the future), could depend on our ability to maintain and improve our investment grade ratings for our mortgage insurance subsidiaries. We could be competitively disadvantaged with some market participants because the financial strength ratings of our insurance subsidiaries are lower than those of some competitors. MGIC's financial strength rating from Moody's is Baa3 (with a stable outlook) and from Standard & Poor's is BBB+ (with a stable outlook).

- Financial strength ratings may also play a greater role if the GSEs no longer operate in their current capacities, for example, due to legislative or regulatory action. In addition, although the PMIERs do not require minimum financial strength ratings, the GSEs consider financial strength ratings to be important when utilizing forms of credit enhancement other than traditional mortgage insurance, as discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."* If we are unable to compete effectively in the current or any future markets as a result of the financial strength ratings assigned to our insurance subsidiaries, our future new insurance written could be negatively affected.

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

Alternatives to private mortgage insurance include:

- lenders using FHA, VA and other government mortgage insurance programs,
- investors using risk mitigation and credit risk transfer techniques other than private mortgage insurance,
- lenders and other investors holding mortgages in portfolio and self-insuring, and
- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10%, 15% or 20% loan-to-value ratio (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% loan-to-value ratio that has private mortgage insurance.

The GSEs (and other investors) have used alternative forms of credit enhancement other than private mortgage insurance, such as obtaining insurance from non-mortgage insurers, engaging in credit-linked note transactions executed in the capital markets, or using other forms of debt issuances or securitizations that transfer credit risk directly to other investors; using other risk mitigation techniques in conjunction with reduced levels of private mortgage insurance coverage; or accepting credit risk without credit enhancement. Although the alternative forms of credit enhancement used by the GSEs in the past several years have not displaced primary mortgage insurance, the forms continue to evolve.

The FHA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was an estimated 38.9% in the first quarter of 2017, 35.5% in 2016, and 39.3% in 2015. In the past ten years, the FHA's share has been as low as 17.1% in 2007 and as high as 68.7% in 2009. Factors that influence the FHA's market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; lenders' perceptions of legal risks under FHA versus GSE programs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns expected to be obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to Fannie Mae or Freddie Mac for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. We cannot predict how the factors that affect the FHA's share of new insurance written will change in the future.

The VA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was an estimated 27.2% in the first quarter of 2017, 26.6% in 2016, and 23.9% in 2015. The VA's market share in the first quarter of 2017 was its highest in the past ten years and its lowest market share in the past ten years was 5.4% in 2007. We believe that the VA's market share has generally been increasing because the VA offers 100% LTV loans and charges a one-time funding fee that can be included in the loan amount but no additional monthly expense, and because of an increase in the number of borrowers who are eligible for the VA's program.

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

We must comply with the PMIERs to be eligible to insure loans purchased by the GSEs. The PMIERs include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERs require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). Based on our interpretation of the PMIERs, as of June 30, 2017, MGIC's Available Assets totaled \$4.7 billion, or \$0.8 billion in excess of its Minimum Required Assets. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs.

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. Factors that may negatively impact MGIC's ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs could make the PMIERs more onerous in the future; in this regard, the PMIERs provide that the 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 have informed us that they currently do not expect any updates to be effective before the fourth quarter of 2018 and we expect the GSEs will provide notice 180 days prior to the effective date of such updates. The GSEs may amend the PMIERs at any time.

- The GSEs may reduce the amount of credit they allow under the PMIERs for the risk ceded under our quota share reinsurance transactions. The GSEs' ongoing approval of those transactions is subject to several conditions and the transactions will be reviewed under the PMIERs at least annually by the GSEs. For more information about the transactions, see our risk factor titled "The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring."
- Our future operating results may be negatively impacted by the matters discussed in the rest of these risk factors. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby creating a shortfall in Available Assets.
- Should capital be needed by MGIC in the future, capital contributions from our holding company may not be available due to competing demands on holding company resources, including for repayment of debt.

