FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended March 31, 2020

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

For the transition period from ______ to ______

Commission file number 1-10816

MGIC Investment Corporation

(Exact name of registrant as specified in its charter)

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

250 E. Kilbourn Avenue	53202
Milwaukee, Wisconsin	(Zip Code)
(Address of principal executive offices)	

(414) 347-6480

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock	MTG	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of May 1, 2020, there were 338,567,022 shares of common stock of the registrant, par value $1.00 per share, outstanding.

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 MARCH 31, 2020

Table of contents

Glossary of terms and acronyms

/ A

ARMs
Adjustable rate mortgages

ABS
Asset-backed securities

ASC
Accounting Standards Codification

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

/ B

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

BPMI
Borrower-paid mortgage insurance

/ C

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

CECL
Current expected credit losses

CFPB
Consumer Financial Protection Bureau

CLO
Collateralized loan obligations

CMBS
Commercial mortgage-backed securities

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

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

/ D

DAC
Deferred insurance policy acquisition costs

Debt-to-income ("DTI") ratio
The ratio, expressed as a percentage, of a borrower's total debt payments to gross income

Direct
Direct means before giving effect to reinsurance

/ E

EPS
Earnings per share

/ F

Fannie Mae
Federal National Mortgage Association

FCRA
Fair Credit Reporting Act

FHA
Federal Housing Administration

FHFA
Federal Housing Finance Agency

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

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

Freddie Mac
Federal Home Loan Mortgage Corporation

/ G

GAAP
Generally Accepted Accounting Principles in the United States

GSEs
Collectively, Fannie Mae and Freddie Mac

/ H

HAMP
Home Affordable Modification Program

HARP
Home Affordable Refinance Program

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

HOPA
Homeowners Protection Act

HUD
Housing and Urban Development

/ I

IBNR
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

ILN
Insurance-linked notes

/ L

LAE
Loss adjustment expenses

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

Long-term debt:

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

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

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

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

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

LPMI
Lender-paid mortgage insurance

/ M

MBS
Mortgage-backed securities

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

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

MAC
MGIC Assurance Corporation, a subsidiary of MGIC

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

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

/ N

N/A
Not applicable for the period presented

NAIC
The National Association of Insurance Commissioners

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

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

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

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

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

/ O

OCI

Office of the Commissioner of Insurance of the State of Wisconsin

OTTI

Other than temporary impairment

/ P

Persistency

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

PMI

Private Mortgage Insurance (as an industry or product type)

PMIERs

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

Premium Yield

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

Premium Rate

The contractual rate charged for coverage under our insurance policies.

Primary Insurance

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

/ Q

QSR Transaction

Quota share reinsurance transaction with a group of unaffiliated reinsurers

QM

A mortgage loan that satisfies the “qualified mortgage” loan characteristics pursuant to the Consumer Financial Protection Bureau’s ability-to-repay under the Truth in Lending Act. Originating a QM loan may provide a lender with legal protection from lawsuits that claim the lender failed to verify a borrower’s ability to repay.

/ R

RESPA

Real Estate Settlement Procedures Act

RIF

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

Risk-to-capital

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

RMBS

Residential mortgage-backed securities

/ S

State Capital Requirements

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

/ T

TILA

Truth in Lending Act

/ U

Underwriting expense ratio

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

Underwriting profit

NPE minus incurred losses and underwriting and operating expenses

USDA

U.S. Department of Agriculture

/ V

VA

U.S. Department of Veterans Affairs

VIE

Variable interest entity

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands)	Note		March 31, 2020		December 31, 2019
ASSETS					
Investment portfolio:	7 / 8				
Fixed income, available-for-sale, at fair value (amortized cost 2020 - $5,375,382; 2019 - $5,562,550)		**$**	**5,458,846**	$	5,737,892
Equity securities, at fair value (cost 2020 - $29,559; 2019 - $17,188)	2 / 7 / 8		**28,892**		17,328
Other invested assets, at cost	2 / 7 / 8		**3,100**		3,100
Total investment portfolio			**5,490,838**		5,758,320
Cash and cash equivalents			**365,303**		161,847
Restricted cash and cash equivalents			**4,223**		7,209
Accrued investment income			**46,942**		49,705
Reinsurance recoverable on loss reserves	2/4		**25,756**		21,641
Reinsurance recoverable on paid losses	2		**1,691**		1,521
Premiums receivable	2		**53,440**		55,587
Home office and equipment, net			**49,010**		50,121
Deferred insurance policy acquisition costs			**19,514**		18,531
Deferred income taxes, net			**8,867**		5,742
Other assets			**89,703**		99,347
Total assets		**$**	**6,155,287**	$	6,229,571
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Loss reserves	11	**$**	**574,753**	$	555,334
Unearned premiums			**365,408**		380,302
Federal Home Loan Bank advance	3		**155,000**		155,000
Senior notes	3		**421,155**		420,867
Convertible junior subordinated debentures	3		**256,872**		256,872
Other liabilities			**140,271**		151,962
Total liabilities			**1,913,459**		1,920,337
Contingencies	5				
Shareholders' equity:	12				
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2020 - 371,353; 2019 - 371,353; shares outstanding 2020 - 338,567; 2019 - 347,308)			**371,353**		371,353
Paid-in capital			**1,855,371**		1,869,719
Treasury stock at cost (shares 2020 - 32,786; 2019 - 24,045)			**(393,425)**		(283,196)
Accumulated other comprehensive income, net of tax			**1,224**		72,708
Retained earnings			**2,407,305**		2,278,650
Total shareholders' equity			**4,241,828**		4,309,234
Total liabilities and shareholders' equity		**$**	**6,155,287**	$	6,229,571

See accompanying notes to consolidated financial statements.

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

		Three Months Ended March 31,	
(In thousands, except per share data)	Note	**2020**	2019
Revenues:			
Premiums written:			
Direct		**$ 274,724**	$ 273,897
Assumed		**2,859**	1,107
Ceded	4	**(31,576)**	(30,723)
Net premiums written		**246,007**	244,281
Decrease in unearned premiums, net		**14,894**	5,480
Net premiums earned		**260,901**	249,761
Investment income, net of expenses		**41,347**	40,585
Net realized investment gains (losses)	7	**1,891**	(526)
Other revenue		**2,754**	1,830
Total revenues		**306,893**	291,650
Losses and expenses:			
Losses incurred, net	11	**60,956**	39,063
Amortization of deferred policy acquisition costs		**2,510**	2,478
Other underwriting and operating expenses, net		**42,262**	45,940
Interest expense		**12,926**	13,233
Total losses and expenses		**118,654**	100,714
Income before tax		**188,239**	190,936
Provision for income taxes		**38,434**	38,995
Net income		**$ 149,805**	$ 151,941
Earnings per share:			
Basic	6	**$ 0.44**	$ 0.43
Diluted	6	**$ 0.42**	$ 0.42
Weighted average common shares outstanding - basic	6	**344,053**	355,653
Weighted average common shares outstanding - diluted	6	**365,216**	376,667

See accompanying notes to consolidated financial statements.

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

		Three Months Ended March 31,	
(In thousands)	Note	**2020**	2019
Net income		**$ 149,805**	$ 151,941
Other comprehensive (loss) income, net of tax:	9		
Change in unrealized investment gains and losses	7	**(72,585)**	81,071
Benefit plan adjustments		**1,101**	1,650
Other comprehensive (loss) income, net of tax		**(71,484)**	82,721
Comprehensive income		**$ 78,321**	$ 234,662

See accompanying notes to consolidated financial statements.

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

		Three Months Ended March 31,	
(In thousands)	Note	**2020**	2019
Common stock			
Balance, beginning and end of period		**$ 371,353**	$ 371,353
Paid-in capital			
Balance, beginning of period		**1,869,719**	1,862,536
Reissuance of treasury stock, net under share-based compensation plans		**(18,667)**	(11,582)
Equity compensation		**4,319**	5,282
Balance, end of period		**1,855,371**	1,856,236
Treasury stock			
Balance, beginning of period		**(283,196)**	(175,059)
Reissuance of treasury stock, net under share-based compensation plans		**9,768**	5,930
Repurchase of common stock	12	**(119,997)**	—
Balance, end of period		**(393,425)**	(169,129)
Accumulated other comprehensive income (loss)			
Balance, beginning of period		**72,708**	(124,214)
Other comprehensive (loss) income, net of tax	9	**(71,484)**	82,721
Balance, end of period		**1,224**	(41,493)
Retained earnings			
Balance, beginning of period		**2,278,650**	1,647,275
Net income		**149,805**	151,941
Cash dividends	12	**(21,150)**	—
Balance, end of period		**2,407,305**	1,799,216
Total shareholders' equity		**$ 4,241,828**	$ 3,816,183

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
(In thousands)	**2020**	2019
Cash flows from operating activities:		
Net income	**$ 149,805**	$ 151,941
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**13,052**	11,908
Deferred tax expense	**15,877**	7,755
Net realized investment (gains) losses	**(1,891)**	526
Change in certain assets and liabilities:		
Accrued investment income	**2,763**	1,302
Reinsurance recoverable on loss reserves	**(4,115)**	1,453
Reinsurance recoverable on paid losses	**(170)**	(121)
Premium receivable	**2,147**	3,494
Deferred insurance policy acquisition costs	**(983)**	258
Profit commission receivable	**1,121**	(2,836)
Loss reserves	**19,419**	(18,755)
Unearned premiums	**(14,894)**	(5,481)
Return premium accrual	**(400)**	(3,100)
Current income taxes	**22,527**	30,983
Other, net	**(19,934)**	(14,446)
Net cash provided by operating activities	**184,324**	164,881
Cash flows from investing activities:		
Purchases of investments	**(280,614)**	(348,746)
Proceeds from sales of investments	**224,803**	106,010
Proceeds from maturity of fixed income securities	**222,544**	202,929
Additions to property and equipment	**(580)**	(308)
Net cash provided by (used in) investing activities	**166,153**	(40,115)
Cash flows from financing activities:		
Repurchase of common stock	**(119,997)**	(11,640)
Dividends paid	**(21,111)**	—
Payment of withholding taxes related to share-based compensation net share settlement	**(8,899)**	(5,652)
Net cash used in financing activities	**(150,007)**	(17,292)
Net increase in cash and cash equivalents and restricted cash and cash equivalents	**200,470**	107,474
Cash and cash equivalents and restricted cash and cash equivalents at beginning of period	**169,056**	155,038
Cash and cash equivalents and restricted cash and cash equivalents at end of period	**$ 369,526**	$ 262,512

See accompanying notes to consolidated financial statements.

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 to protect against loss from defaults on low down payment residential mortgage loans. MGIC Assurance Corporation ("MAC") and MGIC Indemnity Corporation ("MIC"), insurance subsidiaries of MGIC, provide insurance for certain mortgages under Fannie Mae and Freddie Mac (the "GSEs") credit risk transfer programs.

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, 2019 included in our 2019 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, 2020.

The vast majority of our insurance written since 2008 has been for loans purchased by the GSEs. The current private mortgage insurer eligibility requirements ("PMIERs") of the GSEs include financial requirements, as well as business, quality control and certain transactional approval requirements. The financial requirements of the PMIERs require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book of insurance in force, calculated from tables of factors with several risk dimensions). Based on our application of PMIERs, as of March 31, 2020, 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 2019 amounts have been made in the accompanying financial statements to conform to the 2020 presentation.

Recent Developments

While uncertain, the impact of the COVID-19 pandemic on the Company's business, financial results, liquidity and/or financial condition may be material. We expect that the increase in unemployment and economic uncertainty resulting from initiatives to reduce the transmission of COVID-19 (including "shelter-in-place" restrictions), as well as COVID-19-related illnesses and deaths, will negatively impact our business. Among other things, the negative impact is expected to include an increase in new defaults, which will increase our capital requirements under PMIERs and increase losses incurred, which will negatively affect our financial results. The magnitude of the impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the resulting level of unemployment, and the impact of various government initiatives (including the enactment of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act")) and actions taken by the GSEs (including implementation of mortgage forbearance and modification programs) to mitigate the economic harm caused by the COVID-19 pandemic and efforts to reduce its transmission.

Subsequent events

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

Note 2. Significant Accounting Policies

Investments

Each quarter we perform reviews of our investments to assess declines in the fair value of available-for-sale securities. Effective January 1, 2020, we adopted Accounting Standards Board (FASB) ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and related amendments, which created a new comprehensive credit loss standard, FASB Accounting Standards Codification (ASC) 326, Financial Instruments - Credit Losses. Upon adoption of ASC 326, any impairment losses on available-for-sale securities are recorded as an allowance, subject to reversal, rather than as a reduction to amortized cost, as was required under the previous other-than-temporary impairment (OTTI) model. Our evaluation of determining whether a decline below fair value requires an allowance does not consider the duration of the decline as was considered under the previous OTTI review. In accordance with the ASU, prior periods have not been restated.

Reinsurance Recoverables

Each quarter, we perform a review of our reinsurance recoverable to assess collectability. ASC 326 requires immediate recognition of estimated credit losses expected to occur over the remaining life of a reinsurance recoverable. Upon adoption of ASC 326, our analysis of the collectability included, at least quarterly, reviewing the credit ratings of individual reinsurers of the QSR transactions, investor reports for both Home Re Transactions, collateral held in trust accounts in which MGIC is the sole beneficiary, and aging of outstanding reinsurance recoverable balances.

Premium Receivable

ASC 326 requires immediate recognition of estimated credit losses expected to occur over the remaining life of premium receivable. In applying the CECL requirement to premium receivable, consideration is given to the life of the premium receivable asset, areas of potential credit loss, and incorporating forward-looking predictive indicators.

Income Taxes

The CARES Act became law on March 27, 2020. It was a response to the market volatility and instability resulting from the coronavirus pandemic, and includes individuals and businesses in the form of loans, grants, and tax changes, among other types of relief. The tax changes in the CARES Act do not materially impact our financial results.

Recent accounting and reporting developments

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

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

Effective January 1, 2020, we adopted ASC 326, Financial Instruments - Credit Losses. This new standard replaced the incurred loss impairment methodology with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under CECL, allowances are established by incorporating the forecast of future economic conditions into our loss estimate unless such forecast is not reasonable and supportable, in which case we revert to historical loss experience. Application of the CECL model impacts our reinsurance recoverables and premium receivable. ASC 326 also replaced the OTTI model with an impairment allowance model, subject to reversal, for available-for-sale investments, which are measured at fair value. Our mortgage insurance policies are outside the scope of ASC 326. The new guidance is not prescriptive about certain aspects of estimating expected credit losses, including the specific methodology to use, and therefore requires significant judgment in application. As a result of adopting ASC 326 we have determined that an allowance for credit losses related to our premium receivables, reinsurance recoverables, or available-for-sale securities was not necessary as of March 31, 2020. We continue to apply the previous guidance to 2019 and prior periods.

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

In August 2018, the FASB issued updated guidance that changes the disclosure requirements for fair value measurements. The updated guidance removed the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The updated guidance will require disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The adoption of the updated guidance did not have a material effect on our consolidated results of operations or liquidity.

Prospective Accounting Standards

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

Standard / Interpretation

Table 2.1

Amended Standards		**Effective date**
ASC 321, 323, 815	Investments	
	• *ASU 2020-01 - Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*	January 1, 2021
ASC 740	Income Taxes	
	• *ASU 2019-12 - Simplifying the Accounting for Income Taxes*	January 1, 2021
ASC 715	Compensation - Retirement Benefits	
	• *ASU 2018-14 - Changes to the Disclosure Requirements for Defined Benefit Plans*	January 1, 2021
ASC 848	Reference Rate	
	• *ASU 2020-04 - Reference Rate Reform*	March 12, 2020

Reference Rate Reform: ASU 2020-04

In March 2020, the FASB issued guidance which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting over concerns of the cessation of LIBOR. The updated guidance is effective for all entities as of March 12 2020 through December 31, 2022, as applicable, for contracts that are expected to be discontinued due to reference rate reform. We are currently evaluating the impacts the adoption of this guidance would have on our consolidated financial statement disclosures, but do not expect it to have a material impact.

Clarification of Accounting for Equity Securities: ASU 2020-01

In January 2020, the FASB issued guidance which clarifies certain interactions of accounting for equity securities under Topic 321, under the equity method of accounting in Topic 323, and accounting of certain forward contracts and purchased options in Topic 815. The amendment clarifies the consideration of observable transactions before applying or discounting the equity method of accounting. We are currently evaluating the impacts the adoption of this guidance will have on our consolidated financial statement disclosures, but do not expect it to have a material impact.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued guidance which simplifies Accounting for Income Taxes (Topic 740). The ASU intends to reduce complexity through clarification and amendments of existing guidance. The updated guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted in any interim periods for which financial statements have not been issued. 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.

Changes to the Disclosure Requirements for Defined Benefit Plans

In August 2018, the FASB issued amendments to modify the disclosure requirements for defined benefit plans. The updated guidance removed the requirements to identify amounts that are expected to be reclassified out of accumulated other comprehensive income and recognized as components of net periodic benefit cost in the coming year and the effects of a one-percentage-point change in assumed health care cost trend rates on service and interest cost and on the postretirement benefit obligation. The updated guidance added disclosures for the weighted-average interest crediting rates for cash balance plans and other plans with interest crediting rates and explanations for significant gains and losses related to changes in the benefit obligation for the period. The updated guidance is effective for annual periods beginning after December 15, 2020. Early adoption is permitted. An entity should apply the amendments on a retrospective basis to all periods presented. We are currently evaluating the impacts the adoption of this guidance will have on our consolidated financial statement disclosures, but do not expect it to have a material impact.

Note 3. Debt

Debt obligations

The par value of our long-term debt obligations and their aggregate carrying values as of March 31, 2020 and December 31, 2019 are presented in table 3.1 below.

Long-term debt obligations

Table 3.1

(In millions)	**March 31, 2020**	December 31, 2019
FHLB Advance - 1.91%, due February 2023	**$ 155.0**	$ 155.0
5.75% Notes, due August 2023 (par value: $425 million)	**421.2**	420.8
9% Debentures, due April 2063 (1)	**256.9**	256.9
Long-term debt, carrying value	**$ 833.1**	$ 832.7

(1) Convertible at any time prior to maturity at the holder's option, at a conversion rate, which is subject to adjustment, of 74.4718 shares per $1,000 principal amount, representing a conversion price of approximately $13.43 per share.

The 5.75% Senior Notes ("5.75% Notes"), 9% Convertible Junior Subordinated Debentures ("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

Interest payments for the three months ended March 31, 2020 and 2019 were $13.0 million and $13.1 million, respectively.

See Note 7 "Debt" in our Annual Report on Form 10-K for the year ended December 31, 2019 for additional information pertaining to our debt obligations. As of March 31, 2020 we are in compliance with all of our debt covenants.

Note 4. Reinsurance

The reinsurance agreements to which we are a party, excluding captive agreements (which were immaterial), are discussed below. The effect of all of our reinsurance agreements on premiums earned and losses incurred is shown in table 4.1 below.

Reinsurance

Table 4.1

(In thousands)	Three Months Ended March 31, **2020**	2019
Premiums earned:		
Direct	**$ 289,868**	$ 279,613
Assumed	**2,609**	872
Ceded	**(31,576)**	(30,724)
Net premiums earned	**$ 260,901**	$ 249,761
Losses incurred:		
Direct	**$ 66,562**	$ 40,804
Assumed	**166**	(67)
Ceded	**(5,772)**	(1,674)
Losses incurred, net	**$ 60,956**	$ 39,063

Quota share reinsurance

Each of the reinsurers under our quota share reinsurance agreements described below has an insurer financial strength rating of A- or better (or a comparable rating) by Standard and Poor's Rating Services, A.M. Best, Moody's, or a combination of the three.

2020 QSR Coverage. We entered into QSR agreements with a group of unaffiliated reinsurers with an effective date of January 1, 2020 (“2020 QSR Transaction”), which provides coverage on eligible NIW in 2020. Under the 2020 QSR Transaction, we will cede losses and premiums on or after the effective date through December 31, 2031, at which time the agreement expires. Early termination of the agreement can be elected by us effective December 31, 2022 and bi-annually thereafter, 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 full financial statement credit or full credit under applicable regulatory capital requirements for the risk ceded in any required calculation period.

The structure of the 2020 QSR Transaction is a 30% quota share, with a one-time option, elected by us, to reduce the cede rate to either 25% or 20% effective July 1, 2021, or bi-annually thereafter, for a fee, for all policies covered, with a 20% ceding commission as well as a profit commission. Generally, under the 2020 QSR Transaction, we will receive an annual profit commission provided the annual loss ratio on the loans covered under the transactions remains below 62%.

2021 QSR Coverage. In addition, one of the 2020 agreements also provides coverage on eligible NIW in 2021. ("2021 QSR Transaction").

Under the 2021 QSR Transaction, we cede losses incurred and premiums on or after the effective date through December 31, 2032 for 2021 NIW, at which time the agreement expires. Early termination of the agreement can be elected by us effective December 31, 2023, and bi-annually thereafter, 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 the 2021 QSR Transaction is a 17.5% quota share on 2021 NIW, with an option to reduce the cede rate to either 14.5% or 12% effective July 1, 2022 or semiannually thereafter. Generally, under the 2021 QSR Transaction, we will receive an annual profit commission provided the annual loss ratio on the loans covered under the transactions remains below 62%.

2019 and prior QSR Transactions. See Note 9 of Notes to Consolidated Financial Statements in our 2019 Form 10-K for more information about our QSR Transactions entered into prior to 2020.

Our quota share reinsurance transactions typically have annual loss ratio caps of 300% and lifetime loss ratio caps of 200%.

Table 4.2 below provides a summary of our quota share reinsurance agreements, excluding captive agreements, for the three months ended March 31, 2020 and 2019.

Quota Share Reinsurance

Table 4.2

	Three Months Ended March 31,	
(In thousands)	**2020**	2019
Ceded premiums written and earned, net of profit commission (1)	**$ 26,846**	$ 28,164
Ceded losses incurred	**5,804**	1,676
Ceding commissions (2)	**11,365**	13,409
Profit commission	**29,979**	38,881

(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 our QSR Transactions, currently in effect, reinsurance premiums, ceding commission and profit commission are settled net on a quarterly basis. The ceded premiums 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 $25.8 million as of March 31, 2020 and $21.6 million as of December 31, 2019. The reinsurance recoverable balance is secured by funds on deposit from the reinsurers, the amount of which is based on the funding requirements of PMIERs.

Excess of loss reinsurance

We have aggregate excess of loss reinsurance agreements ("Home Re Transactions") with unaffiliated special purpose insurers domiciled in Bermuda ("Home Re Entities"). For the reinsurance coverage periods, we retain the first layer of the respective aggregate losses, and a Home Re special purpose entity will then provide second layer coverage up to the outstanding reinsurance coverage amount. We retain losses in excess of the outstanding reinsurance coverage amount. The aggregate excess of loss reinsurance coverage decreases over a ten-year period, subject to certain conditions, as the underlying covered mortgages amortize or are repaid, or mortgage insurance losses are paid. MGIC has rights to terminate the Home Re Transactions under certain circumstances. The Home Re entities financed the coverages by issuing mortgage insurance-linked notes ("ILNs") to unaffiliated investors in an aggregate amount equal to the initial reinsurance coverage amounts. The ILNs each have ten-year legal maturities and are non-recourse to any assets of MGIC or affiliates. The proceeds of the ILNs, which were deposited into reinsurance trusts for the benefit of MGIC, will be the source of reinsurance claim payments to MGIC and principal repayments on the ILNs.