While on an overall basis, the amount of Available Assets MGIC must hold in order to continue to insure GSE loans increased under the PMIERs over what state regulation currently requires, our reinsurance transactions mitigate the negative effect of the PMIERs on our returns. In this regard, see the second bullet point above.

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.

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 August 4, 2017.

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
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed July 28, 2017)
12	Ratio of Earnings to Fixed Charges
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, 2016, as supplemented by Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017, and through updating of various statistical and other information
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(In thousands, except ratio)		Six Months Ended June 30, 2017
Net earnings before taxes	$	354,573
Fixed Charges:		
Interest expense		29,307
Amortization of debt expense		1,199
Rent expense (One-Fourth of all rentals, reasonable approximation of the interest factor)		263
Total fixed charges		30,769
Net earnings and fixed charges	$	385,342
Ratio of Earnings to Fixed Charges		**12.5**

Exhibit 31.1
CERTIFICATIONS

I, Patrick Sinks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGIC Investment Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2017

/s/ Patrick Sinks
Patrick Sinks
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Timothy J. Mattke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGIC Investment Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2017

/s/ Timothy J. Mattke
Timothy J. Mattke
Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATIONS

The undersigned, Patrick Sinks, Chief Executive Officer of MGIC Investment Corporation (the "Company"), and Timothy J. Mattke, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S. C. Section 1350, that to our knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the three months ended June 30, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2017

/s/ Patrick Sinks
Patrick Sinks
Chief Executive Officer

/s/ Timothy J. Mattke
Timothy J. Mattke
Chief Financial Officer

Exhibit 99

Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017, and through updating of various statistical and other information.

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

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, and
- Radian Guaranty Inc.

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

Much of the competition in the industry has centered on pricing practices which, in the last few years included: (i) reductions in standard filed rates on borrower-paid policies, (ii) use by certain competitors of a spectrum of filed rates to allow for formulaic, risk-based pricing (commonly referred to as "black-box" pricing); and (iii) use of customized rates (discounted from published rates) on lender-paid, single premium policies. The willingness of mortgage insurers to offer reduced pricing (through filed or customized rates) has been met with an increased demand from various lenders for reduced rate products. There can be no assurance that pricing competition will not intensify further, which could result in a decrease in our new insurance written and/or returns.

In 2016 and the first half of 2017, approximately 5% and 4%, 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 if our premium rates are higher than those of our competitors, our underwriting requirements result in our declining to insure some of the loans originated by our customers, or our insurance rescissions and curtailments affect the customer.

Certain of our competitors have access to capital at a lower cost of capital than we do (including, as a result of off-shore reinsurance vehicles, which are also tax-advantaged). As a result, they may be better positioned to compete outside of traditional mortgage insurance, including if the GSEs pursue alternative forms of credit enhancement. In addition, because of their tax advantages, certain competitors may be able to achieve higher after-tax rates of return on their NIW compared to us, which could allow them to leverage reduced pricing to gain market share.

Substantially all of our insurance written since 2008 has been for loans purchased by Fannie Mae and Freddie Mac (the "GSEs"). The current private mortgage insurer eligibility requirements ("PMIERs") of the GSEs require a mortgage insurer to maintain a minimum amount of assets to support its insured risk, as discussed in our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility."* The PMIERs do not require an insurer to maintain minimum financial strength ratings; however, our financial strength ratings can affect us in the following ways:

- A downgrade in our financial strength ratings could result in increased scrutiny of our financial condition by the GSEs and/or our customers, potentially resulting in a decrease in the amount of our new insurance written.
- Our ability to participate in the non-GSE mortgage market (which has been limited since the financial crisis, but may grow in the future), could depend on our ability to maintain and improve our investment grade ratings for our mortgage insurance subsidiaries. We could be competitively disadvantaged with some market participants because the financial strength ratings of our insurance subsidiaries are lower than those of some competitors. MGIC's financial strength rating from Moody's is Baa3 (with a stable outlook) and

from Standard & Poor's is BBB+ (with a stable outlook).