Table 4.3 provides a summary of our excess of loss reinsurance agreements as of March 31, 2020 and December 31, 2019.

Excess of Loss Reinsurance

Table 4.3

(In thousands)			March 31, 2020		December 31, 2019	
Home Re Entity (Issue Date)	Policy Inforce Dates	Termination Option Date (1)	Remaining First Layer Retention	Remaining Excess of Loss Reinsurance Coverages	Remaining First Layer Retention	Remaining Excess of Loss Reinsurance Coverages
Home Re 2018-1 Ltd. (Oct. - 2018)	July 1, 2016 - December 31, 2017	October 25, 2025	$ 167,328	$ 233,626	$ 167,779	$ 260,957
Home Re 2019-1 Ltd. (May - 2019)	January 1, 2018 - March 31, 2019	May 25, 2026	185,297	229,649	185,636	271,021
Total			$ 352,625	$ 463,275	$ 353,415	$ 531,978

(1) We have the right to terminate the excess-of-loss reinsurance agreements under certain circumstances and on any payment date on or after the respective termination option date.

The reinsurance premiums ceded to each Home Re Entity are composed of coverage, initial expense and supplemental premiums. The coverage premiums are generally calculated as the difference between the amount of interest payable by the Home Re Entity on the unpaid portion of the ILNs it issued to raise funds to collateralize its reinsurance obligations to us, and the investment income collected on the collateral assets. The amount of monthly reinsurance coverage premium ceded will fluctuate due to changes in one-month LIBOR, (or the fallback reference rate, as applicable) and changes in money market rates that affect investment income collected on the assets in the reinsurance trust. As a result, we concluded that each reinsurance agreement contains an embedded derivative that is accounted for separately as a freestanding derivative. The fair values of the derivatives at March 31, 2020, were not material to our consolidated balance sheet, and the change in fair value during the three months ended March 31, 2020 was not material to our consolidated statements of operations. Total ceded premiums were $4.7 million and $2.5 million for the three months ended March 31, 2020 and March 31, 2019, respectively.

At the time the Home Re Transactions were entered into, we concluded that each Home Re Entity is a variable interest entity ("VIE"). A VIE is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make sufficient decisions relating to the entity's operations through voting rights or do not substantively participate in gains and losses of the entity. Given that MGIC (1) does not have the unilateral power to direct the activities that most significantly affect each Home Re Entity's economic performance and (2) does not have the obligation to absorb losses or the right to receive benefits of each Home Re Entity, consolidation of neither Home Re Entity is required.

We are required to disclose our maximum exposure to loss, which we consider to be an amount that we could be required to record in our statements of operations, as a result of our involvement with the VIEs under our Home Re Transactions. As of March 31, 2020, and December 31, 2019, we did not have material exposure to the VIEs as we have no investment in the VIEs and had no reinsurance claim payments due from either VIE under our reinsurance agreements. We are unable to determine the timing or extent of claims from losses that are ceded under the reinsurance agreements. The VIE assets are deposited in reinsurance trusts for the benefit of MGIC that will be the source of reinsurance claim payments to MGIC. The purpose of the reinsurance trusts is to provide security to MGIC for the obligations of the VIEs under the reinsurance agreements. The trustee of the reinsurance trusts, a recognized provider of corporate trust services, has established segregated accounts within the reinsurance trusts for the benefit of MGIC, pursuant to the trust agreements. The trust agreements are governed by, and construed in accordance with, the laws of the State of New York. If the trustee of the reinsurance trusts failed to distribute claim payments to us as provided in the reinsurance trusts, we would incur a loss related to our losses ceded under the reinsurance agreements and deemed unrecoverable. We are also unable to determine the impact such possible failure by the trustee to perform pursuant to the reinsurance trust agreements may have on our consolidated financial statements. As a result, we are unable to quantify our maximum exposure to loss related to our involvement with the VIEs. MGIC has certain termination rights under the reinsurance agreements should its claims not be paid. We consider our exposure to loss from our reinsurance agreements with the VIEs to be remote.

Table 4.4 presents the total assets of the Home Re Entities as of March 31, 2020 and December 31, 2019.

Home Re total assets

Table 4.4

(In thousands)

Home Re Entity (Issue date)		**Total VIE Assets**
March 31, 2020		
Home Re 2018-01 Ltd. (Oct - 2018)	**$**	**245,314**
Home Re 2019-01 Ltd. (May - 2019)		**247,276**
December 31, 2019		
Home Re 2018-01 Ltd. (Oct - 2018)	$	269,451
Home Re 2019-01 Ltd. (May - 2019)		283,150

The reinsurance trust agreements provide that the trust assets may generally only be invested in certain money market funds that (i) invest at least 99.5% of their total assets in cash or direct U.S. federal government obligations, such as U.S. Treasury bills, as well as other short-term securities backed by the full faith and credit of the U.S. federal government or issued by an agency of the U.S. federal government, (ii) have a principal stability fund rating of "AAAm" by S&P or a money market fund rating of "Aaa-mf" by Moody's as of the Closing Date and thereafter maintain any rating with either S&P or Moody's, and (iii) are permitted investments under the applicable credit for reinsurance laws and applicable PMIERs credit for reinsurance requirements.

The assets of the Home Re Entities provide capital credit under the PMIERs financial requirements (see Note 1 - "Nature of Business and Basis of Presentation"). A decline in the assets available to pay claims and principal repayments reduces the capital credit available to MGIC.

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. We refer to insurance rescissions and denials of claims collectively as "rescissions" and variations of that term. In addition, our insurance policies generally 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 2019, and the first three months of 2020, curtailments reduced our average claim paid by approximately 5.0% and 4.4%, respectively.

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

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

Under ASC 450-20, until a loss associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss. When we determine that a loss is probable and can be reasonably estimated, we record our best estimate of our probable loss. In those cases, until settlement negotiations or legal proceedings are concluded; (including the receipt of any necessary GSE approvals), it is reasonably possible that we will record an additional loss. We are currently involved in discussions and/or proceedings with respect to our claims paying practices. Although it is reasonably possible that when resolved we will not prevail on all matters, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure where a loss is reasonably possible to be approximately $47 million. This estimate of maximum exposure is based upon currently available information; is subject to significant judgment, numerous assumptions and known and unknown uncertainties; will include an amount for matters for which we have recorded a probable loss until such matters are concluded; will include different matters from time to time; and does not include interest or consequential or exemplary damages.

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 consolidated results of operations.

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. For purposes of calculating basic EPS, vested restricted stock and restricted stock units ("RSUs") are considered 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 treasury stock method, diluted EPS reflects the potential dilution that could occur if unvested RSUs result in the issuance of common stock. Under the if-converted method, diluted EPS reflects the potential dilution that could occur if our 9% Debentures result in the issuance of common stock. The determination of potentially issuable shares does not consider the satisfaction of the conversion requirements and the shares are included in the determination of diluted EPS as of the beginning of the period, if dilutive.

Table 6.1 reconciles the numerators and denominators used to calculate basic and diluted EPS.

Earnings per share

Table 6.1

	Three Months Ended March 31,	
(In thousands, except per share data)	**2020**	2019
Basic earnings per share:		
Net income	**$ 149,805**	$ 151,941
Weighted average common shares outstanding - basic	**344,053**	355,653
Basic earnings per share	**$ 0.44**	$ 0.43
Diluted earnings per share:		
Net income	**$ 149,805**	$ 151,941
Interest expense, net of tax (1):		
9% Debentures	**4,566**	4,566
Diluted income available to common shareholders	**$ 154,371**	$ 156,507
Weighted average common shares outstanding - basic	**344,053**	355,653
Effect of dilutive securities:		
Unvested RSUs	**2,033**	1,986
9% Debentures	**19,130**	19,028
Weighted average common shares outstanding - diluted	**365,216**	376,667
Diluted earnings per share	**$ 0.42**	$ 0.42

(1) The periods ended March 31, 2020 and 2019 were tax-effected at a rate of 21%.

Note 7. Investments

Fixed income securities

The amortized cost, gross unrealized gains and losses, and fair value of investments in fixed income securities classified as available-for-sale at March 31, 2020 and December 31, 2019 are shown in tables 7.1a and 7.1b below.

Details of fixed income securities by category as of March 31, 2020

Table 7.1a

(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	$ 197,330	$ 2,408	$ (21)	$ 199,717
Obligations of U.S. states and political subdivisions	1,614,562	99,532	(3,258)	1,710,836
Corporate debt securities	2,508,051	44,386	(41,335)	2,511,102
Asset backed securities (“ABS”)	210,930	2,031	(6,311)	206,650
Residential mortgage backed securities (“RMBS”)	259,641	6,032	(758)	264,915
Commercial mortgage backed securities (“CMBS”)	268,598	3,161	(3,172)	268,587
Collateralized loan obligations (“CLOs”)	316,270	—	(19,231)	297,039
Total fixed income securities	$ 5,375,382	$ 157,550	$ (74,086)	$ 5,458,846

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

Table 7.1b

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

(1) At March 31, 2020 there was no allowance established on available-for-sale securities.

(2) At December 31, 2019 there was no other-than-temporary impairment losses recorded in other comprehensive income.

We had $14.2 million and $13.9 million of investments at fair value on deposit with various states as of March 31, 2020 and December 31, 2019, respectively, due to regulatory requirements of those state insurance departments.

The amortized cost and fair values of fixed income securities at March 31, 2020, by contractual maturity, are shown in table 7.2 below. Actual 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 ABS, RMBS, CMBS, and CLOs provide for periodic payments throughout their lives, they are listed in separate categories.

Fixed income securities maturity schedule

Table 7.2

	March 31, 2020	
(In thousands)	**Amortized cost**	**Fair Value**
Due in one year or less	**$ 421,097**	**$ 421,290**
Due after one year through five years	**1,774,678**	**1,782,206**
Due after five years through ten years	**994,134**	**1,021,561**
Due after ten years	**1,130,034**	**1,196,598**
	4,319,943	**4,421,655**
ABS	**210,930**	**206,650**
RMBS	**259,641**	**264,915**
CMBS	**268,598**	**268,587**
CLOs	**316,270**	**297,039**
Total as of March 31, 2020	**$ 5,375,382**	**$ 5,458,846**

Proceeds from sales of fixed income securities classified as available-for-sale were $212.8 million and $106.0 million during the three months ended March 31, 2020 and 2019, respectively. During the three months ended March 31, 2020, gross gains and gross losses of $5.1 million and $1.3 million, respectively, were realized on those sales, and we recorded realized losses of $0.3 million related to our intent to sell certain securities. During the three months ended March 31, 2019, gross gains and gross losses of $0.7 million and gross losses of $1.3 million were realized on those sales, and we recorded OTTI losses of $0.1 million.

Equity securities

The cost and fair value of investments in equity securities at March 31, 2020 and December 31, 2019 are shown in tables 7.3a and 7.3b below.

Details of equity security investments as of March 31, 2020

Table 7.3a

(In thousands)	**Cost**	**Gross Gains**	**Gross Losses**	**Fair Value**
Equity securities	**$ 29,559**	**$ 99**	**$ (766)**	**$ 28,892**

Details of equity security investments as of December 31, 2019

Table 7.3b

(In thousands)	Cost	Gross Gains	Gross Losses	Fair Value
Equity securities	$ 17,188	$ 154	$ (14)	$ 17,328

For the three months ended March 31, 2020, we recognized $(0.8) million of net losses on equity securities still held as of March 31, 2020. For the three months ended March 31, 2019, we recognized $0.1 million of net gains on equity securities still held as of March 31, 2019.

Other invested assets

Other invested assets include an investment in Federal Home Loan Bank ("FHLB") stock that is carried at cost, which due to its nature approximates fair value. Ownership of FHLB stock provides access to a secured lending facility, and our current FHLB Advance amount is secured by eligible collateral whose fair value is maintained at a minimum of 102% of the outstanding principal balance of the FHLB Advance. As of March 31, 2020, that collateral consisted of fixed income securities included in our total investment portfolio, and cash and cash equivalents, with a total fair value of $164.9 million.

Unrealized investment losses

Tables 7.4a and 7.4b below summarize, for all available-for-sale investments in an unrealized loss position at March 31, 2020 and December 31, 2019, the aggregate fair value and gross unrealized loss by the length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in tables 7.4a and 7.4b are estimated using the process described in Note 8 - "Fair Value Measurements" to these consolidated financial statements and in Note 3 - "Significant Accounting Policies" of the notes to the consolidated financial statements in our 2019 Annual Report on Form 10-K.

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

Table 7.4a

	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	$ 12,558	$ (21)	$ —	$ —	**$ 12,558**	**$ (21)**
Obligations of U.S. states and political subdivisions	99,354	(3,255)	2,017	(3)	**101,371**	**(3,258)**
Corporate debt securities	1,034,108	(41,208)	907	(127)	**1,035,015**	**(41,335)**
ABS	64,104	(6,311)	—	—	**64,104**	**(6,311)**
RMBS	7,664	(60)	62,645	(698)	**70,309**	**(758)**
CMBS	133,290	(3,086)	7,593	(86)	**140,883**	**(3,172)**
CLOs	186,582	(10,075)	110,457	(9,156)	**297,039**	**(19,231)**
Total	$ 1,537,660	$ (64,016)	$ 183,619	$ (10,070)	**$ 1,721,279**	**$ (74,086)**

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

Table 7.4b

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

Based on current facts and circumstances, we believe the unrealized losses as of March 31, 2020 presented in table 7.4a above are not indicative of the ultimate collectability of the current amortized cost of the securities. We believe the gross unrealized losses are primarily attributable to widening credit spreads over risk free rates beyond historic norms, as a result of market uncertainties arising from the COVID-19 pandemic, which includes demand shocks in multiple sectors that originated in the first quarter of 2020.

The unrealized losses in all categories of our investments at December 31, 2019 were primarily caused by changes in interest rates between the time of purchase and December 31, 2019.

There were 321 and 217 securities in an unrealized loss position at March 31, 2020 and December 31, 2019, respectively.

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

Note 8. Fair Value Measurements

Recurring fair value measurements

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

Level 1 measurements

- Fixed income securities: Consist of primarily U.S. Treasury securities with valuations derived from quoted prices for identical instruments in active markets that we can access.
- Equity securities: Consist of actively traded, exchange-listed equity securities, including exchange traded funds ("ETFs"), with valuations derived from quoted prices for identical assets in active markets that we can access.
- Other: Consists of money market funds with valuations derived from quoted prices for identical assets in active markets that we can access.

Level 2 measurements

- Fixed income securities:

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

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

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

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

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

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

Level 3 measurements

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

Assets measured at fair value, by hierarchy level, as of March 31, 2020 and December 31, 2019 are shown in tables 8.1a and 8.1b below. The fair value of the assets is estimated using the process described above, and more fully in Note 3 - "Significant Accounting Policies" of the notes to the consolidated financial statements in our 2019 Annual Report on Form 10-K.

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

Table 8.1a

(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	**$ 199,717**	$ 42,091	$ 157,626	$ —
Obligations of U.S. states and political subdivisions	**1,710,836**	—	1,710,836	—
Corporate debt securities	**2,511,102**	—	2,511,102	—
ABS	**206,650**	—	206,650	—
RMBS	**264,915**	—	264,915	—
CMBS	**268,587**	—	268,587	—
CLOs	**297,039**	—	297,039	—
Total fixed income securities	**5,458,846**	42,091	5,416,755	—
Equity securities	**28,892**	28,892	—	—
Other (1)	**365,519**	364,517	1,002	—
Real estate acquired (2)	**6,226**	—	—	6,226
Total	**$ 5,859,483**	$ 435,500	$ 5,417,757	$ 6,226

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

Table 8.1b

(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	$ 196,203	$ 34,240	$ 161,963	$ —
Obligations of U.S. states and political subdivisions	1,653,865	—	1,653,865	—
Corporate debt securities	2,785,122	—	2,785,122	—
ABS	229,664	—	229,664	—
RMBS	268,586	—	268,586	—
CMBS	278,986	—	278,986	—
CLOs	325,466	—	325,466	—
Total fixed income securities	5,737,892	34,240	5,703,652	—
Equity securities	17,328	17,328	—	—
Other (1)	164,693	164,693	—	—
Real estate acquired (2)	7,252	—	—	7,252
Total	$ 5,927,165	$ 216,261	$ 5,703,652	$ 7,252

(1) Consists of money market funds included in "Cash and Cash Equivalents" and "Restricted Cash and Cash Equivalents" on the consolidated balance sheets.

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

Certain financial instruments, including insurance contracts, are excluded from 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."

Reconciliations of Level 3 assets

For assets measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the three months ended March 31, 2020 and 2019 is shown in tables 8.2a and 8.2b below. 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.

Fair value roll-forward for financial instruments classified as Level 3 for the three months ended March 31, 2020

Table 8.2a

(In thousands)	Fixed income	Real Estate Acquired
Balance at December 31, 2019	$ —	$ 7,252
Purchases	—	4,115
Sales	—	(5,198)
Included in earnings and reported as losses incurred, net	—	57
Balance at March 31, 2020	**$ —**	**$ 6,226**

Fair value roll-forward for financial instruments classified as Level 3 for the three months ended March 31, 2019

Table 8.2b

(In thousands)	Fixed income	Real Estate Acquired
Balance at December 31, 2018	$ 13	$ 14,535
Purchases	—	8,084
Sales	(13)	(10,872)
Included in earnings and reported as losses incurred, net	—	(108)
Balance at March 31, 2019	$ —	$ 11,639

Financial assets and liabilities not measured at fair value

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

Financial liabilities include our outstanding debt obligations. The fair values of our 5.75% Notes and 9% Debentures were based on observable market prices. The fair value of the FHLB Advance was estimated using cash flows discounted at current incremental borrowing rates for similar borrowing arrangements. In all cases the fair values of the financial liabilities below are categorized as Level 2.

Table 8.3 presents the carrying value and fair value of our financial assets and liabilities disclosed, but not carried, at fair value at March 31, 2020 and December 31, 2019.

Financial assets and liabilities not measured at fair value

Table 8.3

	March 31, 2020		December 31, 2019	
(In thousands)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Other invested assets	**$ 3,100**	**$ 3,100**	$ 3,100	$ 3,100
Financial liabilities				
FHLB Advance	**$ 155,000**	**$ 161,575**	$ 155,000	$ 156,422
5.75% Senior Notes	**421,155**	**395,025**	420,867	471,827
9% Convertible Junior Subordinated Debentures	**256,872**	**334,252**	256,872	346,289
Total financial liabilities	**$ 833,027**	**$ 890,852**	$ 832,739	$ 974,538

Note 9. Other Comprehensive Income

The pretax and related income tax benefit (expense) components of our other comprehensive (loss) income for the three months ended March 31, 2020 and 2019 are included in table 9.1 below.

Components of other comprehensive income (loss)

Table 9.1

(In thousands)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net unrealized investment (losses) gains arising during the period	**$ (91,880)**	$ 102,621
Income tax benefit (expense)	**19,295**	(21,550)
Net of taxes	**(72,585)**	81,071
Net changes in benefit plan assets and obligations	**1,394**	2,089
Income tax expense	**(293)**	(439)
Net of taxes	**1,101**	1,650
Total other comprehensive (loss) income	**(90,486)**	104,710
Total income tax benefit (expense)	**19,002**	(21,989)
Total other comprehensive (loss) income, net of tax	**$ (71,484)**	$ 82,721

The pretax and related income tax (expense) benefit components of the amounts reclassified from our accumulated other comprehensive income (loss) ("AOCI") to our consolidated statements of operations for the three months ended March 31, 2020 and 2019 are included in table 9.2 below.

Reclassifications from AOCI

Table 9.2

(In thousands)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Reclassification adjustment for net realized gains (losses) (1)	**$ 4,714**	$ (2,679)
Income tax (expense) benefit	**(990)**	563
Net of taxes	**3,724**	(2,116)
Reclassification adjustment related to benefit plan assets and obligations (2)	**(1,394)**	(2,089)
Income tax benefit	**293**	439
Net of taxes	**(1,101)**	(1,650)
Total reclassifications	**3,320**	(4,768)
Total income tax (expense) benefit	**(697)**	1,002
Total reclassifications, net of tax	**$ 2,623**	$ (3,766)

(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.

A rollforward of AOCI for the three months ended March 31, 2020, including amounts reclassified from AOCI, are included in table 9.3 below.

Rollforward of AOCI

Table 9.3

	Three Months Ended March 31, 2020		
(In thousands)	Net unrealized gains and (losses) on available-for-sale securities	Net benefit plan assets and (obligations) recognized in shareholders' equity	Total accumulated other comprehensive income (loss)
Balance at December 31, 2019, net of tax	138,521	(65,813)	72,708
Other comprehensive income before reclassifications	**(68,861)**	**—**	**(68,861)**
Less: Amounts reclassified from AOCI	**3,724**	**(1,101)**	**2,623**
Balance, March 31, 2020, net of tax	**$ 65,936**	**$ (64,712)**	**$ 1,224**

Note 10. Benefit Plans

Table 10.1 provide the components of net periodic benefit cost for our pension, supplemental executive retirement and other postretirement benefit plans for the three months ended March 31, 2020 and 2019.

Components of net periodic benefit cost

Table 10.1

	Three Months Ended March 31,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefit Plans	
(In thousands)	**2020**	2019	**2020**	2019
Service cost	**$ 1,821**	$ 1,996	**$ 309**	$ 312
Interest cost	**3,414**	3,955	**214**	291
Expected return on plan assets	**(5,580)**	(4,908)	**(1,852)**	(1,445)
Amortization of net actuarial losses/(gains)	**1,634**	2,167	**(190)**	—
Amortization of prior service cost/(credit)	**(62)**	(70)	**13**	(8)
Net periodic benefit cost (benefit)	**$ 1,227**	$ 3,140	**$ (1,506)**	$ (850)

We currently intend to make contributions totaling $12.5 million to our qualified pension plan and supplemental executive retirement plan in 2020.

Note 11. Loss Reserves

We establish case reserves and loss adjustment expenses ("LAE") reserves when we receive notices of delinquency on insured mortgage loans. Notices of delinquency are typically reported to us when loans are two payments past due. Case reserves are established by estimating the number of loans in our inventory of delinquent loans that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity.

IBNR reserves are established for estimated losses from delinquencies occurring prior to the close of an accounting period on notices of delinquency not yet reported to us. IBNR reserves are also established using estimated claim rates and claim severities.

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment and the current and future strength of local housing markets; exposure on insured loans; the amount of time between delinquency and claim filing; and curtailments and rescissions. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, 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 consolidated results of operations and financial position, even in a stable economic environment.