- Financial strength ratings may also play a greater role if the GSEs no longer operate in their current capacities, for example, due to legislative or regulatory action. In addition, although the PMIERs do not require minimum financial strength ratings, the GSEs consider financial strength ratings to be important when utilizing forms of credit enhancement other than traditional mortgage insurance, as discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."* If we are unable to compete effectively in the current or any future markets as a result of the financial strength ratings assigned to our insurance subsidiaries, our future new insurance written could be negatively affected.

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

Alternatives to private mortgage insurance include:

- lenders using FHA, VA and other government mortgage insurance programs,
- investors using risk mitigation and credit risk transfer techniques other than private mortgage insurance,
- lenders and other investors holding mortgages in portfolio and self-insuring, and
- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10%, 15% or 20% loan-to-value ratio (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% loan-to-value ratio that has private mortgage insurance.

The GSEs (and other investors) have used alternative forms of credit enhancement other than private mortgage insurance, such as obtaining insurance from non-mortgage insurers, engaging in credit-linked note transactions executed in the capital markets, or using other forms of debt issuances or securitizations that transfer credit risk directly to other investors; using other risk mitigation techniques in conjunction with reduced levels of private mortgage insurance coverage; or accepting credit risk without credit enhancement. Although the alternative forms of credit enhancement used by the GSEs in the past several years have not displaced primary mortgage insurance, the forms continue to evolve.

The FHA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was an estimated 38.9% in the first quarter of 2017, 35.5% in 2016, and 39.3% in 2015. In the past ten years, the FHA's share has been as low as 17.1% in 2007 and as high as 68.7% in 2009. Factors that influence the FHA's market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; lenders' perceptions of legal risks under FHA versus GSE programs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns expected to be obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to Fannie Mae or Freddie Mac for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. We cannot predict how the factors that affect the FHA's share of new insurance written will change in the future.

The VA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was an estimated 27.2% in the first quarter of 2017, 26.6% in 2016, and 23.9% in 2015. The VA's market share in the first quarter of 2017 was its highest in the past ten years and its lowest market share in the past ten years was 5.4% in 2007. We believe that the VA's market share has generally been increasing because the VA offers 100% LTV loans and charges a one-time funding fee that can be included in the loan amount but no additional monthly expense, and because of an increase in the number of borrowers who are eligible for the VA's program.

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

The GSEs' charters generally require credit enhancement for a low down payment mortgage loan (a loan amount that exceeds 80% of a home's value) in order for such loan to be eligible for purchase by the GSEs. Lenders generally have used private mortgage insurance to satisfy this credit enhancement requirement and low down payment mortgages purchased by the GSEs generally are insured with private mortgage insurance. As a result, the business practices of the GSEs greatly impact our business and include:

- private mortgage insurer eligibility requirements of the GSEs (for information about the financial requirements included in the PMIERs, see our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility"*),

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

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

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

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

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

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

- the terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase,

- the terms on which the GSEs offer lenders relief on their representations and warranties made at the time of sale of a loan to the GSEs, which creates pressure on mortgage insurers to limit their rescission rights to conform to such relief, and the extent to which the GSEs intervene in mortgage insurers' claims paying practices, rescission practices or rescission settlement practices with lenders, and

- the maximum loan limits of the GSEs in comparison to those of the FHA and other investors.

The Federal Housing Finance Agency ("FHFA") has been the conservator of the GSEs since 2008 and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential housing finance system through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us and that the charters of the GSEs are changed by new federal legislation. In the past, members of Congress have introduced several bills intended to change the business practices of the GSEs and the FHA; however, no legislation has been enacted. The Administration has indicated that the conservatorship of the GSEs should end; however, it is unclear whether and when that would occur and how that would impact us. 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.

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

We must comply with the PMIERs to be eligible to insure loans purchased by the GSEs. The PMIERs include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERs require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). Based on our interpretation of the PMIERs, as of June 30, 2017, MGIC's Available Assets totaled $4.7 billion, or $0.8 billion in excess of its Minimum Required Assets. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs.

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. Factors that may negatively impact MGIC's ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs could make the PMIERs more onerous in the future; in this regard, the PMIERs provide that the 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 have informed us that they currently do not expect any updates to be effective before the fourth quarter of 2018 and we expect the GSEs will provide notice 180 days prior to the effective date of such updates. The GSEs may amend the PMIERs at any time.

- The GSEs may reduce the amount of credit they allow under the PMIERs for the risk ceded under our quota share reinsurance transactions. The GSEs' ongoing approval of those transactions is subject to several conditions and the transactions will be reviewed under the PMIERs at least annually by the GSEs. For more information about the transactions, see our risk factor titled "*The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring.*"

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

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

While on an overall basis, the amount of Available Assets MGIC must hold in order to continue to insure GSE loans increased under the PMIERs over what state regulation currently requires, our reinsurance transactions mitigate the negative effect of the PMIERs on our returns. In this regard, see the second bullet point above.

The benefit of our net operating loss carryforwards may become substantially limited.

As of June 30, 2017, we had approximately $1.2 billion of net operating losses for tax purposes that we can use in certain circumstances to offset future taxable income and thus reduce our federal income tax liability. Any unutilized carryforwards are scheduled to expire at the end of tax years 2031 through 2033. Our ability to utilize these net operating losses to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). In general, an ownership change will occur if there is a cumulative change in our ownership by "5-percent shareholders" (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on the corporation's subsequent use of net operating loss carryovers that arose from pre-ownership change periods and use of losses that are subsequently recognized with respect to assets that had a built-in-loss on the date of the ownership change. The amount of the annual limitation generally equals the fair value of the corporation immediately before the ownership change multiplied by the long-term tax-exempt interest rate (subject to certain adjustments). To the extent that the limitation in a post-ownership-change year is not fully utilized, the amount of the limitation for the succeeding year will be increased.

While we have adopted our Amended and Restated Rights Agreement to minimize the likelihood of transactions in our stock resulting in an ownership change, future issuances of equity-linked securities or transactions in our stock and equity-linked securities that may not be within our control may cause us to experience an ownership change. If we experience an ownership change, we may not be able to fully utilize our net operating losses, resulting in additional income taxes and a reduction in our shareholders' equity.

As of June 30, 2017, our deferred tax asset is recorded at $481.4 million, which relates primarily to the future tax effects of our prior year net operating losses expected to be carried forward to offset future taxable income. A decrease in the federal statutory income tax rate will result in a one-time reduction in the amount at which our deferred tax asset is recorded, thereby reducing our net income and book value in that period; however, such a decrease will also reduce our effective income tax rate, thereby increasing net income in future periods.

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

Before paying an insurance claim, we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage on the loan. In our SEC reports, we refer to insurance rescissions and denials of claims collectively as "rescissions" and variations of that term. In addition, 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. We call such reduction of claims "curtailments." In recent quarters, an immaterial percentage of claims received in a quarter have been resolved by rescissions. In each of 2016 and the first half of 2017, curtailments reduced our average claim paid by approximately 5.5%.

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

When the insured disputes our right to rescind coverage or curtail claims, we generally engage in discussions in an attempt to settle the dispute. If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings.

Under ASC 450-20, until a liability associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss. Where we have determined that a loss is probable and can be reasonably estimated, we have recorded our best estimate of our probable loss. If we are not able to implement settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

In addition to matters for which we have recorded a probable loss, we are involved in other discussions and/or proceedings with insureds with respect to our claims paying practices. Although it is reasonably possible that when these matters are resolved 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 matters where a loss is reasonably possible to be approximately $291 million, although we believe (but can give no assurance that) we will ultimately resolve these matters for significantly less than this amount. This estimate of our maximum exposure does not include interest or consequential or exemplary damages.

Mortgage insurers, including MGIC, have been involved in litigation and regulatory actions related to alleged 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. While these proceedings in the aggregate have not resulted in material liability for MGIC, there can be no assurance that the outcome of future proceedings, if any, under these laws would not have a material adverse affect on us. In addition, various regulators, including the CFPB, state insurance commissioners and state attorneys general may bring other actions seeking various forms of relief in connection with alleged 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.