The "Losses incurred" section of table 11.1 below shows losses incurred on delinquencies that occurred in the current year and in prior years. The amount of losses incurred relating to delinquencies that occurred in the current year represents the estimated amount to be ultimately paid on such delinquencies. The amount of losses incurred relating to delinquencies that occurred in prior years represents the difference between the actual claim rate and severity associated with those delinquencies resolved in the current year compared to the estimated claim rate and severity at the prior year-end, as well as a re-estimation of amounts to be ultimately paid on delinquencies continuing from the end of the prior year. This re-estimation of the claim rate and severity is the result of our review of current trends in the delinquent inventory, such as percentages of delinquencies that have resulted in a claim, the amount of the claims relative to the average loan exposure, changes in the relative level of delinquencies by geography and changes in average loan exposure.

Losses incurred on delinquencies that occurred in the current year increased in the first three months of 2020 compared to the same period in 2019, due to an increase in the claim rate and severity due to the current macroeconomic environment related to the COVID-19 pandemic. This was offset by a decrease of approximately 9% fewer new delinquency notices received in 2020, compared to the same period last year. In the first quarter of 2020, we also increased our IBNR reserve by $7.8 million.

The "Losses paid" section of table 11.1 below shows the amount of losses paid on delinquencies that occurred in the current year and losses paid on delinquencies that occurred in prior years. For several years, the average time it took to receive a claim associated with a delinquency had increased significantly from our historical experience of approximately twelve months. This was, in part, due to new loss mitigation protocols established by servicers and to changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation processes. In recent quarters, we have experienced a decline in the average time it takes servicers to process foreclosures, which has reduced the average time to receive a claim associated with new delinquent notices that do not cure. All else being equal, the longer the period between delinquency and claim filing, the greater the severity

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

Premium refunds

Our estimate of premiums to be refunded on expected claim payments is accrued for separately in “Other Liabilities” on our consolidated balance sheets and approximated $29 million and $30 million at March 31, 2020 and December 31, 2019, respectively.

Table 11.1 provides a reconciliation of beginning and ending loss reserves as of and for the three months ended March 31, 2020 and 2019.

Development of reserves for losses and loss adjustment expenses

Table 11.1

	Three Months Ended March 31,	
(In thousands)	**2020**	2019
Reserve at beginning of period	**$ 555,334**	$ 674,019
Less reinsurance recoverable	**21,641**	33,328
Net reserve at beginning of period	**533,693**	640,691
Losses incurred:		
Losses and LAE incurred in respect of delinquency notices received in:		
Current year	**59,799**	47,488
Prior years (1)	**1,157**	(8,425)
Total losses incurred	**60,956**	39,063
Losses paid:		
Losses and LAE paid in respect of delinquency notices received in:		
Current year	**39**	—
Prior years	**45,633**	56,365
Reinsurance terminations	**(20)**	—
Total losses paid	**45,652**	56,365
Net reserve at end of period	**548,997**	623,389
Plus reinsurance recoverables	**25,756**	31,875
Reserve at end of period	**$ 574,753**	$ 655,264

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

The prior year development of the reserves in the first three months of 2020 and 2019 is reflected in table 11.2 below.

Reserve development on previously received delinquencies

Table 11.2

	Three Months Ended March 31,	
(In millions)	**2020**	2019
Decrease in estimated claim rate on primary defaults	**$ —**	$ (31)
Increase in estimated severity on primary defaults	**3**	—
Change in estimates related to pool reserves, LAE reserves, reinsurance, and other	**(2)**	23
Total prior year loss development (1)	**$ 1**	$ (8)

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

Delinquent inventory

A rollforward of our primary delinquent inventory for the three months ended March 31, 2020 and 2019 appears in table 11.3 below. The information concerning new notices and cures is compiled from monthly reports received from loan servicers. The level of new notice and cure activity reported in a particular month can be influenced by, among other things, the date on which a servicer generates its report, the number of business days in a month and transfers of servicing between loan servicers.

Delinquent inventory rollforward

Table 11.3

	Three Months Ended March 31,	
	2020	2019
Delinquent inventory at beginning of period	**30,028**	32,898
New notices	**12,398**	13,611
Cures	**(14,113)**	(14,348)
Paid claims	**(897)**	(1,188)
Rescissions and denials	**(32)**	(52)
Delinquent inventory at end of period	**27,384**	30,921

The decrease in the primary delinquent inventory experienced during 2020 was generally across all markets and primarily in books years 2008 and prior. Historically as a delinquency ages it becomes more likely to result in a claim.

The CARES Act and other related actions includes payment forbearance on mortgages to borrowers experiencing a hardship during the COVID-19 pandemic. Forbearance allows for mortgage payments to be suspended for up to 360 days. Loans in forbearance are included in our delinquent inventory.

Table 11.4 below shows the number of consecutive months a borrower is delinquent. Historically as a delinquency ages it becomes more likely to result in a claim.

Primary delinquent inventory - consecutive months delinquent

Table 11.4

	March 31, 2020	December 31, 2019	March 31, 2019
3 months or less	**7,567**	9,447	8,568
4-11 months	**9,535**	9,664	9,997
12 months or more (1)	**10,282**	10,917	12,356
Total	**27,384**	30,028	30,921
3 months or less	**28%**	32%	28%
4-11 months	**35%**	32%	32%
12 months or more	**37%**	36%	40%
Total	**100%**	100%	100%
Primary claims received inventory included in ending delinquent inventory	**472**	538	665

(1) Approximately 34%, 36%, and 38% of the primary delinquent inventory delinquent for 12 consecutive months or more has been delinquent for at least 36 consecutive months as of March 31, 2020, December 31, 2019, and March 31, 2019, respectively.

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. 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 12. Shareholders' Equity

Share repurchase programs

During the three months ended March 31, 2020 we repurchased approximately 9.6 million shares of our common stock at a weighted average cost per share of $12.47, which included commissions. We may repurchase up to an additional $291 million of our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in the January 2020. Repurchases may be made from time to time on the open market or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time, and in light of the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases.

Cash dividends

In February 2020, we paid a quarterly cash dividend of $0.06 per share to shareholders which totaled $21 million. On April 23, 2020, the Board of Directors declared a quarterly cash dividend to holders of the company's common stock of $0.06 per share payable on May 29, 2020, to shareholders of record at the close of business on May 11, 2020.

Note 13. 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.

Table 13.1 shows the number of restricted stock units (RSUs) granted to employees and the weighted average fair value per share during the periods presented (shares in thousands).

Restricted stock unit grants

Table 13.1

	Three months ended March 31,			
	2020		2019	
	RSUs Granted *(in thousands)*	**Weighted Average Share Fair Value**	RSUs Granted *(in thousands)*	Weighted Average Share Fair Value
RSUs subject to performance conditions	**1,282**	**$ 12.87**	1,378	$ 11.76
RSUs subject only to service conditions	**373**	**13.11**	412	11.76

Note 14. 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 RIF (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the "State Capital Requirements" and, together with the GSE Financial Requirements, the "Financial Requirements." While they vary among jurisdictions, the most common State Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if (i) the percentage decrease in capital exceeds the percentage decrease in insured risk, or (ii) the percentage increase in capital is less than the percentage increase in insured risk. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position ("MPP"). The "policyholder position" of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums.

At March 31, 2020, 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 $2.8 billion above the required MPP of $1.7 billion. The calculation of our risk-to-capital ratio and MPP reflect credit for the risk ceded under our QSR Transactions and Home Re 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 March 31, 2020, the risk-to-capital ratio of our combined insurance operations was 10.2 to 1.

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

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. 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.

Dividend restrictions

In the first quarter of 2020, MGIC paid a $390 million in dividends to our holding company. MGIC is not planning to request a dividend to be paid to our holding company in the second quarter. 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 principles prescribed, or practices permitted by the State of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company. The OCI has adopted certain prescribed accounting practices that differ from those found in other states. Specifically, Wisconsin domiciled companies record changes in their contingency reserves through their income statement as a change in underwriting deduction. As a result, in periods in which MGIC is increasing contingency reserves, statutory net income is reduced.

Statutory Financial Information

The statutory net income, policyholders' surplus, and contingency reserve liability of the insurance subsidiaries of our holding company are shown in table 14.1. The surplus amounts included in the following table are the combined policyholders' surplus of our insurance operations as utilized in our risk-to-capital calculations.

Statutory financial information of holding company and insurance subsidiaries

Table 14.1

	As of and for the Three Months Ended	
(In thousands)	**March 31, 2020**	March 31, 2019
Statutory net income	**$ 55,746**	$ 65,561
Statutory policyholders' surplus	**1,271,244**	1,667,058
Contingency reserve	**3,166,180**	2,583,429

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 first quarter of 2020. The COVID-19 pandemic did not have a material impact to our first quarter financial results, liquidity and/or financial condition. While the magnitude of the impact of the COVID-19 pandemic on future financial results, liquidity and/or financial condition is uncertain, we expect it will negatively impact our business. 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, 2019. See the “Glossary of terms and acronyms” for definitions and descriptions of terms used throughout this MD&A. The Risk Factors referred to under “Forward Looking Statements and Risk Factors” below, discuss trends and uncertainties affecting us and are an integral part of the 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. These forward looking statements, including the discussion of the impact of the COVID-19 pandemic, speak only as of the date of this filing and are subject to change without notice as the Company cannot predict all risks relating to this evolving set of events. 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.

Overview

Summary financial results of MGIC Investment Corporation

	Three Months Ended March 31,		
(In millions, except per share data, unaudited)	**2020**	2019	% Change
Selected statement of operations data			
Total revenues	**$ 306.9**	$ 291.7	5
Losses incurred, net	**61.0**	39.1	56
Other underwriting and operating expenses, net	**42.3**	45.9	(8)
Income before tax	**188.2**	190.9	(1)
Provision for income taxes	**38.4**	39.0	(2)
Net income	**149.8**	151.9	(1)
Diluted income per share	**$ 0.42**	$ 0.42	—
Non-GAAP Financial Measures (1)			
Adjusted pre-tax operating income	**$ 185.4**	$ 191.6	(3)
Adjusted net operating income	**147.5**	152.4	(3)
Adjusted net operating income per diluted share	**$ 0.42**	$ 0.42	—

(1) See "Explanation and reconciliation of our use of Non-GAAP financial measures."

Summary of first quarter 2020 results

Comparative quarterly results

We recorded first quarter 2020 net income of $149.8 million, or $0.42 per diluted share. Net income decreased by $2.1 million (1%) from net income of $151.9 million in the prior year, primarily reflecting an increase in losses incurred, net, partially offset by an increase in revenues. Net premiums earned increased due to higher average insurance in force and an increase in accelerated premiums from single premium policy cancellations, partially offset by lower premium rates. Diluted income per share was unchanged as a decrease in our weighted average shares outstanding offset the decline in net income.

Adjusted net operating income for the first quarter 2020 was $147.5 million (Q1 2019: $152.4 million) and adjusted net operating income per diluted share was $0.42 (Q1 2019: $0.42). Adjusted net operating income per diluted share was unchanged from the prior year period as a decrease in our diluted weighted average shares outstanding offset the decline in adjusted net operating income.

Losses incurred, net for the first quarter of 2020 were $61.0 million, an increase of $21.9 million compared to the prior year. In the first quarter of 2020, we received approximately 9% fewer new delinquency notices than we did in the same period last year. Over the past several quarters we had recorded favorable reserve development including $31 million in favorable development in the first quarter of 2019. In the first quarter of 2020, our re-estimation of reserves on previous delinquencies resulted in minimal adverse loss reserve development. The first quarter of 2020 also reflects an increase in our incurred but not reported reserve, or IBNR, from $22 million to $30 million, as well as an increased claim rate on new notices due to the COVID-19 pandemic and the current macroeconomic environment.

The decrease in our provision for income taxes in the first quarter of 2020 as compared to the prior year was due to a decrease in income before tax.

Capital

MGIC dividend payments to our holding company

In the first three months of 2020, MGIC paid a total of $390 million in dividends to our holding company. MGIC is not planning to request a dividend from its regulator, the Wisconsin OCI, to be paid in the second quarter. We ask the Wisconsin OCI not to object before MGIC pays dividends to the holding company. Future dividend payments from MGIC to the holding company will continue to be determined on a quarterly basis in consultation with the board, and after considering any updated estimates about the length and severity of the economic impacts of the COVID-19 pandemic on our business.

Share repurchase programs

In the first quarter of 2020, we repurchased approximately 9.6 million shares of our common stock, using approximately $120 million of our holding company resources. We may repurchase up to an additional $291 million of our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in January 2020. Repurchases may be made from time to time on the open market or through privately negotiated transactions. The repurchase programs may be suspended for periods or discontinued at any time, and in light of the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases. As of March 31, 2020, we had approximately 339 million shares of common stock outstanding.

Dividends to shareholders

In February 2020, MGIC paid a dividend of $0.06 per common share totaling $21 million to its shareholders. On April 23, 2020, our Board of Directors declared a quarterly cash dividend of $0.06 per common share to shareholders of record on May 11, 2020, payable on May 29, 2020.

GSEs

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

While loans that were current at the time a COVID-19 pandemic-related forbearance was initiated are not to be reported as delinquent for consumer credit reporting purposes, they may be reported to the mortgage insurers and the GSEs as delinquent and are treated as delinquent for purposes of the PMIERs. Loans that were delinquent at the time such a forbearance was initiated are expected to be reported as delinquent to mortgage insurers and the GSEs. The PMIERs generally require us to maintain significantly more Minimum Required Assets for delinquent loans than for performing loans. However, delinquent loans whose borrowers have been affected by the COVID-19 pandemic may be given the same treatment under PMIERS as delinquent loans in areas that the Federal Emergency Management Agency ("FEMA") has declared major disaster areas in connection with hurricanes. Specifically, the Minimum Required Assets required for a COVID-19 pandemic-related delinquent loan would be reduced by 70% for at least 120 days from the date the loan becomes delinquent, and longer if the loan is subject to a forbearance plan that meets certain requirements.

Under the current PMIERs, to be eligible for the 70% reduction, the loan must be backed by a property located in a FEMA Declared Major Disaster Area and either 1) or 2) below must apply. FEMA has declared all states and territories in which we conduct business to be Major Disaster Areas as a result of the impact of the COVID-19 pandemic. Absent a forbearance plan described in 1) below, the 70% reduction may be applied no longer than 120 days from the initial default date.

1) The loan is subject to a forbearance plan executed in response to a FEMA Declared Major Disaster Area eligible for Individual Assistance, the terms of which are materially consistent with terms of forbearance plans offered by Freddie Mac or Fannie Mae. As of the date of this report, not all states have delegated eligible individual assistance.
2) The loan has an initial default date occurring up to either (i) 30 days prior to or (ii) 90 days following the Major Disaster event. [It is uncertain how the date of the "Major Disaster event" will be determined for the COVID-19 pandemic.

The mortgage insurance industry has asked the FHFA and the GSEs to consider revisions to the PMIERs in light of the differences between FEMA declarations associated with hurricanes and those associated with the COVID-19 pandemic. Among other things, the industry asked the FHFA and GSEs to specify how "Major Disaster event" will be determined and to not limit the forbearance plans described in 1) above to those executed in response to a FEMA Declared Major Disaster Area eligible for Individual Assistance. We applied the 70% reduction discussed above when calculating our PMIERs Minimum Required Assets for March 31, 2020. We expect to receive guidance from the GSEs before we calculate our PMIERs Minimum Required Assets for June 30, 2020.

Although we have requested servicers to provide us with information about the forbearance status of loans, we may not receive such reporting and, therefore, may not be able to take advantage of the 70% reduction after a loan has been delinquent 120 days.

It is possible that, despite reducing the Minimum Required Assets for certain delinquent loans by 70%, the increasing number of delinquent loans caused by the COVID-19 pandemic may cause our Available Assets to be less than our Minimum Required Assets. As of March 31, 2020 and April 30, 2020, there were 27,834 and 30,243 loan in our delinquent inventory, respectively. We expect that the majority of COVID-19 pandemic-related delinquencies have not yet been reported; however, we are unable to predict the number of loans that will become delinquent as a result of the COVID-19 pandemic.

If our Available Assets are less than our Minimum Required Assets, then we would not be in compliance with the PMIERs. At the extreme, the GSEs may suspend or terminate eligibility If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs. Such suspension or termination, would significantly reduce the volume of our new business writings; the vast majority of our NIW since 2008 has been for loans delivered to or purchased by the GSEs. In addition to the increase in Minimum Required Assets associated with delinquent loans whose borrowers are affected by the COVID-19 pandemic, factors that may negatively impact MGIC's ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs may make the PMIERs more onerous in the future. The PMIERs provide that the factors that determine Minimum Required Assets will be updated periodically, or as needed if there is a significant change in macroeconomic conditions or loan performance. We do not anticipate that the regular periodic updates will occur more frequently than once every two years. The PMIERs state that the GSEs will provide notice 180 days prior to the effective date of updates to the factors; however, the GSEs may amend any portion of the PMIERs at any time. It is possible that the GSEs will not agree to the COVID-19-specific changes requested by the mortgage insurance industry or that they will revise the PMIERs to provide that there is no reduction in the Minimum Required Assets for COVID-19-related delinquencies.
- There may be future implications for PMIERs based upon forthcoming regulatory capital requirements for the GSEs. In 2018, the FHFA issued a proposed capital rule for the GSEs, which included a framework for determining the capital relief allowed to the GSEs for loans with private mortgage insurance. A re-proposed capital rule is expected to be released; however, the timing and content of the re-proposal are uncertain. Further, any changes to the GSEs' capital and liquidity requirements resulting from the Treasury Housing Reform Plan could have future implications for PMIERs.
- 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.

Our reinsurance transactions enable us to earn higher returns on our business than we would without them because fewer Available Assets are required to be held under PMIERs. However, reinsurance may not always be available to us or available on similar terms and our quota share reinsurance subjects us to counterparty credit risk. The total credit under the PMIERs for risk ceded under our reinsurance transactions is subject to a modest reduction. Our existing reinsurance transactions are subject to periodic review by the GSEs and there is a risk we will not receive our current level of credit in future periods for the risk ceded under them. In addition, we may not receive the same level of credit under future transactions that we receive under existing transactions.

State Regulations

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

At March 31, 2020, 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 $2.8 billion above the required MPP of $1.7 billion. The calculation of our risk-to-capital ratio and MPP reflect credit for the risk ceded under our QSR Transactions and Home Re Transactions. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance transactions, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, refer to our risk factor titled “State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” for more information about matters that could negatively affect such compliance.

At March 31, 2020, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 10.2 to 1.

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

GSE reform

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

In September 2019, at the direction of President Trump, the U.S. Treasury Department (“Treasury”) released the “Treasury Housing Reform Plan” (the “Plan”). The Plan recommends administrative and legislative reforms for the housing finance system, with such reforms intended to achieve the goals of ending conservatorships of the GSEs; increasing competition and participation by the private sector in the mortgage market including by authorizing the FHFA to approve additional guarantors of conventional mortgages in the secondary market, simplifying the qualified mortgage (“QM”) rule of the Consumer Financial Protection Bureau (“CFPB”), transferring risk to the private sector, and eliminating the GSE Patch (discussed below); establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and providing that the Federal Government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. Also, in September 2019, the Treasury and FHFA entered into a letter agreement that will allow the GSEs to remit less of their earnings to the government, which will help them rebuild their capital.

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

The current GSE Patch expands the definition of QM under the Truth in Lending Act (Regulation Z) ("TILA") to include mortgages eligible to be purchased by the GSEs, even if the mortgages do not meet the debt-to-income ("DTI") ratio limit of 43% that is included in the standard QM definition. Originating a QM may provide a lender with legal protection from lawsuits that claim the lender failed to verify a borrower’s ability to repay. The GSE Patch is scheduled to expire no later than January 2021. Approximately 23% and 21% of our NIW in the first quarter of 2020 and fourth quarter of 2019, respectively, was on loans with DTI ratios greater than 43%. However, it is possible that expiration of the GSE Patch will be delayed and that not all future loans with DTI ratios greater than 43% will be affected by such expiration. In this regard, we note that the CFPB recently indicated that it expects to issue for comment, no later than May 2020, a proposed new "ability-to-repay" ("ATR") rule that would replace the use of DTI ratio in the definition of QM with an alternative measure, such as a pricing threshold. The CFPB also indicated that it would extend the expiration of the GSE Patch until the earlier of the effective date of the proposed alternative or until one of the GSEs exits conservatorship.

We insure loans that do not qualify as QMs, however, we are unsure the extent to which lenders will make non-QM loans because they will not be entitled to the presumptions about compliance with the ATR rule that the law allows with respect to QM loans. We are also unsure the extent to which lenders will purchase private mortgage insurance for loans that cannot be sold to the GSEs. Finally, certain lenders have suspended their non-QM lending due to COVID-19 pandemic-related concerns.

The QM definition for loans insured by the FHA, which issued by the Department of Housing and Urban Development (“HUD”) is less restrictive than the CFPB’s definition in certain respects, including that (i) it has no DTI ratio limit, and (ii) it allows lenders certain presumptions about compliance with the ATR rule on higher priced loans. It is possible that, in the future, lenders will prefer FHA-insured loans to loans insured by private mortgage insurance as a result of the FHA’s less restrictive QM definition.

However, in September 2019, HUD released its Housing Reform Plan and indicated that of the FHA should refocus on its mission of providing housing finance support to low and moderate-income families that cannot be fulfilled through traditional underwriting. In addition, Treasury’s Plan indicated that the FHFA and HUD should develop and implement a specific understanding as to the appropriate roles and overlap between the GSEs and FHA, including with respect to the GSEs’ acquisitions of high LTV ratio and high DTI ratio loans.

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

COVID-19 Pandemic

While uncertain, the impact of the COVID-19 pandemic on the Company’s business, financial results, liquidity and/or financial condition may be material. We expect that the increase in unemployment and economic uncertainty resulting from initiatives to reduce the transmission of COVID-19 (including "shelter-in-place" restrictions), as well as COVID-19-related illnesses and deaths, will negatively impact our business. The magnitude of the impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the resulting level of unemployment, and the impact of various government initiatives (including the enactment of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act")) and actions taken by Fannie Mae and Freddie Mac (the "GSEs") (including implementation of mortgage forbearance and modification programs) to mitigate the economic harm caused by the COVID-19 pandemic and efforts to reduce its transmission.

The programs contained in the CARES Act and actions taken by the GSEs include, among many others:

- Payment forbearance on federally-backed mortgages (including those delivered to or purchased by the GSEs) to borrowers experiencing a hardship during the COVID-19 pandemic. Forbearance allows for mortgage payments to be suspended for up to 360 days. Approximately 82% of our insurance in force that was written in 2019 and before was delivered to or purchased by the GSEs. While servicers of some non-GSE loans may not be required to offer forbearance to borrowers, we allow servicers to apply GSE loss mitigation programs to non-GSE loans. In addition, the Consumer Financial Protection Bureau ("CFPB") requires substantial loss mitigation efforts be made prior to servicers initiating foreclosure, therefore, servicers of non-GSE loans may have an incentive to offer forbearance or deferment.
- For those mortgages that are not subject to forbearance, a suspension of foreclosures and evictions for at least 60 days from March 18, 2020, on mortgages purchased or securitized by the GSEs.
- Direct aid to individuals in the form of refundable tax credit rebates paid in April 2020.
- "Paycheck Protection Program" to provide small businesses with funds to pay up to eight weeks of payroll costs, and certain other expenses.
- Enhanced unemployment benefits.
- Increased flexibility under retirement plans.