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.

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

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. For more information about state capital requirements, see our risk factor titled "*State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.*" To the extent that we are construed to make independent credit decisions in connection with our contract underwriting activities, we also could be subject to increased regulatory requirements under the Equal Credit Opportunity Act, commonly known as ECOA, the FCRA, and other laws. For more details about the various ways in which our subsidiaries are regulated, see "Regulation" in Item 1 of our Annual Report on Form 10-K filed with the SEC on February 21, 2017. In addition to regulation by state insurance regulators, 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.

Resolution of our dispute with the Internal Revenue Service could adversely affect us.

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.

In 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 June 30, 2017, there would also be interest related to these matters of approximately $195.7 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. 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 June 30, 2017, those state taxes and interest would approximate $82.4 million. In addition, there could also be state tax penalties. Our total amount of unrecognized tax benefits as of June 30, 2017 is $140.8 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 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 filed an answer to our petition which continued to assert their claim. The case has twice been scheduled for trial and in each instance, the parties jointly filed, and the U.S. Tax Court approved (most recently in February 2016), motions for continuance to postpone the trial date. Also in February 2016, the U.S. Tax Court approved a joint motion to consolidate for trial, briefing, and opinion, our case with similar cases of Radian Group, Inc., as successor to Enhance Financial Services Group, Inc., et al. The parties informed the Tax Court in January 2017 that they had reached a basis for settlement of the major issues in the case and in June 2017 that there was only one remaining unresolved secondary issue (a factual determination arising from the 2002-2004 audit that is unrelated to the REMIC matter which the parties continue to work toward resolving). Any agreed settlement terms will ultimately be subject to review by the Joint Committee on Taxation ("JCT") before a settlement can be completed and there is no assurance that a settlement will be completed. Based on information that we currently have regarding the status of our ongoing dispute, we recorded a provision for additional taxes and interest of $27.8 million in 2017.

Should a settlement not be completed, ongoing litigation to resolve our dispute with the IRS could be lengthy and costly in terms of legal fees and related expenses. We would need to make further 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' private 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*."

If the models used in our businesses are inaccurate, it could have a material adverse impact on our business, results of operations and financial condition.

We employ proprietary and third party models to project returns, price products, calculate reserves, generate projections used to estimate future pre-tax income and to evaluate loss recognition testing, evaluate risk, determine internal capital requirements, perform stress testing, and for other uses. These models rely on estimates and projections that are inherently uncertain and may not operate as intended. In addition, from time to time we seek to improve certain models, and the conversion process may result in material changes to assumptions, including those about returns, and financial results. The models we employ are complex, which increases our risk of error in their design, implementation or use. Also, the associated input data, assumptions and calculations may not be correct, and the controls we have in place to mitigate that risk may not be effective in all cases. The risks related to our models may increase when we change assumptions and/or methodologies, or when we add or change modeling platforms. We have enhanced, and we intend to continue to enhance, our modeling capabilities. Moreover, we may use information we receive through enhancements to refine or otherwise change existing assumptions and/or methodologies.

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

In accordance with accounting principles generally accepted in the United States, commonly referred to as GAAP, we establish reserves for insurance losses and loss adjustment expenses only when notices of default on insured mortgage loans are received and for loans we estimate are in default but for which notices of default have not yet been reported to us by the servicers (this is often referred to as "IBNR"). Because our reserving method does not take account of losses that could occur from loans that are not delinquent, such losses are not reflected in our financial statements, except in the case where a premium deficiency exists. As a result, future losses on loans that are not currently delinquent may have a material impact on future results as such losses emerge.

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

When we establish reserves, we estimate the ultimate loss on delinquent loans using estimated claim rates and claim amounts. The estimated claim rates and claim amounts represent our best estimates of what we will actually pay on the loans in default as of the reserve date and incorporate anticipated mitigation from rescissions and curtailments. The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be affected by several factors, including a change in regional or national economic conditions, and a change in the length of time loans are delinquent before claims are received. The change in conditions may include changes in unemployment, affecting borrowers' income and thus their ability to make mortgage payments, and changes 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 have a material impact on our future results, even in a stable economic environment. In addition, 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 default notice activity and a lower cure rate.

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

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

Loan modification and other similar programs may not continue to provide substantial benefits to us.

The federal government, including through the U.S. Department of the Treasury and the GSEs, and several lenders have modification and refinance programs to make loans more affordable to borrowers with the goal of reducing the number of foreclosures. These programs have included the Home Affordable Modification Program ("HAMP"), which expired at the end of 2016, and the Home Affordable Refinance Program ("HARP"), which is scheduled to expire at the end of September 2017. The GSEs have introduced the "Flex Modification" program to replace HAMP effective in October 2017. Until it becomes effective, loan servicers must still evaluate borrowers for other GSE modification programs.

During 2016 and the first half of 2017, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $0.5 billion and $0.2 billion, respectively, of estimated claim payments. These levels are down from a high of $3.2 billion in 2010.

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

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

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

- restrictions on mortgage credit due to more stringent underwriting standards, liquidity issues or risk-retention and/or capital requirements affecting lenders,
- the level of home mortgage interest rates and the deductibility of mortgage interest or mortgage insurance premiums for income tax purposes,
- the health of the domestic economy as well as conditions in regional and local economies and the level of consumer confidence,
- housing affordability,
- new and existing housing availability,
- the rate of household formation, which is influenced, in part, by populati on and immigration trends,
- the rate of home price appreciation, which in times of heavy refinancing can affect whether refinanced loans have loan-to-value ratios that require private mortgage insurance, and
- government housing policy encouraging loans to first-time homebuyers.

A decline in the volume of low down payment home mortgage originations could decrease demand for mortgage insurance and decrease our new insurance written. For other factors that could decrease the demand for mortgage insurance, see our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*

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

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

At June 30, 2017, MGIC's risk-to-capital ratio was 10.2 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $1.8 billion above the required MPP of $1.1 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transactions with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance transactions, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these risk factors for information about matters that could negatively affect such compliance.

At June 30, 2017, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 11.3 to 1. Reinsurance transactions with our affiliate 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 arrangements with its reinsurance affiliate, additional capital contributions to the affiliate could be needed.

The NAIC plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. In May 2016, a working group of state regulators released an exposure draft of a risk-based capital framework to establish capital requirements for mortgage insurers, although no date has been established by which the NAIC must propose revisions to the capital requirements. We continue to evaluate the impact of the framework contained in the exposure draft, including the potential impact of certain items that have not yet been completely addressed by the framework which include: the treatment of ceded risk, minimum capital floors, and action level triggers. Currently we believe that the PMIERs contain the more restrictive capital requirements in most circumstances.

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

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

Losses result from events that reduce a borrower's ability or willingness to continue to make mortgage payments, such as unemployment, health issues, family status, and whether the home of a borrower who defaults on his mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. In general, favorable economic conditions reduce the likelihood that borrowers will lack sufficient income to pay their mortgages and also favorably affect the value of homes, thereby reducing and in some cases even eliminating a loss from a mortgage default. A deterioration in economic conditions, including an increase in unemployment, generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values, which in turn can influence the willingness of borrowers with sufficient resources to make mortgage payments to do so when the mortgage balance exceeds the value of the home. Housing values may decline even absent a deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers' perceptions of the potential for future appreciation, restrictions on and the cost of mortgage credit due to more stringent underwriting standards, higher interest rates generally, changes to the deductibility of mortgage interest or mortgage insurance premiums for income tax purposes, decreases in the rate of household formations, or other factors. Changes in housing values and unemployment levels are inherently difficult to forecast given the uncertainty in the current market environment, including uncertainty about the effect of actions the federal government has taken and may take with respect to tax policies, mortgage finance programs and policies, and housing finance reform.