Loans subject to a COVID-19 pandemic-related forbearance are reported to the mortgage insurers and the GSEs as delinquent. As a result, we expect our losses incurred to increase in future periods.

The foreclosure moratoriums in place under the CARES act and GSE initiatives may delay the receipt of claims and slow down our claim payments.

The tax changes in the CARES Act do not materially impact our financial results.

Factors affecting our results

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

Our results of operations are generally affected by:

Premiums written and earned

Premiums written and earned in a year are influenced by:

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

- Cancellations, which reduce IIF. Cancellations due to 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, result in immediate recognition of any remaining unearned premium.

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

- Premiums ceded, net of a profit commission, under our QSR Transactions, and premiums ceded under our Home Re Transactions. See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance transactions.

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, stock issuances or repurchases, or dividends.

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 2019 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. Pandemics, including COVID-19, and other natural disasters may result in delinquencies not following the typical pattern. Losses incurred are generally affected by:

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

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

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

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

- 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 rescissions and denials as "rescissions" and variations of this term. We call reductions to claims "curtailments."

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

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

Underwriting and other expenses

Underwriting and other expenses includes items such as employee compensation, fees for professional services, depreciation and maintenance expense, and premium taxes, and are reported net of ceding commissions associated with our reinsurance transactions. Employee compensation expenses are variable due to share-based compensation, changes in benefits, and headcount (which can fluctuate due to volume). See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of the ceding commission on our reinsurance transactions.

Interest expense

Interest expense primarily reflects the interest associated with our outstanding debt obligations discussed in Note 3 - "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" below.

Other

Certain activities that we do not consider part of our fundamental operating activities may also impact our results of operations and include the following.

Net realized investment gains (losses)

- Fixed income securities. Realized investment gains and losses are a function of the difference between the amount received on the sale of a fixed income security and the fixed income security's cost basis, as well as any credit allowances recognized in earnings. The amount received on the sale of fixed income securities is affected by the coupon rate of the security compared to the yield of comparable securities at the time of sale.

- Equity securities. Realized investment gains and losses are a function of the periodic change in fair value, as well as any credit allowances recognized in earnings.

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

Mortgage insurance earnings and cash flow cycle

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

Explanation and reconciliation of our use of non-GAAP financial measures

Non-GAAP financial measures

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

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

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

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

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

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

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

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

Non-GAAP reconciliations

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

	Three Months Ended March 31,					
	2020			2019		
(In thousands, except per share amounts)	**Pre-tax**	**Tax effect**	**Net (after-tax)**	Pre-tax	Tax effect	Net (after-tax)
Income before tax / Net income	**$ 188,239**	**$ 38,434**	**$ 149,805**	$ 190,936	$ 38,995	$ 151,941
Adjustments:						
Net realized investment (gains) losses	**(2,875)**	**(604)**	**(2,271)**	620	130	490
Adjusted pre-tax operating income / Adjusted net operating income	**$ 185,364**	**$ 37,830**	**$ 147,534**	$ 191,556	$ 39,125	$ 152,431

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

	2020	2019
Weighted average diluted shares outstanding	**365,216**	376,667
Net income per diluted share	**$ 0.42**	$ 0.42
Net realized investment (gains) losses	**—**	—
Adjusted net operating income per diluted share	**$ 0.42**	$ 0.42

Mortgage Insurance Portfolio

New insurance written

The total amount of mortgage originations is generally influenced by the level of new and existing home sales, the percentage of homes purchased for cash, and the level of refinance activity. PMI market share of total mortgage originations is influenced by the mix of purchase and refinance originations as PMI market share is typically 3-4 times higher for purchase originations than refinance originations. PMI market share is also impacted by the market share of total originations of the FHA, VA, USDA, and other alternatives to mortgage insurance, including GSE programs that may reduce or eliminate the demand for mortgage insurance.

The COVID-19 pandemic, including the related restrictions on business in most parts of the U.S., and its effect on unemployment and consumer confidence, could affect the number of purchase mortgage originations. The GSEs have temporarily changed various underwriting guidelines in response to COVID-19. In some instances the requirements have been eased, for example allowing bank statements and pay checks to be used to verify income versus IRS forms, to facilitate mortgage lending, while other requirements have been tightened, for example certain documents can only be 60 days old versus 120 days old, which restricts mortgage lending activity. Certain lenders have also increased the minimum credit score or increased the minimum down payment that they will lend on irrespective of GSEs or our guidelines. It is unclear what, if any, impact these changes will have on the volume of low down payment home mortgage originations.

NIW for the first quarter of 2020 was $17.9 billion (Q1 2019: $10.1 billion). The increase is primarily driven by higher NIW from refinances in Q1 2020 compared to Q1 2019.

The following tables present characteristics of our primary NIW for the three months ended March 31, 2020 and 2019.

Primary NIW by FICO score

	Three Months Ended March 31,	
(% of primary NIW)	**2020**	2019
760 and greater	**45.8%**	41.4%
740 - 759	**19.9%**	17.2%
720 - 739	**13.9%**	14.5%
700 - 719	**10.4%**	12.1%
680 - 699	**7.0%**	7.5%
660 - 679	**1.7%**	4.0%
640 - 659	**0.9%**	2.3%
639 and less	**0.4%**	1.0%

Primary NIW by loan-to-value

	Three Months Ended March 31,	
(% of primary NIW)	**2020**	2019
95.01% and above	**8.4%**	17.5%
90.01% to 95.00%	**43.0%**	41.9%
85.01% to 90.00%	**30.7%**	28.6%
80.01% to 85%	**17.9%**	12.0%

Primary NIW by debt-to-income ratio

	Three Months Ended March 31,	
(% of primary NIW)	**2020**	2019
45.01% and above	**12.8%**	18.4%
38.01% to 45.00%	**32.5%**	34.3%
38.00% and below	**54.7%**	47.3%

The percentage of our NIW on loans with DTI ratios greater than 45% has declined in 2020, which we believe is due in part to changes in GSE underwriting guidelines and our pricing for loans with such DTI ratios. We are continuing to monitor our exposure to such loans and may take further action.

Primary NIW by policy payment type

	Three Months Ended March 31,	
(% of primary NIW)	**2020**	2019
Monthly premiums	**85.1%**	83.9%
Single premiums	**14.8%**	16.0%
Annual premiums	**0.1%**	0.1%

Primary NIW by type of mortgage

	Three Months Ended March 31,	
(% of primary NIW)	**2020**	2019
Purchases	**65.3%**	91.7%
Refinances	**34.7%**	8.3%

Insurance and risk in force

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 73.0% at March 31, 2020 compared to 75.8% at December 31, 2019 and 81.7% at March 31, 2019. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

IIF and RIF

	Three Months Ended March 31,	
(In billions)	**2020**	2019
NIW	**$ 17.9**	$ 10.1
Cancellations	**(14.7)**	(8.4)
Increase in primary IIF	**$ 3.2**	$ 1.7
Direct primary IIF as of March 31,	**$ 225.5**	$ 211.4
Direct primary RIF as of March 31,	**$ 57.9**	$ 54.5

Credit profile of our primary RIF

The proportion of our total primary RIF written after 2008 has been steadily increasing in proportion to our total primary RIF. Our 2009 and later books possess significantly improved risk characteristics when compared to our 2005-2008 books. The credit profile of our pre-2009 RIF has benefited from modification and refinance programs making outstanding loans more affordable to borrowers with the goal of reducing the number of foreclosures. These programs included HAMP and HARP, which expired at the end of 2016 and 2018, respectively, but have been replaced by other GSE modification programs. HARP allowed borrowers who were not delinquent, but who may not otherwise have been able to refinance their loans under the current GSE underwriting standards due to, for example, the current LTV exceeding 100%, to refinance and lower their note rate. Loans associated with 97.7% of all our HARP modifications were current as of March 31, 2020. The aggregate of our 2009 and later books and our HARP modifications accounted for approximately 92% of our total primary RIF at March 31, 2020.

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.

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

Primary RIF

($ in millions)	March 31, 2020		December 31, 2019		March 31, 2019	
Policy Year	**RIF**	**% of RIF**	RIF	% of RIF	RIF	% of RIF
2009+	**$ 51,066**	**88%**	$ 50,044	88%	$ 45,947	84%
2005 - 2008 (HARP)	**2,367**	**4%**	2,485	4%	2,979	6%
Other years (HARP)	**154**	**—%**	165	—%	213	1%
Subtotal	**53,588**	**92%**	52,694	92%	49,139	91%
2005- 2008 (Non-HARP)	**3,692**	**6%**	3,868	7%	4,588	8%
Other years (Non-HARP)	**626**	**2%**	651	1%	810	1%
Subtotal	**4,318**	**8%**	4,519	8%	5,398	9%
Total Primary RIF	**$ 57,906**	**100%**	$ 57,213	100%	$ 54,537	100%

Pool and other insurance

MGIC has written no new pool insurance since 2008; however, for a variety of reasons, including responding to capital market alternatives to PMI and customer demands, MGIC may write pool risk in the future. Our direct pool risk in force was $368 million ($212.0 million on pool policies with aggregate loss limits and $156.0 million on pool policies without aggregate loss limits) at March 31, 2020 compared to $376 million ($213.0 million on pool policies with aggregate loss limits and $163.0 million on pool policies without aggregate loss limits) at December 31, 2019. If claim payments associated with a specific pool reach the aggregate loss limit, the remaining IIF within the pool would be cancelled and any remaining delinquencies under the pool would be removed from our delinquent inventory.

In connection with the GSEs' CRT programs, an insurance subsidiary of MGIC provide insurance and reinsurance covering portions of the credit risk related to certain reference pools of mortgages acquired by the GSEs. Our RIF, as reported to us, related to these programs was approximately $263 million and $182 million as of March 31, 2020 and December 31, 2019, respectively.

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 months ended March 31, 2020 and 2019.

Revenues

Revenues

(in millions)	Three Months Ended March 31, 2020	2019	% Change
Net premiums written	**$ 246.0**	$ 244.3	1
Net premiums earned	**$ 260.9**	$ 249.8	4
Investment income, net of expenses	**41.3**	40.6	2
Net realized investment gains (losses)	**1.9**	(0.5)	N/M
Other revenue	**2.8**	1.8	N/M
Total revenues	**$ 306.9**	$ 291.7	5

Net premiums written and earned

Comparative quarterly results

NPW and NPE increased for the three months ended March 31, 2020 compared with the prior year due to higher average insurance in force and an increase in accelerated premiums from single premium policy cancellations, partially offset by lower premium rates on our insurance in force.

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

Premium yields

Premium yield is NPE divided by average IIF during year and is influenced by a number of key drivers. The following table presents the key drivers of our net premium yield for the three months ended March 31, 2020 and from the respective prior year period

Premium Yield

(in basis points)		Three Months Ended March 31, 2020	2019
In force portfolio yield	(1)	49.2	52.5
Premium refunds		**(0.7)**	(0.5)
Accelerated earnings on single premium policies		**3.3**	1.1
Total direct premium yield		**51.8**	53.1
Ceded premiums earned, net of profit commission and assumed premiums	(2)	**(5.2)**	(5.7)
Net premium yield		**46.6**	47.4

(1) Total direct premiums earned, excluding premium refunds and accelerated premiums from single premium policy cancellations divided by average primary insurance in force.
(2) Ceded premiums earned, net of profit commissions and assumed premiums. Assumed premiums include those from our participation in GSE CRT programs, of which the impact on the net premium yield was 0.5 bps at March 31, 2020 compared to 0.2 bps at March 31, 2019.

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

In force Portfolio Yield

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

Premium Refunds

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

Accelerated earnings on single premium policies

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

Ceded premiums earned, net of profit commission and assumed premiums

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

As discussed in our Risk Factor titled " Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and / or increase our losses," the private mortgage insurance industry is highly competitive and premium rates have declined over the past several years. We expect our net premium yield to continue to decline as older insurance policies with higher premium rates run off or have their premium rates reset, and new insurance policies with lower premium rates are written.

Reinsurance agreements

Quota share reinsurance

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

è	We cede a fixed percentage of premiums on insurance covered by the agreements.
è	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 can be eliminated at loss levels significantly higher than we are currently experiencing. As a result, lower levels of losses result in a higher profit commission and less benefit from ceded losses; higher levels of losses result in more benefit from ceded losses and a lower profit commission (or for levels of losses we do not expect, its elimination).
è	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).
è	We cede a fixed percentage of losses incurred on insurance covered by the agreements.

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

Quota Share Reinsurance

	As of and For the Three Months Ended March 31,	
(Dollars in thousands)	**2020**	2019
Ceded premiums written and earned, net of profit commission	**$ 26,846**	$ 28,164
% of direct premiums written	**10%**	12%
% of direct premiums earned	**9%**	11%
Profit commission	**$ 29,979**	$ 38,881
Ceding commissions	**$ 11,365**	$ 13,409
Ceded losses incurred	**$ 5,804**	$ 1,676
Ceded RIF (in millions)	**$ 11,713**	$ 13,034

Covered risk

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

Quota Share Reinsurance

	As of and For the Three Months Ended March 31,	
	2020	2019
NIW subject to QSR Transactions	**72%**	84%
New Risk Written subject to QSR Transactions	**82%**	90%
IIF subject to QSR Transactions	**78%**	78%
RIF subject to QSR Transactions	**81%**	91%

The NIW subject to quota share reinsurance decreased in the first three months of 2020 when compared to the same period of the prior year primarily due to an increase in NIW with LTV's less than or equal to 85% and amortization terms less than or equal to 20 years, which are excluded from the QSR Transactions.

As of March 31, 2020, our total RIF was reduced by a weighted average of approximately 20% for risk ceded under our QSR transactions.

We terminated a portion of our 2015 QSR Transaction effective June 30, 2019 and entered into an amended quota share reinsurance agreement that effectively reduces the quota share cede rate from 30% to 15% on the remaining eligible insurance. The lower cede rate reduced our ceded RIF but does not impact our determination of the amount of IIF or RIF subject to quota share reinsurance agreements.

Excess-of-loss reinsurance

Our excess-of-loss reinsurance provides $463.3 million of loss coverage on an existing portfolio of inforce policies having an inforce date on or after July 1, 2016 and before April 1, 2019. As of March 31, 2020, the aggregate exposed principal balances under the Home Re 2018-01 and 2019-01 transactions were approximately $5.5 billion and $5.4 billion, respectively, which take into account the mortgage insurance coverage percentage, net retained risk after quota share reinsurance, and the reinsurance inclusion percentage of the unpaid principal balance. We ceded premiums of $4.7 million and $2.5 million for the three months ended March 31, 2020 and March 31, 2019, respectively. We expect that we may enter into other ILN transactions if the capital market conditions are favorable; however, the market volatility caused by the COVID-19 pandemic has caused a disruption of uncertain duration in the market for new ILN transactions.

Investment income

Comparative quarterly and year to date results

Net investment income in the first quarter of 2020 was $41.3 million and $40.6 million in the prior year. The increases in investment income were due to an increase in the average balance of the investment portfolio.

Losses and expenses

Losses and expenses

	Three Months Ended March 31,	
(In millions)	**2020**	2019
Losses incurred, net	**$ 61.0**	$ 39.1
Amortization of deferred policy acquisition costs	**2.5**	2.5
Other underwriting and operating expenses, net	**42.3**	45.9
Interest expense	**12.9**	13.2
Total losses and expenses	**$ 118.7**	$ 100.7

Losses incurred, net

As discussed in "Critical Accounting Policies" in our 2019 10-K MD&A and consistent with industry practices, we establish case loss reserves for future claims when notices of delinquency on insured mortgage loans are received. The terms "delinquent" and "default" are used interchangeably by us. Notices of delinquency are typically reported to us when loans are two payments past due. Case loss reserves are established based on estimating the number of loans in our delinquent inventory that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity.

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.

As discussed in our Risk Factors titled "Because we establish loss reserves only upon a loan delinquency rather than based on estimates of our ultimate losses on risk in force, losses may have a disproportionate adverse effect on our earnings in certain periods" and "Because loss reserve estimates are subject to uncertainties, paid claims may be substantially different than our loss reserves" the COVID-19 pandemic will negatively impact the number of delinquencies and our loss incurred and may be material.

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 financial position, even in a stable economic environment.

Comparative quarterly results

Losses incurred, net in the first quarter of 2020 were $61.0 million compared to $39.1 million in the prior year. In the first quarter of 2020, we received approximately 9% fewer new delinquency notices than we did in the same period last year. Over the past several quarters we had recorded favorable reserve development including $31 million in favorable development in the first quarter of 2019. In the first quarter of 2020, our re-estimation of reserves on previous delinquencies resulted in minimal adverse loss reserve development. The first quarter of 2020 also reflects an increase in IBNR estimates from $22 million to $30 million, as well as an increased estimate of claim rates on new notices due to the COVID-19 pandemic and the current macroeconomic environment.

Composition of losses incurred

	Three Months Ended March 31,		
(in millions)	**2020**	2019	% Change
Current year / New notices	**$ 59.8**	$ 47.5	26
Prior year reserve development	**1.2**	(8.4)	(114)
Losses incurred, net	**$ 61.0**	$ 39.1	56

Loss ratio

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 increase in the loss ratio for the three months ended March 31, 2020 compared to the respective prior year periods was primarily due to an increase in losses incurred, net, offset in part by an increase in net premiums earned.

	Three Months Ended March 31,	
	2020	2019
Loss ratio	**23.4%**	15.6%

New notice claim rate

New notice activity continues to be primarily driven by loans insured in 2008 and prior, 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. The increase in the new notice claim rate for the three months ended March 31, 2020 is primarily due to the uncertainty of the COVID-19 pandemic and the current macroeconomic environment.

New notice claim rate

	Three Months Ended March 31,			
	2020		2019	
New notices - 2008 and prior (1)	**7,117**	**57%**	8,882	65%
New notices - 2009 and later	**5,281**	**43%**	4,729	35%
Total	**12,398**	**100%**	13,611	100%
Claim rate	**9.0%**		8.0%	
(1) previously delinquent %	**95.0%**		94.0%	

Claims severity

Factors that impact claim severity include:

- exposure to the loan, which is the unpaid principal balance of the loan times our insurance coverage percentage,
- length of time between delinquency and claim filing (which impacts the amount of interest and expenses, with a longer time between default and claim filing generally increasing severity), and
- curtailments.

As discussed in Note 11 - “Loss Reserves,” the average time for servicers to process foreclosures has recently shortened. In light of the uncertainty caused by the COVID-19 pandemic, the average number of missed payments at the time a claim is received and expected to be received will increase in 2020. Our loss reserves estimates take into consideration trends over time, because the development of the delinquencies may vary from period to period without establishing a meaningful trend.

The majority of loans from 2005 through 2008 (which represent 53% of the loans in the delinquent inventory) are covered by master policy terms that, except under certain circumstances, do not limit the number of years that an insured can include interest when filing a claim. Under our current master policy terms, an insured can include accumulated interest when filing a claim only for the first three years the loan is delinquent. In each case, the insured must comply with its obligations under the terms of the applicable master policy.

Claims severity trend for claims paid during the period

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

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

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 March 31, 2020, assuming all other factors remain constant, a $1,000 increase/decrease in the average severity reserve factor would change the reserve amount by approximately +/- $10 million. A 1 percentage point increase/decrease in the average claim rate reserve factor would change the reserve amount by approximately +/- $16 million.

See Note 11 – “Loss Reserves” to our consolidated financial statements for a discussion of our losses incurred and claims paying practices (including curtailments).

The length of time a loan is in the delinquent inventory (see Note 11- "Loss Reserves," table 11.4) can differ from the number of payments that the borrower has not made or is considered delinquent. These differences typically result from a borrower making monthly payments that do not result in the loan becoming fully current. The number of payments that a borrower is delinquent is shown in the following table.

Delinquent inventory - number of payments delinquent

	March 31, 2020	December 31, 2019	March 31, 2019
3 payments or less	**12,961**	14,895	14,129
4-11 payments	**8,178**	8,519	8,833
12 payments or more (1)	**6,245**	6,614	7,959
Total	**27,384**	30,028	30,921
3 payments or less	**47%**	50%	46%
4-11 payments	**30%**	28%	28%
12 payments or more	**23%**	22%	26%
Total	**100%**	100%	100%

(1) Approximately 34%, 33%, and 36% of the primary delinquent inventory with 12 payments or more delinquent has at least 36 payments delinquent as of March 31, 2020, December 31, 2019, and March 31, 2019, respectively.

Net losses and LAE paid

Net losses and LAE paid in the three months ended March 31, 2020 declined 19% compared to the same period in the prior year due to lower claim activity on our primary business.

Due to the foreclosure moratoriums and payment forbearance in place under the CARES act, net losses and LAE paid are expected to decrease in the short term. We expect net losses and LAE paid to increase, however, the magnitude and timing are uncertain.

The following table presents our net losses and LAE paid for the three months ended March 31, 2020 and 2019.

Net losses and LAE paid

	Three Months Ended March 31,	
(In millions)	**2020**	2019
Total primary (excluding settlements)	**$ 42**	$ 52
Pool	**1**	1
Direct losses paid	**43**	53
Reinsurance	**(1)**	(3)
Net losses paid	**42**	50
LAE	**4**	7
Net losses and LAE paid	**$ 46**	$ 57

Primary claims paid for the top 15 jurisdictions (based on 2020 losses paid) and all other jurisdictions for the three months ended March 31, 2020 and 2019 appears in the following table.

Paid losses by jurisdiction

	Three Months Ended March 31,	
(In millions)	**2020**	2019
Florida *	**$ 7**	$ 8
New York *	**5**	8
New Jersey *	**4**	5
Illinois *	**3**	2
Maryland	**3**	2
Puerto Rico *	**3**	4
Pennsylvania *	**2**	3
California	**1**	1
Ohio *	**1**	2
Massachusetts	**1**	1
Virginia	**1**	1
Texas	**1**	1
Michigan	**1**	1
Missouri	**1**	—
Louisiana	**1**	—
All other jurisdictions	**7**	13
Total primary (excluding settlements)	**$ 42**	$ 52

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

The primary average claim paid for the top 5 states (based on 2020 losses paid) for the three months ended March 31, 2020 and 2019 appears in the following table.

Primary average claim paid

	Three Months Ended March 31,	
	2020	2019
Florida *	**$ 67,372**	$ 67,958
New York *	**115,387**	109,064
New Jersey *	**104,728**	70,351
Illinois *	**44,121**	33,461
Maryland	**70,655**	45,213
All other jurisdictions	**34,541**	33,280
All jurisdictions	**47,222**	43,930

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

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

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

Primary average RIF - delinquent loans

	March 31, 2020	December 31, 2019	March 31, 2019
Florida	**$ 54,036**	$ 52,566	$ 53,015
New York	**72,800**	72,188	72,453
New Jersey	**63,743**	64,444	67,208
Illinois	**38,874**	38,740	40,566
Maryland	**65,595**	64,028	65,526
All other jurisdictions	**42,456**	41,754	41,800
All jurisdictions	**45,698**	45,028	45,127

The primary average RIF on all loans was $53,433, $52,995, and $51,464 at March 31, 2020, December 31, 2019, and March 31, 2019, respectively.