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

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

The minimum capital required by the risk-based capital framework contained in the exposure draft released by the NAIC in May 2016 would be, in part, a function of certain loan and economic factors, including property location, loan-to-value ratio and credit score; general underwriting quality in the market at the time of loan origination; the age of the loan; and the premium rate we charge. Depending on the provisions of the capital requirements when they are released in final form and become effective, our mix of business may affect the minimum capital we are required to hold under the new framework.

Beginning in 2014, we have 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.

We have in place quota share reinsurance transactions with a group of unaffiliated reinsurers that cover most of our insurance written from 2013 through 2017, and a portion of our insurance written prior to 2013. Although the transactions reduce our premiums, they have a lesser impact on our overall results, as losses ceded under the transactions reduce our losses incurred and the ceding commissions we receive reduce our underwriting expenses. The net cost of reinsurance, with respect to a covered loan, is 6% (but can be lower if losses are materially higher than we expect). This cost is derived by dividing the reduction in our pre-tax net income from such loan with reinsurance by our direct (that is, without reinsurance) premiums from such loan. Although the net cost of the reinsurance is generally constant at 6%, the effect of the reinsurance on the various components of pre-tax income will vary from period to period, depending on the level of ceded losses.

In addition to the effect of reinsurance on our premiums, we expect a modest decline in our premium yield resulting from the premium rates themselves: the books we wrote before 2009, which have a higher average premium rate than subsequent books, are expected to continue to decline as a percentage of the insurance in force; and the average premium rate on these books is also expected to decline as the premium rates reset to lower levels at the time the loans reach the ten-year anniversary of their initial coverage date. However, for loans that have utilized HARP, the initial ten-year period was reset to begin as of the date of the HARP transaction. As of June 30, 2017, approximately 3% and 1% of our total primary insurance in force was written in 2007 and 2008, respectively, has not been refinanced under HARP and is subject to a reset after ten years.

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. To comply with requirements of the GSEs, we introduced our current master policy in 2014. Our rescission rights under our current 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 current 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, was written under our current master policy. As of June 30, 2017, approximately 68% of our flow, primary insurance in force was written under our Gold Cert Endorsement or our current master policy.

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. We also change our underwriting guidelines, in part through aligning some of them 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 changes to our underwriting guidelines and requirements (including those related to debt to income levels, credit scores, and the manner in which income levels and property values are determined) 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 2009 through the first half of 2013. However, we believe this business presents an acceptable level of risk. 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, which in total are expected to have a somewhat higher claim incidence than loans that meet our guidelines, accounted for fewer than 2% of the loans we insured in each of 2016 and the first half of 2017.

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with higher loan-to-value ratios, lower FICO scores, 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 June 30, 2017, approximately 14.0% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 3.4% had FICO scores below 620, and 3.3% 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. For information about our classification of loans by FICO score and documentation, see footnotes (6) and (7) to the Characteristics of Primary Risk in Force table under “Business - Our Products and Services” in Item 1 of our Annual Report on Form 10-K filed with the SEC on February 21, 2017.

As of June 30, 2017, approximately 2% 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.

If state or federal regulations or statutes are changed in ways that ease mortgage lending standards and/or requirements, or if lenders seek ways to replace business in times of lower mortgage originations, it is possible that more mortgage loans could be originated with higher risk characteristics than are currently being originated such as loans with lower FICO scores and higher debt to income ratios. Lenders could pressure mortgage insurers to insure such loans. 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 our insurance written beginning in the second half of 2008 will generate underwriting profits.

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

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

The losses we have incurred on our 2005-2008 books have exceeded our premiums from those books. Our current expectation is that the incurred losses from those books, although declining, will continue to generate a material portion of our total incurred losses for a number of years. The ultimate amount of these losses will depend in part on general economic conditions, including unemployment, and the direction of home prices.

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

We depend on reliable, consistent third-party servicing of the loans that we insure. Over the last several years, the mortgage loan servicing industry has experienced consolidation and an increase in the number of specialty servicers servicing delinquent loans. The resulting change in the composition of servicers could lead to disruptions in the servicing of mortgage loans covered by our insurance policies. Further changes in the servicing industry resulting in the transfer of servicing could cause a disruption in the servicing of delinquent loans which could reduce servicers’ ability to undertake mitigation efforts that could help limit our losses. Future housing market conditions could lead to additional increases in delinquencies and transfers of servicing.

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

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

The monthly premium policies for the substantial majority of loans we insured provides that, for the first ten years of the policy, the premium is determined by the product of the premium rate and the initial loan balance; thereafter, a lower premium rate is applied to the initial loan balance. The initial ten-year period is reset when the loan is refinanced under HARP. The premiums on many of the policies in our 2006 book that were not refinanced under HARP reset in 2016. As of June 30, 2017, approximately 3% and 1% of our total primary insurance in force was written in 2007 and 2008, respectively, has not been refinanced under HARP, and is subject to a rate reset after ten years.

Our persistency rate was 77.8% at June 30, 2017, 76.9% at December 31, 2016 and 79.7% at December 31, 2015. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

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

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

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

At June 30, 2017, we had outstanding $390 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 ("9% Debentures") (of which approximately $133 million was purchased by and is held by MGIC, and is eliminated on the consolidated balance sheet). The principal amount of the 9% Debentures is currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 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.

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 in our Quarterly Report on Form 10-Q filed with the SEC on May 5, 2017. We currently have no plans to repurchase common stock but regularly consider appropriate uses for resources of our holding company. In addition, we have in the past, and may in the future , purchase our debt securities.

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

At June 30, 2017, we had approximately $149 million in cash and investments at our holding company and our holding company's debt obligations were $815 million in aggregate principal amount, consisting of $425 million of 5.75% Senior Notes due in 2023 ("5.75% Notes") and $390 million of 9% Debentures (of which approximately $133 million was purchased by and is held by MGIC, and is eliminated on the consolidated balance sheet). Annual debt service on the 5.75% Notes and 9% Debentures outstanding as of June 30, 2017, is approximately $60 million (of which approximately $12 million will be paid to MGIC and will be eliminated on the consolidated statement of operations).

The 5.75% Senior Notes and 9% Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. The payment of dividends from our insurance subsidiaries which, other than investment income and raising capital in the public markets, is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. In 2016, MGIC paid a total of $64 million in dividends to our holding company, its first dividends since 2008, and it paid dividends of $50 million to our holding company in the first half of 2017. We expect MGIC to continue to pay quarterly dividends. We ask the OCI not to object before MGIC pays dividends. If any additional capital contributions to our subsidiaries were required, such contributions would decrease our holding company cash and investments. As described in our Current Report on Form 8-K filed on February 11, 2016, MGIC borrowed $155 million from the Federal Home Loan Bank of Chicago. This is an obligation of MGIC and not of our holding company.

We could be adversely affected if personal information on consumers that we maintain is improperly disclosed and our information technology systems may become outdated and we may not be able to make timely modifications to support our products and services.

We rely on the efficient and uninterrupted operation of complex information technology systems. All information technology systems are potentially vulnerable to damage or interruption from a variety of sources, including through the actions of third parties. Due to our reliance on our information technology systems, their damage or interruption could severely disrupt our operations, which could have a material adverse effect on our business, business prospects and results of operations. As part of our business, we maintain large amounts of personal information on consumers. While we believe we have appropriate information security policies and systems to prevent unauthorized disclosure, there can be no assurance that unauthorized disclosure, either through the actions of third parties or employees, will not occur. Unauthorized disclosure could adversely affect our reputation and expose us to material claims for damages.

In addition, we are in the process of upgrading certain of our information systems that have been in place for a number of years. The implementation of these technological improvements is complex, expensive and time consuming. If we fail to timely and successfully implement the new technology systems, or if the systems do not operate as expected, it could have an adverse impact on our business, business prospects and results of operations.