Loss reserves

Our primary delinquency rate at March 31, 2020 was 2.53% (YE 2019: 2.78%, March 31, 2019: 2.92%). Our primary delinquent inventory was 27,384 loans at March 31, 2020, representing a decrease of 9% from December 31, 2019 and 11% from March 31, 2019. The reduction in our primary delinquent inventory is the result of the total number of delinquent 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 of claims paying disputes or commutations of policies, collectively, exceeding the total number of new delinquencies on insured loans. In recent periods, we have experienced improved cure rates and the number of delinquencies in inventory with twelve or more missed payments has been declining. Generally, a defaulted loan with fewer missed payments is less likely to result in a claim.

The gross reserves at March 31, 2020, December 31, 2019, and March 31, 2019 appear in the table below.

Gross reserves

	March 31, 2020		December 31, 2019		March 31, 2019	
Primary:						
Direct loss reserves (in millions)	**$ 501**		$ 490		$ 574	
IBNR and LAE	**65**		56		68	
Total primary loss reserves	**$ 566**		$ 546		$ 642	
Ending delinquent inventory		**27,384**		30,028		30,921
Percentage of loans delinquent (delinquency rate)		**2.53%**		2.78%		2.92%
Average total primary loss reserves per delinquency		**$ 20,658**		$ 18,171		$ 20,014
Primary claims received inventory included in ending delinquent inventory		**472**		538		665
Pool (1):						
Direct loss reserves (in millions):						
With aggregate loss limits	**$ 6**		$ 7		$ 9	
Without aggregate loss limits	**2**		2		3	
Total pool direct loss reserves	**$ 8**		$ 9		$ 12	
Ending default inventory:						
With aggregate loss limits		**373**		430		483
Without aggregate loss limits		**203**		223		240
Total pool ending delinquent inventory		**576**		653		723
Pool claims received inventory included in ending delinquent inventory		**13**		11		—
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 delinquency for our pool business.

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

Primary delinquent inventory by jurisdiction

	March 31, 2020	December 31, 2019	March 31, 2019
Florida *	**2,250**	2,504	2,635
New York *	**1,551**	1,634	1,756
New Jersey *	**897**	992	1,080
Illinois *	**1,657**	1,749	1,656
Maryland	**743**	796	801
Puerto Rico *	**1,089**	1,122	1,397
Pennsylvania *	**1,598**	1,755	1,786
California	**1,138**	1,213	1,237
Ohio *	**1,326**	1,498	1,498
Massachusetts	**486**	544	538
Virginia	**504**	580	603
Texas	**1,974**	2,251	2,220
Michigan	**831**	921	980
Missouri	**478**	564	533
Louisiana	**580**	628	620
All other jurisdictions	**10,282**	11,277	11,581
Total	**27,384**	30,028	30,921

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

The primary delinquent inventory by policy year at March 31, 2020, December 31, 2019 and March 31, 2019 appears in the following table.

Primary delinquent inventory by policy year

	March 31, 2020	December 31, 2019	March 31, 2019
Policy year:			
2004 and prior	**4,121**	4,686	5,565
2004 and prior %	***15%***	*16%*	*18%*
2005	**2,526**	2,799	3,089
2006	**4,166**	4,582	4,905
2007	**6,316**	7,096	8,034
2008	**1,638**	1,798	2,178
2005 - 2008 %	***53%***	*54%*	*59%*
2009	**118**	148	167
2010	**87**	115	135
2011	**125**	143	163
2012	**202**	231	272
2013	**498**	521	532
2014	**956**	1,101	1,131
2015	**1,299**	1,388	1,343
2016	**1,423**	1,578	1,460
2017	**1,824**	1,989	1,374
2018	**1,602**	1,521	573
2019	**482**	332	—
2020	**1**	—	—
2009 and later %	***32%***	*30%*	*23%*
Total	**27,384**	30,028	30,921

We expect that delinquencies will increase from their current level as a result of the COVID-19 pandemic, including the increase in unemployment associated with initiatives intended to reduce the transmission of COVID-19. As of April 30, 2020 there were 30,243 loans in our delinquency inventory.

The losses we have incurred on our 2005 through 2008 books have exceeded our premiums from those books. Although uncertainty remains with respect to the ultimate losses we may experience on those books, as we continue to write new insurance, those books have become a smaller percentage of our total mortgage insurance portfolio. Our 2005 through 2008 books represented approximately 10% and 11% of our total primary RIF at March 31, 2020 and December 31, 2019, respectively. Approximately 39% of the remaining primary RIF on our 2005 through 2008 books of business benefited from HARP at both March 31, 2020 and December 31, 2019.

On our primary business, the highest claim frequency years have typically been the third and fourth year after loan origination. However, the pattern of claim frequency can be affected by many factors, including persistency and deteriorating economic conditions. Deteriorating economic conditions can result in increasing claims following a period of declining claims. As of March 31, 2020, 47% of our primary RIF was written subsequent to December 31, 2017, 61% of our primary RIF was written subsequent to December 31, 2016, and 73% of our primary RIF was written subsequent to December 31, 2015.

Underwriting and other expenses, net

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

Underwriting and other expenses, net for the three months ended March 31, 2020 were $42.3 million, a decrease from $45.9 million in the prior year period primarily due to decreases in professional and deferred compensation expenses.

	Three Months Ended March 31,	
	2020	2019
Underwriting expense ratio	**17.3%**	18.9%

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 subsidiaries) to NPW. The underwriting expense ratio in the three months ended March 31, 2020 decreased due to decrease in underwriting expenses and an increase in NPW.

Provision for income taxes and effective tax rate

Income tax provision and effective tax rate

	Three Months Ended March 31,	
(In millions, except rate)	**2020**	2019
Income before tax	**$ 188.2**	$ 190.9
Provision for income taxes	**$ 38.4**	$ 39.0
Effective tax rate	**20.4%**	20.4%

Balance Sheet Review

Total assets, liabilities, and shareholders' equity

As of March 31, 2020, total assets were $6.2 billion, a slight decrease from December 31, 2019 , and total liabilities were $1.9 billion, flat compared to December 31, 2019. Shareholders' equity decreased approximately $0.1 billion primarily due to the repurchases of our common stock and dividends paid, offset by net income in the first three months of 2020 .

The following sections mainly focus on our cash and cash equivalents, investments and loss reserves as these reflect the major developments in our assets and liabilities since December 31, 2019.

Consolidated balance sheets - Assets

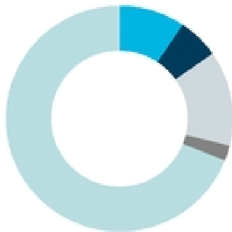
as of March 31, 2020 *(In thousands)*

Cash and cash equivalents	$	**369,526**
Investments		**5,490,838**
Premiums receivable		**53,440**
Other assets		**241,483**

Cash and cash equivalents (including restricted) - Our cash and cash equivalents balance increased to $370 million as of March 31, 2020, from $169 million as of December 31, 2019, as net cash generated from operating and investing activities was only partly offset by net cash used in financing activities.

Consolidated balance sheets - Liabilities and equity

as of March 31, 2020 *(In thousands)*



Loss reserves	$	**574,753**
Unearned premiums		**365,408**
Long-term debt		**833,027**
Other liabilities		**140,271**
Shareholders' equity		**4,241,828**

Loss reserves - Our loss reserves include estimates of losses and settlement expenses on (1) reported delinquencies known as case reserves, (2) IBNR, and (3) LAE reserves. Our gross reserves are reduced by reinsurance recoverable on our estimated losses and settlement expenses to calculate a net reserve balance. The net reserve balance increased by 3% to $549 million as of March 31, 2020, from $534 million as of December 31, 2019. Reinsurance recoverables on our estimated losses and settlement expenses were $26 million and $22 million as of March 31, 2020 and December 31, 2019, respectively. The overall increase in our net loss reserves during the first three months of 2020 was due to reserves established on new notices in the quarter, including IBNR, exceeding claims paid in the quarter.

Investment portfolio

The average duration and investment yield of our investment portfolio as of March 31, 2020, December 31, 2019, and March 31, 2019 are shown in the table below.

Portfolio duration and embedded investment yield

	March 31, 2020	December 31, 2019	March 31, 2019
Duration (in years)	**4.0**	3.9	4.0
Pre-tax yield (1)	**3.1%**	3.1%	3.2%
After-tax yield (1)	**2.5%**	2.5%	2.6%

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

The security ratings of our fixed income investments as of March 31, 2020, December 31, 2019, and March 31, 2019 are shown in the following table.

Fixed income security ratings

	Security Ratings (1)			
Period	**AAA**	**AA**	**A**	**BBB**
March 31, 2020	**22%**	**20%**	**35%**	**22%**
December 31, 2019	21%	20%	34%	24%
March 31, 2019	21%	23%	32%	24%

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

Off-Balance Sheet Arrangements

Home Re 2018-1 Ltd. and Home Re 2019-1 Ltd. are special purpose variable interest entities that are not consolidated in our consolidated financial statements because we do not have the unilateral power to direct those activities that are significant to their economic performance. See Note 4 - "Reinsurance," to our consolidated financial statements for additional information.

Liquidity and Capital Resources

Consolidated Cash Flow Analysis

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

Summary of consolidated cash flows

	Three Months Ended March 31,	
(In thousands)	**2020**	2019
Total cash provided by (used in):		
Operating activities	$ 184,324	$ 164,881
Investing activities	166,153	(40,115)
Financing activities	(150,007)	(17,292)
Increase in cash and cash equivalents and restricted cash and cash equivalents	**$ 200,470**	$ 107,474

Net cash provided by operating activities for the three months ended March 31, 2020 increased compared to the same period of 2019 primarily due to lower level of losses paid, net, an increase in investment income, and an increase in net premiums written.

Net cash provided by investing activities for the three months ended March 31, 2020 primarily reflects sales and maturities of fixed income and equity securities in amounts that exceeded our purchases of fixed income and equity securities during the period.

Net cash used in investing activities for the three months ended March 31, 2019 reflects purchases of fixed income securities in an amount that exceeded our proceeds from the sales and maturities of fixed income securities during the period as cash from operations was available for additional investment.

Net cash used in financing activities for the three months ended March 31, 2020 primarily reflects share repurchases during the period in , cash dividends paid to shareholders, and the payment of withholding taxes related to share-based compensation net share settlement.

Net cash used in financing activities for the three months ended March 31, 2019 reflects share repurchases and the payment of withholding taxes related to share-based compensation net share settlement.

Capitalization

Debt - holding company

As of March 31, 2020, our holding company's debt obligations were $815 million in aggregate principal consisting of our 5.75% Notes and 9% Debentures. MGIC's ownership of $132.7 million of our holding company's 9% Debentures is eliminated in consolidation, but they remain outstanding obligations owed by our holding company to MGIC.

Liquidity analysis - holding company

As of March 31, 2020, we had approximately $562.5 million in cash and investments at our holding company. These resources are maintained primarily to service our debt interest expense, pay debt maturities, repurchase shares, pay dividends to shareholders, and to settle intercompany obligations. While these assets are held, we generate investment income that serves to offset a portion of our interest expense. Investment income and the payment of dividends from our insurance subsidiaries are the principal sources of holding company cash inflow. MGIC is the principal source of dividends, and their payment is restricted by insurance regulation. See Note 14 - "Statutory Information" to our consolidated financial statement for additional information about MGIC's dividend restrictions. The payment of dividends from MGIC is also influenced by our view of the appropriate level of PMIERs Available Assets to maintain an excess over Minimum Required Assets. Other sources of holding company liquidity include raising capital in the public markets. 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 first quarter of 2020 we used $120 million of holding company cash to repurchase shares. In light of the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases. See "Overview - Capital" of this MD&A for a discussion of the additional share repurchase program authorized in January 2020.

In the first quarter of 2020 we used $21 million to pay cash dividends to shareholders. On April 23, 2020, our Board of Directors declared a quarterly cash dividend of $0.06 per common share to shareholders of record on May 11, 2020, payable on May 29, 2020.

In the first three months of 2020, our holding company cash and investments increased by $238 million, to $563 million as of March 31, 2020.

Significant cash and investments *inflows* during the first three months:

- $390 million of dividends received from MGIC and
- $4 million of investment income.

Significant cash *outflows* during the first three months:

- $120 million of share repurchase transactions,
- $21 million in cash dividends paid to shareholders, and
- $12 million of interest payments on our 5.75% Notes and 9% Debentures,

MGIC is not planning to request a dividend from its regulator, the Wisconsin OCI, to be paid in the second quarter. We ask the Wisconsin OCI not to object before MGIC pays dividends to the holding company. Future dividend payments from MGIC to the holding company will be determined on a quarterly basis, in consultation with the board, and after considering any updated estimates about the length and severity of the economic impacts of the COVID-19 pandemic on our business.

The net unrealized losses on our holding company investment portfolio were approximately $1.7 million at March 31, 2020 and the portfolio had a modified duration of approximately 1.3 years.

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, 2019 for additional information about the conversion terms of our 9% Debentures and the terms of our indebtedness, including our option to defer interest on our 9% Debentures. 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 for other possible uses of holding company resources.

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 borrowed $155 million 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 is maintained at a minimum of 102% of the outstanding principal balance. MGIC provided eligible collateral from its investment portfolio.

Capital Adequacy

PMIERs

As of March 31, 2020, MGIC's Available Assets under the PMIERs totaled approximately $4.3 billion, an excess of approximately $1.0 billion over its Minimum Required Assets; and MGIC is in compliance with the requirements of the PMIERs and eligible to insure loans delivered to or purchased by the GSEs. Maintaining a sufficient level of Available Assets will allow MGIC to remain in compliance with the PMIERs financial requirements. Our reinsurance transactions provided an aggregate of approximately $1.3 billion of capital credit under the PMIERs as of March 31, 2020. Refer to Note 4 - "Reinsurance" to our consolidated financial statements for additional information on our QSR and Home Re Transactions.

We anticipate an increase to our delinquency inventory caused by the COVID-19 pandemic. The PMIERs generally require us to maintain significantly more Minimum Required Assets for delinquent loans than for performing loans; however, delinquent loans whose borrowers have been affected by the COVID-19 pandemic may be given the same treatment under the PMIERs as delinquent loans in areas that the Federal Emergency Management Agency ("FEMA") has declared major disaster areas in connection with hurricanes. Specifically, the Minimum Required Assets would be reduced by 70% for at least 120 days from the date the loan becomes delinquent, and longer if the loan is subject to a forbearance plan that meets certain requirements.

Refer to "Overview - Capital - GSEs" and our risk factor titled "We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility" of this MD&A for further discussion of PMIERs.

Risk-to-capital

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to its RIF (or a similar measure) in order for the mortgage insurer to continue to write new business. While they vary among jurisdictions, the most common State Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1.

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 is shown in the table below.

Risk-to-capital - MGIC separate company

(In millions, except ratio)		**March 31, 2020**		December 31, 2019
RIF - net [1]	**$**	**44,772**	$	44,338
Statutory policyholders' surplus		**1,268**		1,619
Statutory contingency reserve		**3,106**		2,963
Statutory policyholders' position	**$**	**4,374**	$	4,582
Risk-to-capital		**10.2**		9.7:1

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

Our combined insurance companies' risk-to-capital calculation is shown in the table below.

Risk-to-capital - Combined insurance companies

(In millions, except ratio)		**March 31, 2020**		December 31, 2019
RIF - net [1]	**$**	**45,069**	$	44,550
Statutory policyholders' surplus		**1,271**		1,619
Statutory contingency reserve		**3,166**		3,021
Statutory policyholders' position	**$**	**4,437**	$	4,640
Risk-to-capital		**10.2**		9.6:1

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

The increase in MGIC's risk-to-capital and our combined insurance companies' risk to capital in the first three months of 2020 was due to a decrease in the statutory policyholders' position, offset by an increase in our RIF, net of reinsurance. The decrease in statutory policyholder's position is primarily due to dividends paid to our holding company in the first three months of 2020 of $390 million. For additional information on dividends paid from MGIC to the holding company refer to "Overview - Capital" of this MD&A"

Our RIF, net of reinsurance, increased in the first three months of 2019, due to an increase in our IIF, offset by an increase in our ceded RIF under our QSR Transactions. Our risk-to-capital ratio will increase if the percentage increase in net insured risk exceeds the percentage increase in capital.

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

Financial Strength Ratings

MGIC financial strength ratings

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

Standard and Poor's recently revised its outlook for the U.S. Mortgage Insurers market segment to "negative," due to the risks associated with the COVID-19 pandemic. A.M. Best recently revised its outlook for the U.S. Mortgage Insurers market segment to "negative," but did not change MGIC's or MAC's outlook at that time. For further information about the importance of MGIC's ratings, see our risk factor titled "Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and / or increase our losses."

MAC financial strength ratings

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

Contractual Obligations

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

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	**$ 1,936.7**	$ 50.6	$ 255.7	$ 483.5	$ 1,146.9
Operating lease obligations	**2.0**	1.1	0.9	—	—
Purchase obligations	**8.9**	5.4	3.5	—	—
Other long-term liabilities	**574.8**	215.6	260.9	98.3	—
Total	**$ 2,522.4**	$ 272.7	$ 521.0	$ 581.8	$ 1,146.9

Our long-term debt obligations as of March 31, 2020 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, 2019. Purchase obligations consist primarily of agreements to purchase items related to our corporate headquarters update and continued investment in our information technology infrastructure in the normal course of business.

Our other long-term liabilities represent the case and LAE loss reserves established to recognize the liability for losses and LAE related to existing delinquencies on insured mortgage loans. The timing of the future claim payments associated with the established case loss reserves was determined primarily based on two key assumptions: the length of time it takes for a notice of delinquency to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge differently than this estimate, in part, due to uncertainty regarding the impact of certain factors, such as impacts from the COVID-19 pandemic, loss mitigation protocols established by servicers and changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation process.

See Note 11 – “Loss Reserves” to our consolidated financial statements. In accordance with GAAP for the mortgage insurance industry, we establish case loss reserves only for delinquent loans. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our consolidated financial statements or in the table above.

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. These risk factors, including the discussion of the impact of the COVID-19 pandemic, speak only as of the date of this press release and are subject to change without notice as the Company cannot predict all risks relating to this evolving set of events. 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.

While we communicate with security analysts from time to time, it is against our policy to disclose to them any material non-public information or other confidential information. Accordingly, investors should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report, and such reports are not our responsibility.

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, 2019, as supplemented by Part II, Item 1 A of our Quarterly Report on Form 10-Q. The risk factors in the 10-K, as supplemented by this 10-Q and through updating of various statistical and other information, are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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, 2019.

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 March 31, 2020, the modified duration of our fixed income investment portfolio was 4.0 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 4.0% 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 first quarter of 2020 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Certain legal proceedings arising in the ordinary course of business may be filed or pending against us from time to time. For information about such legal proceedings, you should review our risk factor titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future” in Exhibit 99.

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, 2019. The risk factors in the 10-K, as supplemented by this 10-Q, and through updating of various statistical and other information, are reproduced in their entirety in Exhibit 99 to this Quarterly Report on Form 10-Q.

The impact of the COVID-19 pandemic on our business and financial condition may be material.

While uncertain, the impact of the COVID-19 pandemic on the Company’s business, financial results, liquidity and/or financial condition may be material. We expect that the increase in unemployment and economic uncertainty resulting from initiatives to reduce the transmission of COVID-19 (including "shelter-in-place" restrictions), as well as COVID-19-related illnesses and deaths, will negatively impact our business. The magnitude of the impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the resulting level of unemployment, and the impact of various government initiatives (including the enactment of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act")) and actions taken by Fannie Mae and Freddie Mac (the "GSEs") (including implementation of mortgage forbearance and modification programs) to mitigate the economic harm caused by COVID-19 and efforts to reduce its transmission.

The COVID-19 pandemic has impacted and may continue to impact our business in various ways, including the following:

- Our incurred losses will increase as the number of insured mortgage delinquencies increase. We establish case reserves for insurance losses when delinquency notices are received and for loans we estimate are delinquent prior to the close of the accounting period but for which delinquency notices have not yet been reported to us (this is often referred to as “IBNR”). For information about our loss reserving methodology, see our risk factors titled *"Because we establish loss reserves only upon a loan delinquency rather than based on estimates of our ultimate losses or risk in force, losses may have a disproportionate adverse effect on our earnings in certain periods,"* and *"Because loss reserve estimates are subject to uncertainties, paid claims may be substantially different than our loss reserves."*

- We will be required to maintain more capital under the private mortgage insurer eligibility requirements ("PMIERs") of the GSEs, which generally require more capital to be held for delinquent loans than for performing loans. For more information about the capital requirements of 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 if we are required to maintain more capital in order to maintain our eligibility."*

- Over time, as the number of delinquencies increases, the number of claims that we must pay is likely to increase. For more information, see our risk factor titled *"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."*

- As the number of purchase mortgage originations decreases, and if the number of refinance mortgage originations decreases, the number of mortgages available for us to insure in the near term will also decrease. For more information, see our risk factor titled *"If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could decline."*

- We may be unable to secure excess of loss reinsurance through insurance-linked notes transactions in the near term. For more information, see our risk factor titled *"Reinsurance may not always be available or affordable."*

- Our receipt of premiums may be delayed. For more information, see our risk factor titled *"We are susceptible to disruptions in the servicing of mortgage loans that we insure and we rely on third-party reporting for information regarding the mortgage loans we insure."*

- Our operations may be impacted if our management or other employees are unable to perform their duties as a result of COVID-19-related illnesses. For more information, see our risk factor titled *"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."*

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 home prices, 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. Home prices may decline even absent a deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers' perceptions of the potential for future appreciation, restrictions on and the cost of mortgage credit due to more stringent underwriting standards, higher interest rates generally, changes to the deductibility of mortgage interest for income tax purposes, decreases in the rate of household formations, or other factors.

The unemployment rate rose from 3.5% as of December 31, 2019, to 4.4 % as of March 31, 2020, and, on May 3, 2020, *The Wall Street Journal* reported that economists it surveyed forecast that unemployment rose to 16.1% as of April 30, 2020. We expect increasing unemployment to result in an increasing number of mortgage delinquencies and insurance claims; however, the increases are difficult to predict given the uncertainty in the current market environment, including uncertainty about the length and severity of the COVID-19 pandemic; the length of time that measures intended to reduce the transmission of COVID-19 remain in place; effects of forbearance programs enacted by the GSEs, various states and municipalities; and effects of stimulus programs, including those contained in the CARES Act. The programs contained in the CARES Act include, among many others:

- Payment forbearance on federally-backed mortgages (including those delivered to or purchased by the GSEs) to borrowers experiencing a hardship during the COVID-19 pandemic. Forbearance allows for mortgage payments to be suspended for up to 360 days. Approximately 82% of our insurance in force that was written in 2019 and before was delivered to or purchased by the GSEs. While servicers of some non-GSE loans may not be required to offer forbearance to borrowers, we allow servicers to apply GSE loss mitigation programs to non-GSE loans. In addition, the Consumer Financial Protection Bureau ("CFPB") requires substantial loss mitigation efforts be made prior to servicers initiating foreclosure, therefore, servicers of non-GSE loans may have an incentive to offer forbearance or deferment.

- For those mortgages that are not subject to forbearance, a suspension of foreclosures and evictions for at least 60 days from March 18, 2020, on mortgages purchased or securitized by the GSEs.

- Direct aid to individuals in the form of refundable tax credit rebates paid in April 2020.

- "Paycheck Protection Program " to provide small businesses with funds to pay up to eight weeks of payroll costs, and certain other expenses.

- Enhanced unemployment benefits.

- Increased flexibility under retirement plans.

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

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

Based on our interpretation of the PMIERs, as of March 31, 2020, MGIC's Available Assets totaled \$4.3 billion, or \$1.0 billion in excess of its Minimum Required Assets. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs. In calculating these "Minimum Required Assets," the total credit for risk ceded under our reinsurance transactions is subject to a modest reduction. Our reinsurance transactions are discussed in our risk factor titled *"The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring."* Our existing reinsurance transactions are subject to periodic review by the GSEs and there is a risk we will not receive our current level of credit in future periods for the risk ceded under them. In addition, we may not receive the same level of credit under future reinsurance transactions that we receive under existing transactions. If MGIC is not allowed certain levels of credit under the PMIERs, under certain circumstances, MGIC may terminate the reinsurance transactions, without penalty.

While loans that were current at the time a COVID-19 pandemic-related forbearance was initiated are not to be reported as delinquent for consumer credit reporting purposes, they may be reported to mortgage insurers and the GSEs as delinquent, and are treated as delinquent for purposes of the PMIERs. Loans that were delinquent at the time such a forbearance was initiated are expected to be reported as delinquent to mortgage insurers and the GSEs. The PMIERs generally require us to maintain significantly more Minimum Required Assets for delinquent loans than for performing loans; however, delinquent loans whose borrowers have been affected by the COVID-19 pandemic may be given the same treatment under the PMIERs as delinquent loans in areas that the Federal Emergency Management Agency ("FEMA") has declared major disaster areas in connection with hurricanes. Specifically, the Minimum Required Assets would be reduced by 70% for at least 120 days from the date the loan becomes delinquent, and longer if the loan is subject to a forbearance plan that meets certain requirements.

Under the current PMIERs, to be eligible for the 70% reduction, the loan must be backed by a property located in a FEMA Declared Major Disaster Area and either 1) or 2) below must apply. FEMA has declared all states and territories in which we conduct business to be Major Disaster Areas as a result of the impact of the COVID-19 pandemic. Absent a forbearance plan described in 1) below, the 70% reduction may be applied no longer than 120 days from the initial default date.

1) The loan is subject to a forbearance plan executed in response to a FEMA Declared Major Disaster Area eligible for Individual Assistance, the terms of which are materially consistent with terms of forbearance plans offered by Freddie Mac or Fannie Mae. As of the date of this report, not all states have delegated eligible individual assistance.

2) The loan has an initial default date occurring up to either (i) 30 days prior to or (ii) 90 days following the Major Disaster event. It is uncertain how the date of the "Major Disaster event" will be determined for the COVID-19 pandemic.

The mortgage insurance industry has asked the Federal Housing Finance Agency (the "FHFA") and the GSEs to consider revisions to the PMIERs in light of the differences between FEMA declarations associated with hurricanes and those associated with the COVID-19 pandemic. Among other things, the industry asked the FHFA and GSEs to specify how "Major Disaster event" will be determined and to not limit the forbearance plans described in 1) above to those executed in response to a FEMA Declared Major Disaster Area eligible for Individual Assistance. We applied the 70% reduction discussed above when calculating our PMIERs Minimum Required Assets for March 31, 2020. We expect to receive guidance from the GSEs before we calculate our PMIERs Minimum Required Assets for June 30, 2020.

Although we have requested servicers to provide us with information about the forbearance status of loans, we may not receive such reporting and, therefore, may not be able to take advantage of the 70% reduction after a loan has been delinquent 120 days.

It is possible that, despite reducing the Minimum Required Assets for certain delinquent loans by 70%, the increasing number of delinquent loans caused by the COVID-19 pandemic will cause our Available Assets to be less than our Minimum Required Assets. As of March 31, 2020 and April 30, 2020, there were 27,384 and 30,243 loans in our delinquency inventory, respectively. We expect that the majority of COVID-19 pandemic-related delinquencies have not yet been reported; however, we are unable to predict the number of loans that will become delinquent as a result of the COVID-19 pandemic. We estimate that, as of March 31, 2020, our delinquency inventory would have had to have grown by approximately 235,000 loans to cause our Available Assets to be less than our Minimum Required Assets. This estimation was based on several simplifying assumptions, including that all incremental delinquencies were associated with the COVID-19 pandemic (and, therefore, receive the 70% reduction in Minimum Required Assets discussed above), reflect the same mix of book years and risk characteristics as our remaining risk-in force, and are subject to 21% quota share reinsurance (the weighted average quota share reinsurance on our risk in force).

If our Available Assets are less than our Minimum Required Assets, then we would not be in compliance with the PMIERs. The PMIERs provide a list of remediation actions for a mortgage insurer's non-compliance, with additional actions possible in the GSEs' discretion. At the extreme, the GSEs may suspend or terminate eligibility to insure loans purchased by them. Such suspension or termination would significantly reduce the volume of our new business writings; the vast majority of our NIW since 2008 has been for loans delivered to or purchased by the GSEs.

In addition to the increase in Minimum Required Assets associated with delinquent loans whose borrowers are affected by the COVID-19 pandemic, factors that may negatively impact MGIC’s ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs may make the PMIERs more onerous in the future. The PMIERs provide that the factors that determine Minimum Required Assets will be updated periodically, or as needed if there is a significant change in macroeconomic conditions or loan performance. We do not anticipate that the regular periodic updates will occur more frequently than once every two years. The PMIERs state that the GSEs will provide notice 180 days prior to the effective date of updates to the factors; however, the GSEs may amend any portion of the PMIERs at any time. It is possible that the FHFA and GSEs will not agree to the COVID-19-specific changes requested by the mortgage insurance industry or that they will revise the PMIERs to provide that there is no reduction in the Minimum Required Assets for COVID-19-related delinquencies.

- There may be future implications for PMIERs based upon forthcoming regulatory capital requirements for the GSEs. In 2018, the FHFA issued a proposed capital rule for the GSEs, which included a framework for determining the capital relief allowed to the GSEs for loans with private mortgage insurance. A re-proposed capital rule is expected to be released; however, the timing and content of the re-proposal are uncertain. Further, any changes to the GSEs' capital and liquidity requirements resulting from the Treasury Housing Reform Plan could have future implications for PMIERs.

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

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

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

In accordance with accounting principles generally accepted in the United States, we establish case reserves for insurance losses and loss adjustment expenses only when 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 consider 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. A premium deficiency exists when the present value of expected future losses and expenses exceed the present value of expected future premiums and already established loss reserves on the applicable loans. As a result, future losses on loans that are not currently delinquent may have a material impact on future results as such losses emerge. As of March 31, 2020, we had established case reserves and reported losses incurred for 27,384 loans in our delinquency inventory and increased our IBNR reserve from $22 million at December 31, 2019 to $30 million at March 31, 2020. Though not reflected in our March 31, 2020 financial results, as of April 30, 2020, our delinquency inventory had increased to 30,243 loans. We expect that delinquencies will increase from that level as a result of the COVID-19 pandemic, including as a result of the increase in unemployment associated with initiatives intended to reduce the transmission of COVID-19. As a result, we expect our losses incurred to increase in future periods. The impact of the COVID-19 pandemic on the number of delinquencies and our losses incurred will be influenced by various factors, including those discussed in our risk factor titled *"The impact of the COVID-19 pandemic on our business and financial condition may be material."*

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

When we establish case reserves, we estimate the ultimate loss on delinquent loans 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. The estimated claim rate and claim severity 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, the impact of various government actions (including the enactment of the CARES Act) and actions taken by the GSEs (including implementation of mortgage forbearance and modification programs) to mitigate the economic harm caused by the COVID-19 pandemic and efforts to reduce the transmission of COVID-19, and a change in the length of time loans are delinquent before claims are received. The change in conditions may include changes in unemployment, including prolonged unemployment as a result of the COVID-19 pandemic, affecting borrowers' income and thus their ability to make mortgage payments, and changes in home prices, which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. The economic effects of the COVID-19 pandemic may be disproportionately concentrated in certain geographic regions. Information about the geographic dispersion of our insurance in force can be found in our Annual Reports on Form 10-K and our Quarterly Reports on Form 10-Q filed with the SEC. Changes to our claim rate and claim severity estimates could have a material impact on our future results, even in a stable economic environment. 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.

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. In addition, our customized rate plans may delay our ability to increase our premiums on the NIW covered by such plans. 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, the investment income we earn and the amount of reinsurance we carry may not be adequate to compensate us for the risks and costs associated with the insurance coverage provided to customers. An increase in the number or size of claims, compared to what we anticipated when we set the premiums, could adversely affect our results of operations or financial condition. Our premium rates are also based in part on the amount of capital we are required to hold against the insured risk. If the amount of capital we are required to hold increases from the amount we were required to hold when a policy was written, we cannot adjust premiums to compensate for this and our returns may be lower than we assumed. For a discussion of the effect of the COVID-19 pandemic on the amount of capital we are required to hold, see our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*

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

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

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

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

Much of the competition in the industry in the last few years has centered on pricing practices which have included: (i) reductions in standard filed rates; (ii) use of customized rate plans (typically lower than standard rates) that are made available to lenders that meet certain criteria; and (iii) use of a spectrum of filed rates to allow for formulaic, risk-based pricing that may be quickly adjusted within certain parameters (referred to as "risk-based pricing systems"). While our increased use of reinsurance over the past several years has helped to mitigate the negative effect of declining premium rates on our returns, refer to our risk factor titled *"Reinsurance may not always be available or affordable"* for a discussion of the risks associated with the availability of reinsurance.

In 2019, we introduced MiQ, our risk-based pricing system that establishes our premium rates based on more risk attributes than were considered in 2018. The widespread use of risk-based pricing systems by the private mortgage insurance industry makes it more difficult to compare our rates to those offered by our competitors. We may not be aware of industry rate changes until we observe that our volume of new insurance written ("NIW") has changed. In addition, business under customized rate plans is awarded by certain customers for only limited periods of time. As a result, our NIW may fluctuate more than it had in the past. Regarding the concentration of our new business, our top ten customers accounted for approximately 26% and 25% of our NIW, in each of the twelve months ended March 31, 2020 and 2019.

We monitor various competitive and economic factors while seeking to balance both profitability and market share considerations in developing our pricing strategies. Premium rates on NIW will change our premium yield (net premiums earned divided by the average insurance in force) over time as older insurance policies run off and new insurance policies with different premium rates are written. Our premium rates are subject to approval by state regulatory agencies, which can delay or limit our ability to change them, outside of the parameters already approved. In addition, our customized rate plans may delay our ability to increase our premiums on the NIW covered by such plans.

There can be no assurance that our premium rates adequately reflect the risk associated with the underlying mortgage insurance policies. For additional information, see our risk factors titled "*The premiums we charge may not be adequate to compensate us for our liabilities for losses and as a result any inadequacy could materially affect our financial condition and results of operations*" and "*If our risk management programs are not effective in identifying, or adequate in controlling or mitigating, the risks we face, or if the models used in our businesses are inaccurate, it could have a material adverse impact on our business, results of operations and financial condition.*"

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

The vast majority of our insurance written since 2008 has been for loans purchased by the GSEs. The current private mortgage insurer eligibility requirements ("PMIERs") of each 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 if 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 NIW. Standard and Poor's recently revised its outlook, to "negative," for MGIC and other U.S. mortgage insurers due to the risks associated with the COVID-19 pandemic. A.M. Best recently revised its outlook for the U.S. Private Mortgage Insurers market segment to "negative," but did not change MGIC's outlook at that time.

- Our ability to participate in the non-GSE mortgage market (the size of which has been limited since 2008, but may grow in the future), could depend on our ability to maintain and improve our investment grade ratings for our insurance subsidiaries. We could be competitively disadvantaged with some market participants because the financial strength ratings of our insurance subsidiaries are lower than those of some competitors. MGIC's financial strength rating from A.M. Best is A- (with a stable outlook), from Moody's is Baa1 (with a stable outlook) and from Standard & Poor's is BBB+ (with a negative outlook).

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

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.

Reinsurance may not always be available or affordable.

As discussed in our risk factor titled "*The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring*," we have in place quota share and excess of loss reinsurance transactions providing various amounts of coverage on 86% of our risk in force. These reinsurance transactions enable us to earn higher returns on our business than we would without them because fewer Available Assets are required to be held under PMIERs. However, reinsurance may not always be available to us or available on similar terms, the quota share reinsurance transactions subject us to counterparty credit risk, and the GSEs may change the credit they allow under the PMIERs for risk ceded under our reinsurance transactions. If we are unable to obtain reinsurance for NIW, our returns may decrease absent an increase in premium rates. An increase in our premium rates may lead to a decrease in our NIW.

We have in place quota share reinsurance ("QSR") transactions with unaffiliated reinsurers that cover most of our insurance written from 2013 through 2021, and a portion of our insurance written prior to 2013. The quota share reinsurance coverage percentages range from 15% to 30%. We also have in place reinsurance agreements that provide excess-of-loss reinsurance coverage for a portion of the risk associated with certain mortgage insurance policies having an insurance coverage in force date on or after July 1, 2016 and before April 1, 2019. The transactions were entered into with special purpose insurers that issued notes linked to the reinsurance coverage ("Insurance Linked Notes" or "ILNs"). The market volatility caused by the COVID-19 pandemic has caused a disruption of uncertain duration in the market for new ILN transactions. The most recent ILN transaction in the market closed on February 3, 2020.

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

Our enterprise risk management program, described in "Business - Our Products and Services - Risk Management" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2019, may not be effective in identifying, or adequate in controlling or mitigating, the risks we face in our business.

We employ proprietary and third party models to project returns, price products (including through our risk-based pricing system), determine the techniques used to underwrite insurance, estimate reserves, generate projections used to estimate future pre-tax income and to evaluate loss recognition testing, evaluate risk, determine internal capital requirements, perform stress testing, and for other uses. These models rely on estimates and projections that are inherently uncertain and may not operate as intended, especially in unprecedented circumstances such as those surrounding the COVID-19 pandemic. In addition, from time to time we seek to improve certain models, and the conversion process may result in material changes to assumptions, including those about returns and financial results. The models we employ are complex, which increases our risk of error in their design, implementation or use. Also, the associated input data, assumptions and calculations may not be correct, and the controls we have in place to mitigate that risk may not be effective in all cases. The risks related to our models may increase when we change assumptions and/or methodologies, or when we add or change modeling platforms. We have enhanced, and we intend to continue to enhance, our modeling capabilities. Moreover, we may use information we receive through enhancements to refine or otherwise change existing assumptions and/or methodologies.

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

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

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

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

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

- the health of the domestic economy as well as conditions in regional and local economies and the level of consumer confidence,
- restrictions on mortgage credit due to more stringent underwriting standards, liquidity issues or risk-retention and/or capital requirements affecting lenders,
- the level of home mortgage interest rates,

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

A decline in the volume of low down payment home mortgage originations could decrease demand for mortgage insurance and limit our NIW. The COVID-19 pandemic, including the related restrictions on business in most parts of the U.S., and its effect on unemployment and consumer confidence, may affect the number of purchase mortgage originations. Underwriting standards have become more stringent as a result of the economic uncertainty caused by the COVID-19 pandemic and that may also cause a decline in the volume of low down payment home mortgage originations. For other factors that could decrease the demand for mortgage insurance, see our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*

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

The Minimum Required Assets under the PMIERs are, in part, a function of the direct risk-in-force and the risk profile of the loans we insure, considering LTV ratio, credit score, vintage, Home Affordable Refinance Program ("HARP") status and delinquency status; and whether the loans were insured under lender-paid mortgage insurance policies or other policies that are not subject to automatic termination consistent with the Homeowners Protection Act requirements for borrower paid mortgage insurance. Therefore, if our direct risk-in-force increases through increases in NIW, or if our mix of business changes to include loans with higher LTV ratios or lower FICO scores, for example, 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 December 2019 would be, in part, a function of certain loan and economic factors, including property location, LTV ratio and credit score; general underwriting quality in the market at the time of loan origination; the age of the loan; and the premium rate we charge. Depending upon the provisions of the capital requirements when they are released in final form and become effective, our mix of business may affect the minimum capital we are required to hold under the new framework.

The percentage of our NIW from all single-premium policies has ranged from approximately 10% in 2013 to 19% in 2017 and was 15% in the first quarter of 2020 and 16% in 2019. Depending upon 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 ("QSR") transactions with unaffiliated reinsurers that cover most of our insurance written from 2013 through 2021, 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 effect of the QSR transactions on the various components of pre-tax income will vary from period to period, depending upon the level of ceded losses.

In 2018 and 2019, MGIC entered into reinsurance agreements that provide excess-of-loss reinsurance coverage for a portion of the risk associated with certain mortgage insurance policies having an insurance coverage in force date on or after July 1, 2016 and before April 1, 2019. The transactions were entered into with special purpose insurers that issued notes linked to the reinsurance coverage ("Insurance Linked Notes" or "ILNs"). We expect that we may enter into other ILN transactions if capital market conditions are favorable. However, the market volatility caused by the COVID-19 pandemic has caused a disruption of uncertain duration in the market for new ILN transactions. The most recent ILN transaction in the market closed on February 3, 2020.

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

Our ability to rescind insurance coverage became more limited for insurance we wrote beginning in mid-2012. As a result of revised PMIERs requirements, we have revised our master policy effective for new insurance written beginning March 1, 2020. Our ability to rescind insurance coverage will become further limited for insurance we write under the new master policy, potentially resulting in higher losses than would be the case under our existing master policies. In addition, our rescission rights temporarily have become more limited due to accommodations we have made in connection with the COVID-19 pandemic. We have waived our rescission rights in certain circumstances where the failure to make payments was associated with a COVID-19 pandemic-related forbearance.

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

Even when home prices are stable or rising, mortgages with certain characteristics have higher probabilities of claims. As of March 31, 2020, mortgages with these characteristics in our primary risk in force included mortgages with LTV ratios greater than 95% (15.1%), loans with borrowers having FICO scores below 620 (1.9%), mortgages with borrowers having FICO scores of 620-679 (8.7%), mortgages with limited underwriting, including limited borrower documentation (1.6%), and mortgages with borrowers having DTI ratios greater than 45% (or where no ratio is available) (14.1%), each attribute as determined at the time of loan origination. An individual loan may have more than one of these attributes.

Beginning in 2017, the percentage of NIW that we have written on mortgages with LTV ratios greater than 95% and mortgages with DTI ratios greater than 45% has increased, although the percentage of NIW that we have written on mortgages with DTI ratios greater than 45% has declined in 2019 and the first quarter of 2020 from its 2018 level. In 2018, we started considering DTI ratios when setting our premium rates, and we changed our methodology for calculating DTI ratios for pricing and eligibility purposes to exclude the impact of mortgage insurance premiums. As a result of this change, loan originators may have changed the information they provide to us. Although we have revised our operational procedures to account for this possibility, we cannot be sure that the DTI ratio we report for each loan beginning in late 2018 includes the related mortgage insurance premiums in the calculation. In addition, we expect to insure certain loans that would not have previously met our guidelines and to offer premium rates for certain loans lower than would have been offered under our previous methodology.

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

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

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

We depend on reliable, consistent third-party servicing of the loans that we insure. As discussed below, the increase in delinquent loans expected to be caused by the COVID-19 pandemic may result in liquidity issues and operational burdens for servicers, which may result in a delay in our receipt of premiums and disruptions in servicing.

The CARES Act provides for payment forbearance on loans purchased or secured by the GSEs to borrowers experiencing a hardship during the COVID-19 pandemic. During the forbearance period, mortgage servicers are required to pay four months of principal and interest to investors in the securities backed by the loans, even though the servicers are not receiving payments from borrowers. This may cause liquidity issues for especially non-bank servicers (who service approximately 40% of the loans underlying our insurance in force) because they do not have the same sources of liquidity that bank servicers have.

While there has been no disruption in our premium receipts through the end of April 2020, we expect that if servicers experience future liquidity issues, they may be less likely to advance premiums to us on policies covering delinquent loans because they are not receiving payments from borrowers. Servicers experiencing liquidity issues may also be less likely to remit our premiums on policies covering loans that are not delinquent. Our policies allow us to cancel coverage on loans that are not delinquent if the premiums are not paid within a grace period. However, in response to the COVID-19 pandemic, many states have enacted moratoriums on the cancellation of insurance due to non-payment. The specific provisions of the moratoriums vary from state-to-state.

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

The information presented in this report and on our website with respect to the mortgage loans we insure is based on information reported to us by third parties, including the servicers and originators of the mortgage loans. Consequently, information presented may be subject to lapses or inaccuracies in reporting from such third parties. In many cases, we may not be aware that information reported to us by third parties is incorrect until such time as a claim is made against us under the relevant insurance policy. We do not receive monthly information from servicers for single premium policies, and may not be aware that the mortgage loans insured by such policies have been repaid. We periodically attempt to determine if coverage is still in force on such policies by asking the last servicer of record or through the periodic reconciliation of loan information with certain servicers. It may be possible that our reports continue to reflect, as active, policies on mortgage loans that have been repaid.

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

At March 31, 2020, we had approximately $563 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 due in 2063 (of which approximately $133 million was purchased, 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 March 31, 2020, 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 dividends, and in the first quarter of 2020 and in the full year 2019, it paid a total of $390 million and $280 million, respectively, in dividends to our holding company. We ask the OCI not to object before MGIC pays dividends and, due to the uncertainty surrounding the COVID-19 pandemic, we do not expect MGIC to pay a dividend to the holding company in the second quarter of 2020.

In the first quarter of 2020 and in 2019, we repurchased approximately 9.6 million and 8.7 million shares of our common stock, respectively, using approximately $120 million and $114 million of holding company resources, respectively. As of March 31, 2020, we had $291 million of authorization remaining to repurchase our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in January 2020. Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time, and due to the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases. If any additional capital contributions to our subsidiaries were required, such contributions would decrease our holding company cash and investments. As described in our Current Report on Form 8-K filed on February 11, 2016, MGIC borrowed $155 million from the Federal Home Loan Bank of Chicago. This is an obligation of MGIC and not of our holding company.

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

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

At March 31, 2020, 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, 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 a conversion rate, which is subject to adjustment, of 74.4718 common shares per $1,000 principal amount of debentures. This represents a conversion price of approximately $13.43 per share. The payment of dividends by our holding company results in an adjustment to the conversion rate and price, with such adjustment generally deferred until the end of the year.

We may redeem the 9% Debentures in whole or in part from time to time, at our option, at a redemption price equal to 100% of the principal amount of the 9% Debentures being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds $17.46 for at least 20 of the 30 trading days preceding notice of the redemption.

We have the right, and may elect, to defer interest payable under the 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 more information about the 9% Debentures, including additional requirements resulting from the deferral of interest, see Note 7 – "Debt" to our consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019.

For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 4 – "Earnings Per Share" to our consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019. As noted above, in the first quarter of 2020 and in 2019, we repurchased shares of our common stock and may do so in the future. In addition, we have in the past purchased, and may in the future purchase, our debt securities.

We could be adversely affected if personal information on consumers that we maintain is improperly disclosed, and damage to, or interruption in, our information technology systems may disrupt our operations.

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

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

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

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

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

Pandemics and other natural disasters, such as hurricanes, tornadoes, earthquakes, wildfires and floods, or other events related to changing climatic conditions, could trigger an economic downturn in the affected areas, which could result in a decline in our business and an increased claim rate on policies in those areas. Natural disasters, rising sea levels and increased cost of flood insurance could lead to a decrease in home prices in the affected areas, or in areas with similar risks, which could result in an increase in claim severity on policies in those areas. If we were to attempt to limit our new insurance written in disaster-prone areas, lenders may be unwilling to procure insurance from us anywhere.

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

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

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table provides information about purchases of MGIC Investment Corporation common stock by us during the three months ended March 31, 2020.

Share repurchases

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the programs (1)
January 1, 2020	January 1, 2020	—	$ —	—	$ 410,815,326
February 1, 2020	February 29, 2020	5,849,932	$ 13.28	5,849,932	$ 333,132,019
March 1, 2020	March 31, 2020	3,762,014	$ 11.25	3,762,014	$ 290,818,024
		9,611,946	$ 12.47	9,611,946	

(1) On January 28, 2020, our Board of Directors authorized a share repurchase program under which we may repurchase up to an additional $300 million of our common stock through the end of 2021. Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time.

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.

(Part II, Item 6)

Index to exhibits

Exhibit Number	Description of Exhibit	Form	Exhibit(s)	Filing Date
3.2	Amended and Restated Bylaws, as amended.	8-K	3.2	March 25, 2020
4.2	Amended and Restated Bylaws, as amended (included as Exhibit 3.2)	8-K	3.2	March 25, 2020
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, 2019, as supplemented by Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, and through updating of various statistical and other information †			
99.28	Mortgage Guaranty Insurance Corporation’s “Flow” Master Insurance Policy for loans with a mortgage insurance application date on or after March 1, 2020 †			
99.29	State Variations Endorsement (for other than Maine and Puerto Rico) to Mortgage Guaranty Insurance Corporation’s “Flow” Master Insurance Policy for loans with a mortgage insurance application date on or after March 1, 2020 †			
101.INS	Inline XBRL Instance Document			
101.SCH	Inline XBRL Taxonomy Extension Schema Document			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document			
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)			

* Denotes a management contract or compensatory plan.
† Filed herewith.
†† Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on May 7, 2020.

MGIC INVESTMENT CORPORATION

/s/ Nathaniel H. Colson

Nathaniel H. Colson

Executive Vice President and

Chief Financial Officer

/s/ Julie K. Sperber

Julie K. Sperber

Vice President, Controller and Chief Accounting Officer

Exhibit 31.1
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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 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: May 7, 2020

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

Exhibit 31.2

CERTIFICATIONS

I, Nathan H. Colson, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 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: May 7, 2020

/s/ Nathan H. Colson
Nathan H. Colson
Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATIONS

The undersigned, Timothy J. Mattke, Chief Executive Officer of MGIC Investment Corporation (the "Company"), and Nathan H. Colson, 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 March 31, 2020 (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: May 7, 2020

/s/ Timothy J. Mattke

Timothy J. Mattke
Chief Executive Officer

/s/ Nathan H. Colson

Nathan H. Colson
Chief Financial Officer

Exhibit 99

Risk Factors

Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, as supplemented by Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, 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.

The impact of the COVID-19 pandemic on our business and financial condition may be material.

While uncertain, the impact of the COVID-19 pandemic on the Company’s business, financial results, liquidity and/or financial condition may be material. We expect that the increase in unemployment and economic uncertainty resulting from initiatives to reduce the transmission of COVID-19 (including "shelter-in-place" restrictions), as well as COVID-19-related illnesses and deaths, will negatively impact our business. The magnitude of the impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the resulting level of unemployment, and the impact of various government initiatives (including the enactment of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act")) and actions taken by Fannie Mae and Freddie Mac (the "GSEs") (including implementation of mortgage forbearance and modification programs) to mitigate the economic harm caused by COVID-19 and efforts to reduce its transmission.

The COVID-19 pandemic has impacted and may continue to impact our business in various ways, including the following:

- Our incurred losses will increase as the number of insured mortgage delinquencies increase. We establish case reserves for insurance losses when delinquency notices are received and for loans we estimate are delinquent prior to the close of the accounting period but for which delinquency notices have not yet been reported to us (this is often referred to as “IBNR”). For information about our loss reserving methodology, see our risk factors titled *"Because we establish loss reserves only upon a loan delinquency rather than based on estimates of our ultimate losses or risk in force, losses may have a disproportionate adverse effect on our earnings in certain periods,"* and *"Because loss reserve estimates are subject to uncertainties, paid claims may be substantially different than our loss reserves."*

- We will be required to maintain more capital under the private mortgage insurer eligibility requirements ("PMIERs") of the GSEs, which generally require more capital to be held for delinquent loans than for performing loans. For more information about the capital requirements of 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 if we are required to maintain more capital in order to maintain our eligibility."*

- Over time, as the number of delinquencies increases, the number of claims that we must pay is likely to increase. For more information, see our risk factor titled *"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."*

- As the number of purchase mortgage originations decreases, and if the number of refinance mortgage originations decreases, the number of mortgages available for us to insure in the near term will also decrease. For more information, see our risk factor titled *"If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could decline."*

- We may be unable to secure excess of loss reinsurance through insurance-linked notes transactions in the near term. For more information, see our risk factor titled *"Reinsurance may not always be available or affordable."*

- Our receipt of premiums may be delayed. For more information, see our risk factor titled *"We are susceptible to disruptions in the servicing of mortgage loans that we insure and we rely on third-party reporting for information regarding the mortgage loans we insure."*

- Our operations may be impacted if our management or other employees are unable to perform their duties as a result of COVID-19-related illnesses. For more information, see our risk factor titled *"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."*

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 home prices, 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. Home prices may decline even absent a deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers' perceptions of the potential for future appreciation, restrictions on and the cost of mortgage credit due to more stringent underwriting standards, higher interest rates generally, changes to the deductibility of mortgage interest for income tax purposes, decreases in the rate of household formations, or other factors.

The unemployment rate rose from 3.5% as of December 31, 2019, to 4.4 % as of March 31, 2020, and, on May 3, 2020, *The Wall Street Journal* reported that economists it surveyed forecast that unemployment rose to 16.1% as of April 30, 2020. We expect increasing unemployment to result in an increasing number of mortgage delinquencies and insurance claims; however, the increases are difficult to predict given the uncertainty in the current market environment, including uncertainty about the length and severity of the COVID-19 pandemic; the length of time that measures intended to reduce the transmission of COVID-19 remain in place; effects of forbearance programs enacted by the GSEs, various states and municipalities; and effects of stimulus programs, including those contained in the CARES Act. The programs contained in the CARES Act include, among many others:

- Payment forbearance on federally-backed mortgages (including those delivered to or purchased by the GSEs) to borrowers experiencing a hardship during the COVID-19 pandemic. Forbearance allows for mortgage payments to be suspended for up to 360 days. Approximately 82% of our insurance in force that was written in 2019 and before was delivered to or purchased by the GSEs. While servicers of some non-GSE loans may not be required to offer forbearance to borrowers, we allow servicers to apply GSE loss mitigation programs to non-GSE loans. In addition, the Consumer Financial Protection Bureau ("CFPB") requires substantial loss mitigation efforts be made prior to servicers initiating foreclosure, therefore, servicers of non-GSE loans may have an incentive to offer forbearance or deferment.

- For those mortgages that are not subject to forbearance, a suspension of foreclosures and evictions for at least 60 days from March 18, 2020, on mortgages purchased or securitized by the GSEs.

- Direct aid to individuals in the form of refundable tax credit rebates paid in April 2020.

- "Paycheck Protection Program " to provide small businesses with funds to pay up to eight weeks of payroll costs, and certain other expenses.

- Enhanced unemployment benefits.

- Increased flexibility under retirement plans.

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

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

Based on our interpretation of the PMIERs, as of March 31, 2020, MGIC's Available Assets totaled $4.3 billion, or $1.0 billion in excess of its Minimum Required Assets. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs. In calculating these "Minimum Required Assets," the total credit for risk ceded under our reinsurance transactions is subject to a modest reduction. Our reinsurance transactions are discussed in our risk factor titled *"The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring."* Our existing reinsurance transactions are subject to periodic review by the GSEs and there is a risk we will not receive our current level of credit in future periods for the risk ceded under them. In addition, we may not receive the same level of credit under future reinsurance transactions that we receive under existing transactions. If MGIC is not allowed certain levels of credit under the PMIERs, under certain circumstances, MGIC may terminate the reinsurance transactions, without penalty.

While loans that were current at the time a COVID-19 pandemic-related forbearance was initiated are not to be reported as delinquent for consumer credit reporting purposes, they may be reported to mortgage insurers and the GSEs as delinquent, and are treated as delinquent for purposes of the PMIERs. Loans that were delinquent at the time such a forbearance was initiated are expected to be reported as delinquent to mortgage insurers and the GSEs. The PMIERs generally require us to maintain significantly more Minimum Required Assets for delinquent loans than for performing loans; however, delinquent loans whose borrowers have been affected by the COVID-19 pandemic may be given the same treatment under the PMIERs as delinquent loans in areas that the Federal Emergency Management Agency ("FEMA") has declared major disaster areas in connection with hurricanes. Specifically, the Minimum Required Assets would be reduced by 70% for at least 120 days from the date the loan becomes delinquent, and longer if the loan is subject to a forbearance plan that meets certain requirements.

Under the current PMIERs, to be eligible for the 70% reduction, the loan must be backed by a property located in a FEMA Declared Major Disaster Area and either 1) or 2) below must apply. FEMA has declared all states and territories in which we conduct business to be Major Disaster Areas as a result of the impact of the COVID-19 pandemic. Absent a forbearance plan described in 1) below, the 70% reduction may be applied no longer than 120 days from the initial default date.

1) The loan is subject to a forbearance plan executed in response to a FEMA Declared Major Disaster Area eligible for Individual Assistance, the terms of which are materially consistent with terms of forbearance plans offered by Freddie Mac or Fannie Mae. As of the date of this report, not all states have delegated eligible individual assistance.

2) The loan has an initial default date occurring up to either (i) 30 days prior to or (ii) 90 days following the Major Disaster event. It is uncertain how the date of the "Major Disaster event" will be determined for the COVID-19 pandemic.

The mortgage insurance industry has asked the Federal Housing Finance Agency (the "FHFA") and the GSEs to consider revisions to the PMIERs in light of the differences between FEMA declarations associated with hurricanes and those associated with the COVID-19 pandemic. Among other things, the industry asked the FHFA and GSEs to specify how "Major Disaster event" will be determined and to not limit the forbearance plans described in 1) above to those executed in response to a FEMA Declared Major Disaster Area eligible for Individual Assistance. We applied the 70% reduction discussed above when calculating our PMIERs Minimum Required Assets for March 31, 2020. We expect to receive guidance from the GSEs before we calculate our PMIERs Minimum Required Assets for June 30, 2020.

Although we have requested servicers to provide us with information about the forbearance status of loans, we may not receive such reporting and, therefore, may not be able to take advantage of the 70% reduction after a loan has been delinquent 120 days.

It is possible that, despite reducing the Minimum Required Assets for certain delinquent loans by 70%, the increasing number of delinquent loans caused by the COVID-19 pandemic will cause our Available Assets to be less than our Minimum Required Assets. As of March 31, 2020 and April 30, 2020, there were 27,384 and 30,243 loans in our delinquency inventory, respectively. We expect that the majority of COVID-19 pandemic-related delinquencies have not yet been reported; however, we are unable to predict the number of loans that will become delinquent as a result of the COVID-19 pandemic. We estimate that, as of March 31, 2020, our delinquency inventory would have had to have grown by approximately 235,000 loans to cause our Available Assets to be less than our Minimum Required Assets. This estimation was based on several simplifying assumptions, including that all incremental delinquencies were associated with the COVID-19 pandemic (and, therefore, receive the 70% reduction in Minimum Required Assets discussed above), reflect the same mix of book years and risk characteristics as our remaining risk-in force, and are subject to 21% quota share reinsurance (the weighted average quota share reinsurance on our risk in force).

If our Available Assets are less than our Minimum Required Assets, then we would not be in compliance with the PMIERs. The PMIERs provide a list of remediation actions for a mortgage insurer's non-compliance, with additional actions possible in the GSEs' discretion. At the extreme, the GSEs may suspend or terminate eligibility to insure loans purchased by them. Such suspension or termination would significantly reduce the volume of our new business writings; the vast majority of our NIW since 2008 has been for loans delivered to or purchased by the GSEs. In addition to the increase in Minimum Required Assets associated with delinquent loans whose borrowers are affected by the COVID-19 pandemic, factors that may negatively impact MGIC's ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs may make the PMIERs more onerous in the future. The PMIERs provide that the factors that determine Minimum Required Assets will be updated periodically, or as needed if there is a significant change in macroeconomic conditions or loan performance. We do not anticipate that the regular periodic updates will occur more frequently than once every two years. The PMIERs state that the GSEs will provide notice 180 days prior to the effective date of updates to the factors; however, the GSEs may amend any portion of the PMIERs at any time. It is possible that the FHFA and GSEs will not agree to the COVID-19-specific changes requested by the mortgage insurance industry or that they will revise the PMIERs to provide that there is no reduction in the Minimum Required Assets for COVID-19-related delinquencies.

- There may be future implications for PMIERs based upon forthcoming regulatory capital requirements for the GSEs. In 2018, the FHFA issued a proposed capital rule for the GSEs, which included a framework for determining the capital relief allowed to the GSEs for loans with private mortgage insurance. A re-proposed capital rule is expected to be released; however, the timing and content of the re-proposal are uncertain. Further, any changes to the GSEs' capital and liquidity requirements resulting from the Treasury Housing Reform Plan could have future implications for PMIERs.

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

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

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

In accordance with accounting principles generally accepted in the United States, we establish case reserves for insurance losses and loss adjustment expenses only when 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 consider 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. A premium deficiency exists when the present value of expected future losses and expenses exceed the present value of expected future premiums and already established loss reserves on the applicable loans. As a result, future losses on loans that are not currently delinquent may have a material impact on future results as such losses emerge. As of March 31, 2020, we had established case reserves and reported losses incurred for 27,384 loans in our delinquency inventory and increased our IBNR reserve from $22 million at December 31, 2019 to $30 million at March 31, 2020. Though not reflected in our March 31, 2020 financial results, as of April 30, 2020, our delinquency inventory had increased to 30,243 loans. We expect that delinquencies will increase from that level as a result of the COVID-19 pandemic, including as a result of the increase in unemployment associated with initiatives intended to reduce the transmission of COVID-19. As a result, we expect our losses incurred to increase in future periods. The impact of the COVID-19 pandemic on the number of delinquencies and our losses incurred will be influenced by various factors, including those discussed in our risk factor titled *"The impact of the COVID-19 pandemic on our business and financial condition may be material."*

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

When we establish case reserves, we estimate the ultimate loss on delinquent loans 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. The estimated claim rate and claim severity 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, the impact of various government actions (including the enactment of the CARES Act) and actions taken by the GSEs (including implementation of mortgage forbearance and modification programs) to mitigate the economic harm caused by the COVID-19 pandemic and efforts to reduce the transmission of COVID-19, and a change in the length of time loans are delinquent before claims are received. The change in conditions may include changes in unemployment, including prolonged unemployment as a result of the COVID-19 pandemic, affecting borrowers’ income and thus their ability to make mortgage payments, and changes in home prices, which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. The economic effects of the COVID-19 pandemic may be disproportionately concentrated in certain geographic regions. Information about the geographic dispersion of our insurance in force can be found in our Annual Reports on Form 10-K and our Quarterly Reports on Form 10-Q filed with the SEC. Changes to our claim rate and claim severity estimates could have a material impact on our future results, even in a stable economic environment. 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.

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. In addition, our customized rate plans may delay our ability to increase our premiums on the NIW covered by such plans. 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, the investment income we earn and the amount of reinsurance we carry may not be adequate to compensate us for the risks and costs associated with the insurance coverage provided to customers. An increase in the number or size of claims, compared to what we anticipated when we set the premiums, could adversely affect our results of operations or financial condition. Our premium rates are also based in part on the amount of capital we are required to hold against the insured risk. If the amount of capital we are required to hold increases from the amount we were required to hold when a policy was written, we cannot adjust premiums to compensate for this and our returns may be lower than we assumed. For a discussion of the effect of the COVID-19 pandemic on the amount of capital we are required to hold, see our risk factor titled *"We may not continue to meet the GSEs’ private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*

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

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

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

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

Much of the competition in the industry in the last few years has centered on pricing practices which have included: (i) reductions in standard filed rates; (ii) use of customized rate plans (typically lower than standard rates) that are made available to lenders that meet certain criteria; and (iii) use of a spectrum of filed rates to allow for formulaic, risk-based pricing that may be quickly adjusted within certain parameters (referred to as "risk-based pricing systems"). While our increased use of reinsurance over the past several years has helped to mitigate the negative effect of declining premium rates on our returns, refer to our risk factor titled *"Reinsurance may not always be available or affordable"* for a discussion of the risks associated with the availability of reinsurance.

In 2019, we introduced MiQ, our risk-based pricing system that establishes our premium rates based on more risk attributes than were considered in 2018. The widespread use of risk-based pricing systems by the private mortgage insurance industry makes it more difficult to compare our rates to those offered by our competitors. We may not be aware of industry rate changes until we observe that our volume of new insurance written ("NIW") has changed. In addition, business under customized rate plans is awarded by certain customers for only limited periods of time. As a result, our NIW may fluctuate more than it had in the past. Regarding the concentration of our new business, our top ten customers accounted for approximately 26% and 25% of our NIW, in each of the twelve months ended March 31, 2020 and 2019.

We monitor various competitive and economic factors while seeking to balance both profitability and market share considerations in developing our pricing strategies. Premium rates on NIW will change our premium yield (net premiums earned divided by the average insurance in force) over time as older insurance policies run off and new insurance policies with different premium rates are written. Our premium rates are subject to approval by state regulatory agencies, which can delay or limit our ability to change them, outside of the parameters already approved. In addition, our customized rate plans may delay our ability to increase our premiums on the NIW covered by such plans.

There can be no assurance that our premium rates adequately reflect the risk associated with the underlying mortgage insurance policies. For additional information, see our risk factors titled “*The premiums we charge may not be adequate to compensate us for our liabilities for losses and as a result any inadequacy could materially affect our financial condition and results of operations*" and "*If our risk management programs are not effective in identifying, or adequate in controlling or mitigating, the risks we face, or if the models used in our businesses are inaccurate, it could have a material adverse impact on our business, results of operations and financial condition.*"

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

The vast majority of our insurance written since 2008 has been for loans purchased by the GSEs. The current private mortgage insurer eligibility requirements ("PMIERs") of each 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 if 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 NIW. Standard and Poor's recently revised its outlook, to "negative," for MGIC and other U.S. mortgage insurers due to the risks associated with the COVID-19 pandemic. A.M. Best recently revised its outlook for the U.S. Private Mortgage Insurers market segment to "negative," but did not change MGIC's outlook at that time.

- Our ability to participate in the non-GSE mortgage market (the size of which has been limited since 2008, but may grow in the future), could depend on our ability to maintain and improve our investment grade ratings for our insurance subsidiaries. We could be competitively disadvantaged with some market participants because the financial strength ratings of our insurance subsidiaries are lower than those of some competitors. MGIC's financial strength rating from A.M. Best is A- (with a stable outlook), from Moody’s is Baa1 (with a stable outlook) and from Standard & Poor’s is BBB+ (with a negative outlook).

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

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:

- investors using risk mitigation and credit risk transfer techniques other than private mortgage insurance,

- lenders and other investors holding mortgages in portfolio and self-insuring,

- lenders using Federal Housing Administration ("FHA"), U.S. Department of Veterans Affairs ("VA") and other government mortgage insurance programs, and

- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ("LTV") ratio and a second mortgage with a 10%, 15% or 20% LTV ratio (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% LTV ratio that has private mortgage insurance.

The GSEs’ charters generally require credit enhancement for a low down payment mortgage loan (a loan with an amount that exceeds 80% of a home’s value) in order for such loan to be eligible for purchase by the GSEs. Private mortgage insurance has generally been purchased by lenders in primary mortgage market transactions to satisfy this credit enhancement requirement. In 2018, Freddie Mac and Fannie Mae initiated secondary mortgage market programs with loan level mortgage default coverage provided by various (re)insurers that are not mortgage insurers governed by PMIERs, and that are not selected by the lenders. These programs compete with traditional private mortgage insurance and, due to differences in policy terms, they may offer premium rates that are below prevalent single premium lender paid mortgage insurance ("LPMI") rates. We participate in these programs from time to time. See our risk factor titled “*Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses”* for a discussion of various business practices of the GSEs that may be changed, including through expansion or modification of these programs.

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

The FHA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 28.2% in 2019, 30.5% in 2018 and 33.9% in 2017. In the past ten years, the FHA’s share has been as low as 28.2% in 2019 and as high as 64.5% in 2010. Factors that influence the FHA’s market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; lenders' perceptions of legal risks under FHA versus GSE programs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns expected to be obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to the GSEs for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. 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 25.2% in 2019, 22.9% in 2018 and 24.7% in 2017. In the past ten years, the VA’s share has been as low as 15.7% in 2010 and as high as 27.2% in 2016. We believe that the VA’s market share has generally been elevated in recent years because of an increase in the number of borrowers that are eligible for the VA’s program, which offers 100% LTV ratio loans and charges a one-time funding fee that can be included in the loan amount, and because eligible borrowers have opted to use the VA program when refinancing their mortgages.

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

The vast majority of our insurance written since 2008 has been for loans purchased by the GSEs, therefore, the business practices of the GSEs greatly impact our business and include:

- the GSEs' PMIERs, the financial requirements of which are discussed in our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility,"*

- the capital and collateral requirements for participants in the GSEs' alternative forms of credit enhancement discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance,"*

- the level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters, when private mortgage insurance is used as the required credit enhancement on low down payment mortgages (the GSEs generally require a level of mortgage insurance coverage that is higher than the level of coverage required by their charters; any change in the required level of coverage will impact our new risk written),

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

- whether the GSEs select or influence the mortgage lender's selection of the mortgage insurer providing coverage,

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

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

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

- the terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase, including limitations on the rescission rights of mortgage insurers,

- the extent to which the GSEs intervene in mortgage insurers' claims paying practices, rescission practices or rescission settlement practices with lenders, and

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

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

In September 2019, at the direction of President Trump, the U.S. Treasury Department ("Treasury") released the "Treasury Housing Reform Plan" (the "Plan"). The Plan recommends administrative and legislative reforms for the housing finance system, with such reforms intended to achieve the goals of ending the conservatorships of the GSEs; increasing competition and participation by the private sector in the mortgage market including by authorizing the FHFA to approve additional guarantors of conventional mortgages in the secondary market, simplifying the qualified mortgage ("QM") rule of the CFPB, transferring risk to the private sector, and eliminating the "GSE Patch" (discussed below); establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. Also in September 2019, the Treasury and FHFA entered into a letter agreement that will allow the GSEs to remit less of their earnings to the government, which will help them rebuild their capital.

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

The current GSE Patch expands the definition of QM under the Truth in Lending Act (Regulation Z) ("TILA") to include mortgages eligible to be purchased by the GSEs, even if the mortgages do not meet the debt-to-income ("DTI") ratio limit of 43% that is included in the standard QM definition. Originating a QM may provide a lender with legal protection from lawsuits that claim the lender failed to verify a borrower's ability to repay. The GSE Patch is scheduled to expire no later than January 2021. Approximately 23% and 21% of our NIW in the first quarter of 2020 and the last quarter of 2019, respectively, was on loans with DTI ratios greater than 43%. However, it is possible that expiration of the GSE Patch will be delayed and that not all future loans with DTI ratios greater than 43% will be affected by such expiration. In this regard, we note that the CFPB recently indicated that it expects to issue for comment, no later than May 2020, a proposed new "ability-to-repay" ("ATR") rule that would replace the use of DTI ratio in the definition of QM with an alternative measure, such as a pricing threshold. The CFPB also indicated that it would extend the expiration of the GSE Patch until the earlier of the effective date of the proposed alternative or until one of the GSEs exits conservatorship.

We insure loans that do not qualify as QMs; however, we are unsure the extent to which lenders will make non-QM loans because they will not be entitled to the presumptions about compliance with the ATR rule that the law allows with respect to QM loans. We are also unsure the extent to which lenders will purchase private mortgage insurance for loans that cannot be sold to the GSEs. Finally, certain lenders have suspended their non-QM lending due to COVID-19 pandemic-related concerns.

The QM definition for loans insured by the FHA, which was issued by the Department of Housing and Urban Development ("HUD"), is less restrictive than the CFPB's definition in certain respects, including that (i) it has no DTI ratio limit, and (ii) it allows lenders certain presumptions about compliance with the ATR rule on higher priced loans. It is possible that, in the future, lenders will prefer FHA-insured loans to loans insured by private mortgage insurance as a result of the FHA's less restrictive QM definition. However, in September 2019, HUD released its Housing Reform Plan and indicated that the FHA should refocus on its mission of providing housing finance support to low- and moderate-income families that cannot be fulfilled through traditional underwriting. In addition, Treasury's Plan indicated that the FHFA and HUD should develop and implement a specific understanding as to the appropriate roles and overlap between the GSEs and FHA, including with respect to the GSEs' acquisitions of high LTV ratio loans and high DTI ratio loans.

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. The timing and impact on our business of any resulting changes is uncertain. Many of the proposed changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

Reinsurance may not always be available or affordable.

As discussed in our risk factor titled "*The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring*," we have in place quota share and excess of loss reinsurance transactions providing various amounts of coverage on 86% of our risk in force. These reinsurance transactions enable us to earn higher returns on our business than we would without them because fewer Available Assets are required to be held under PMIERs. However, reinsurance may not always be available to us or available on similar terms, the quota share reinsurance transactions subject us to counterparty credit risk, and the GSEs may change the credit they allow under the PMIERs for risk ceded under our reinsurance transactions. If we are unable to obtain reinsurance for NIW, our returns may decrease absent an increase in premium rates. An increase in our premium rates may lead to a decrease in our NIW.

We have in place quota share reinsurance ("QSR") transactions with unaffiliated reinsurers that cover most of our insurance written from 2013 through 2021, and a portion of our insurance written prior to 2013. The quota share reinsurance coverage percentages range from 15% to 30%. We also have in place reinsurance agreements that provide excess-of-loss reinsurance coverage for a portion of the risk associated with certain mortgage insurance policies having an insurance coverage in force date on or after July 1, 2016 and before April 1, 2019. The transactions were entered into with special purpose insurers that issued notes linked to the reinsurance coverage ("Insurance Linked Notes" or "ILNs"). The market volatility caused by the COVID-19 pandemic has caused a disruption of uncertain duration in the market for new ILN transactions. The most recent ILN transaction in the market closed on February 3, 2020.

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, our insurance policies generally 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 the first quarter of 2020 and in 2019, curtailments reduced our average claim paid by approximately 4.4%% and 3.9%, respectively.

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

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

Under ASC 450-20, until a loss associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss. When we determine that a loss is probable and can be reasonably estimated, we record our best estimate of our probable loss. In those cases, until settlement negotiations or legal proceedings are concluded (including the receipt of any necessary GSE approvals), it is reasonably possible that we will record an additional loss. We are currently involved in discussions and/or proceedings with respect to our claims paying practices. Although it is reasonably possible that, when resolved, we will not prevail on all matters, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure where a loss is reasonably possible to be approximately $47 million. This estimate of maximum exposure is based upon currently available information; is subject to significant judgment, numerous assumptions and known and unknown uncertainties; will include an amount for matters for which we have recorded a probable loss until such matters are concluded; will include different matters from time to time; and does not include interest or consequential or exemplary damages.

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, including by state insurance departments. Many of these regulations are designed for the protection of our insured policyholders and consumers, rather than for the benefit of investors. Mortgage insurers, including MGIC, have in the past been involved in litigation and regulatory actions related to alleged violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act ("RESPA"), and the notice provisions of the Fair Credit Reporting Act ("FCRA"). While these proceedings in the aggregate did not result in material liability for MGIC, there can be no assurance that the outcome of future proceedings, if any, under these laws would not have a material adverse effect on us. To the extent that we are construed to make independent credit decisions in connection with our contract underwriting activities, we also could be subject to increased regulatory requirements under the Equal Credit Opportunity Act ("ECOA"), FCRA, and other laws. Under ECOA, examination may also be made of whether a mortgage insurer's underwriting decisions have a disparate impact on persons belonging to a protected class in violation of the law.

Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business, including payment for the referral of insurance business, premium rates and discrimination in pricing, and minimum capital requirements. For more information about state capital requirements, see our risk factor titled *“State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.”* For information about regulation of data privacy, see our risk factor titled *“We could be adversely affected if personal information on consumers that we maintain is improperly disclosed; and damage to, or interruption in, our information technology systems may disrupt our operations.”* For more details about the various ways in which our subsidiaries are regulated, see “Business - Regulation” in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2019. 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.

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

Our enterprise risk management program, described in "Business - Our Products and Services - Risk Management" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2019, may not be effective in identifying, or adequate in controlling or mitigating, the risks we face in our business.

We employ proprietary and third party models to project returns, price products (including through our risk-based pricing system), determine the techniques used to underwrite insurance, estimate reserves, generate projections used to estimate future pre-tax income and to evaluate loss recognition testing, evaluate risk, determine internal capital requirements, perform stress testing, and for other uses. These models rely on estimates and projections that are inherently uncertain and may not operate as intended, especially in unprecedented circumstances such as those surrounding the COVID-19 pandemic. In addition, from time to time we seek to improve certain models, and the conversion process may result in material changes to assumptions, including those about returns and financial results. The models we employ are complex, which increases our risk of error in their design, implementation or use. Also, the associated input data, assumptions and calculations may not be correct, and the controls we have in place to mitigate that risk may not be effective in all cases. The risks related to our models may increase when we change assumptions and/or methodologies, or when we add or change modeling platforms. We have enhanced, and we intend to continue to enhance, our modeling capabilities. Moreover, we may use information we receive through enhancements to refine or otherwise change existing assumptions and/or methodologies.

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

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

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

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

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

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

A decline in the volume of low down payment home mortgage originations could decrease demand for mortgage insurance and limit our NIW. The COVID-19 pandemic, including the related restrictions on business in most parts of the U.S., and its effect on unemployment and consumer confidence, may affect the number of purchase mortgage originations. Underwriting standards have become more stringent as a result of the economic uncertainty caused by the COVID-19 pandemic and that may also cause a decline in the volume of low down payment home mortgage originations. For other factors that could decrease the demand for mortgage insurance, see our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*

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

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

At March 31, 2020, 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 $2.8 billion above the required MPP of $1.7 billion. Our risk-to-capital ratio and MPP reflect full credit for the risk ceded under our quota share reinsurance and excess of loss transactions with unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded under such transactions. If MGIC is not allowed an agreed level of credit under the State Capital Requirements, MGIC may terminate the reinsurance transactions, without penalty. 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, including the effects of the COVID-19 pandemic. At March 31, 2020, the risk-to-capital ratio of our combined insurance operations was 10.2 to 1.

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

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

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

The Minimum Required Assets under the PMIERs are, in part, a function of the direct risk-in-force and the risk profile of the loans we insure, considering LTV ratio, credit score, vintage, Home Affordable Refinance Program ("HARP") status and delinquency status; and whether the loans were insured under lender-paid mortgage insurance policies or other policies that are not subject to automatic termination consistent with the Homeowners Protection Act requirements for borrower paid mortgage insurance. Therefore, if our direct risk-in-force increases through increases in NIW, or if our mix of business changes to include loans with higher LTV ratios or lower FICO scores, for example, 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 December 2019 would be, in part, a function of certain loan and economic factors, including property location, LTV ratio and credit score; general underwriting quality in the market at the time of loan origination; the age of the loan; and the premium rate we charge. Depending upon the provisions of the capital requirements when they are released in final form and become effective, our mix of business may affect the minimum capital we are required to hold under the new framework.

The percentage of our NIW from all single-premium policies has ranged from approximately 10% in 2013 to 19% in 2017 and was 15% in the first quarter of 2020 and 16% in 2019. Depending upon 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 ("QSR") transactions with unaffiliated reinsurers that cover most of our insurance written from 2013 through 2021, 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 effect of the QSR transactions on the various components of pre-tax income will vary from period to period, depending upon the level of ceded losses.

In 2018 and 2019, MGIC entered into reinsurance agreements that provide excess-of-loss reinsurance coverage for a portion of the risk associated with certain mortgage insurance policies having an insurance coverage in force date on or after July 1, 2016 and before April 1, 2019. The transactions were entered into with special purpose insurers that issued notes linked to the reinsurance coverage ("Insurance Linked Notes" or "ILNs"). We expect that we may enter into other ILN transactions if capital market conditions are favorable. However, the market volatility caused by the COVID-19 pandemic has caused a disruption of uncertain duration in the market for new ILN transactions. The most recent ILN transaction in the market closed on February 3, 2020.

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

Our ability to rescind insurance coverage became more limited for insurance we wrote beginning in mid-2012. As a result of revised PMIERs requirements, we have revised our master policy effective for new insurance written beginning March 1, 2020. Our ability to rescind insurance coverage will become further limited for insurance we write under the new master policy, potentially resulting in higher losses than would be the case under our existing master policies. In addition, our rescission rights temporarily have become more limited due to accommodations we have made in connection with the COVID-19 pandemic. We have waived our rescission rights in certain circumstances where the failure to make payments was associated with a COVID-19 pandemic-related forbearance.

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

Even when home prices are stable or rising, mortgages with certain characteristics have higher probabilities of claims. As of March 31, 2020, mortgages with these characteristics in our primary risk in force included mortgages with LTV ratios greater than 95% (15.1%), loans with borrowers having FICO scores below 620 (1.9%), mortgages with borrowers having FICO scores of 620-679 (8.7%), mortgages with limited underwriting, including limited borrower documentation (1.6%), and mortgages with borrowers having DTI ratios greater than 45% (or where no ratio is available) (14.1%), each attribute as determined at the time of loan origination. An individual loan may have more than one of these attributes.

Beginning in 2017, the percentage of NIW that we have written on mortgages with LTV ratios greater than 95% and mortgages with DTI ratios greater than 45% has increased, although the percentage of NIW that we have written on mortgages with DTI ratios greater than 45% has declined in 2019 and the first quarter of 2020 from its 2018 level. In 2018, we started considering DTI ratios when setting our premium rates, and we changed our methodology for calculating DTI ratios for pricing and eligibility purposes to exclude the impact of mortgage insurance premiums. As a result of this change, loan originators may have changed the information they provide to us. Although we have revised our operational procedures to account for this possibility, we cannot be sure that the DTI ratio we report for each loan beginning in late 2018 includes the related mortgage insurance premiums in the calculation. In addition, we expect to insure certain loans that would not have previously met our guidelines and to offer premium rates for certain loans lower than would have been offered under our previous methodology.

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

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

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

We depend on reliable, consistent third-party servicing of the loans that we insure. As discussed below, the increase in delinquent loans expected to be caused by the COVID-19 pandemic may result in liquidity issues and operational burdens for servicers, which may result in a delay in our receipt of premiums and disruptions in servicing.

The CARES Act provides for payment forbearance on loans purchased or secured by the GSEs to borrowers experiencing a hardship during the COVID-19 pandemic. During the forbearance period, mortgage servicers are required to pay four months of principal and interest to investors in the securities backed by the loans, even though the servicers are not receiving payments from borrowers. This may cause liquidity issues for especially non-bank servicers (who service approximately 40% of the loans underlying our insurance in force) because they do not have the same sources of liquidity that bank servicers have.

While there has been no disruption in our premium receipts through the end of April 2020, we expect that if servicers experience future liquidity issues, they may be less likely to advance premiums to us on policies covering delinquent loans because they are not receiving payments from borrowers. Servicers experiencing liquidity issues may also be less likely to remit our premiums on policies covering loans that are not delinquent. Our policies allow us to cancel coverage on loans that are not delinquent if the premiums are not paid within a grace period. However, in response to the COVID-19 pandemic, many states have enacted moratoriums on the cancellation of insurance due to non-payment. The specific provisions of the moratoriums vary from state-to-state.

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

The information presented in this report and on our website with respect to the mortgage loans we insure is based on information reported to us by third parties, including the servicers and originators of the mortgage loans. Consequently, information presented may be subject to lapses or inaccuracies in reporting from such third parties. In many cases, we may not be aware that information reported to us by third parties is incorrect until such time as a claim is made against us under the relevant insurance policy. We do not receive monthly information from servicers for single premium policies, and may not be aware that the mortgage loans insured by such policies have been repaid. We periodically attempt to determine if coverage is still in force on such policies by asking the last servicer of record or through the periodic reconciliation of loan information with certain servicers. It may be possible that our reports continue to reflect, as active, policies on mortgage loans that have been repaid.

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

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

Our persistency rate was 73.0% at March 31, 2020, 75.8% at December 31, 2019 and 81.7% at December 31, 2018. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

Our persistency rate is primarily affected by the level of current mortgage interest rates compared to the mortgage coupon rates on our insurance in force, which affects the vulnerability of the insurance in force to refinancing. Our persistency rate is also affected by the mortgage insurance cancellation policies of mortgage investors along with the current value of the homes underlying the mortgages in the insurance in force. In 2018, the GSEs announced changes to various mortgage insurance termination requirements that are intended to further simplify the process of evaluating borrower-initiated requests for mortgage insurance termination and may reduce our persistency rate in the future.

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

At March 31, 2020, we had approximately $563 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 due in 2063 (of which approximately $133 million was purchased, 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 March 31, 2020, 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 dividends, and in the first quarter of 2020 and in the full year 2019, it paid a total of $390 million and $280 million, respectively, in dividends to our holding company. We ask the OCI not to object before MGIC pays dividends and, due to the uncertainty surrounding the COVID-19 pandemic, we do not expect MGIC to pay a dividend to the holding company in the second quarter of 2020.

In the first quarter of 2020 and in 2019, we repurchased approximately 9.6 million and 8.7 million shares of our common stock, respectively, using approximately $120 million and $114 million of holding company resources, respectively. As of March 31, 2020, we had $291 million of authorization remaining to repurchase our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in January 2020. Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time, and due to the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases. If any additional capital contributions to our subsidiaries were required, such contributions would decrease our holding company cash and investments. As described in our Current Report on Form 8-K filed on February 11, 2016, MGIC borrowed $155 million from the Federal Home Loan Bank of Chicago. This is an obligation of MGIC and not of our holding company.

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

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

At March 31, 2020, 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, 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 a conversion rate, which is subject to adjustment, of 74.4718 common shares per $1,000 principal amount of debentures. This represents a conversion price of approximately $13.43 per share. The payment of dividends by our holding company results in an adjustment to the conversion rate and price, with such adjustment generally deferred until the end of the year.

We may redeem the 9% Debentures in whole or in part from time to time, at our option, at a redemption price equal to 100% of the principal amount of the 9% Debentures being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds $17.46 for at least 20 of the 30 trading days preceding notice of the redemption.

We have the right, and may elect, to defer interest payable under the 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 more information about the 9% Debentures, including additional requirements resulting from the deferral of interest, see Note 7 – "Debt" to our consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019.

For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 4 – "Earnings Per Share" to our consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019. As noted above, in the first quarter of 2020 and in 2019, we repurchased shares of our common stock and may do so in the future. In addition, we have in the past purchased, and may in the future purchase, our debt securities.

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

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

We could be adversely affected if personal information on consumers that we maintain is improperly disclosed, and damage to, or interruption in, our information technology systems may disrupt our operations.

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

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

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

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

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

Our investment portfolio is an important source of revenue and is our primary source of claims paying resources. Although our investment portfolio consists mostly of highly-rated fixed income investments, our investment portfolio is affected by general economic conditions and tax policy, which may adversely affect the markets for credit and interest-rate-sensitive securities, including the extent and timing of investor participation in these markets, the level and volatility of interest rates and credit spreads and, consequently, the value of our fixed income securities, and as such, we may not achieve our investment objectives. Volatility or lack of liquidity in the markets in which we hold securities has at times reduced the market value of some of our investments, and if this worsens substantially it could have a material adverse effect on our liquidity, financial condition and results of operations.

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

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

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

Pandemics and other natural disasters, such as hurricanes, tornadoes, earthquakes, wildfires and floods, or other events related to changing climatic conditions, could trigger an economic downturn in the affected areas, which could result in a decline in our business and an increased claim rate on policies in those areas. Natural disasters, rising sea levels and increased cost of flood insurance could lead to a decrease in home prices in the affected areas, or in areas with similar risks, which could result in an increase in claim severity on policies in those areas. If we were to attempt to limit our new insurance written in disaster-prone areas, lenders may be unwilling to procure insurance from us anywhere.

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

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

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

In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that after 2021 it would no longer compel banks to submit rate quotations required to calculate LIBOR. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. Efforts are underway to identify and transition to a set of alternative reference rates. The set of alternative rates includes the Secured Overnight Financing Rate ("SOFR"), which the Federal Reserve Bank of New York began publishing in 2018. SOFR is calculated based on different criteria than LIBOR. Accordingly, SOFR and LIBOR may diverge. In addition, SOFR may be subject to direct influence by activities of the Federal Reserve and the Federal Reserve Bank of New York in ways that other rates may not be.

There is considerable uncertainty as to how the financial services industry will address the discontinuance of LIBOR in financial instruments. Financial instruments indexed to LIBOR could experience disparate outcomes based on their contractual terms, ability to amend those terms, market or product type, legal or regulatory jurisdiction, and other factors. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of and return on these instruments.

While it is not currently possible to determine precisely whether, or to what extent, the replacement of LIBOR would affect us, the implementation of alternative benchmark rates to LIBOR may have an adverse effect on our business, results of operations or financial condition.

Our transactions involving financial instruments that reference LIBOR, include:

- Buying and selling fixed income securities (as of March 31, 2020, approximately 5.1% of the fair value of our investment portfolio consisted of securities referencing LIBOR).

- Insuring adjustable rate mortgages ("ARMs") whose interest is referenced to LIBOR (as of March 31, 2020, approximately $1.0 billion of our risk in force was on ARMs referencing LIBOR). A change in reference rate associated with these loans may affect their principal balance, which may affect our risk-in-force and the amount of Minimum Required Assets we are required to maintain under PMIERs. A change in reference rate may also affect the amount of principal and/or accrued interest we are required to pay in the event of a claim payment.

- Entering into reinsurance agreements under which our premiums are determined, in part, by the difference between interest payable on the reinsurers' notes which reference LIBOR and earnings from a pool of securities receiving interest that may reference LIBOR (in the first quarter of 2020, our total premiums on such transactions were approximately $4.7 million).

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Introduction to the Master Policy

1 DEFINITION OF TERMS USED IN THIS POLICY

"Acquisition Option" means the settlement of a Claim as described in Section 75.

"Advances" means the expenses related to a loan that you must pay as described in Section 56.

"Anticipated Loss Option" means the settlement of a Claim as described in Section 76.

"Application" means a request for mortgage insurance for a loan, or a request for modification of such insurance, in a format we approve and including the supporting information we require. All supporting materials and other information that are provided with the Application, in each case as reflected in our books and records, are considered a part of the Application.

"Appropriate Proceedings" means actions or proceedings appropriate to enforce or satisfy the Borrower's obligations under the terms of a loan, which could include legal action to enforce the terms of such loan, foreclosure proceedings, eviction proceedings, preserving deficiency rights by making a bid at a foreclosure sale and pursuing a deficiency judgment in those jurisdictions where it is customary to do so during the foreclosure proceedings or as we may require, acquiring title to the Property, or asserting your interest in the Borrower's bankruptcy proceeding.

"Automated Tool" means a system, process or tool used by us or the initial Insured that we have approved for use in underwriting or validating a loan in accordance with the requirements for such usage described in our Underwriting Guidelines.

"Beneficiary" means the initial Insured, except that if the Beneficiary sells, assigns, or transfers a loan, the purchaser, assignee, or transferee becomes the Beneficiary with respect to the related Certificate as provided in Section 50.

"Borrower" means any Person identified in the loan documentation as legally obligated to repay the debt obligation created by the loan, including any co-signer or guarantor.

"Borrower's Own Funds" means any funds saved or earned by the Borrower and gifts from family members to the Borrower where there is no promise or expectation of repayment. Borrower's Own Funds does not include funds provided by any Person associated with the Beneficiary, Insured or Servicer or who performed any acts related to the Application or origination of the loan.

"Certificate" means either (i) a certificate issued or transmitted to the initial Insured extending insurance coverage under this Policy to a loan and identifying the terms, conditions and representations, in addition to any contained in this Policy, and endorsements applicable to such coverage, or (ii) a Commitment for which coverage has been activated in accordance with our Servicing Guide, Underwriting Guidelines and this Policy.

"Certificate Effective Date" means the date on which coverage under a Certificate becomes effective, which shall be the closing date of the loan or such later date that the Insured requests and that we approve, in each case as reflected in our books and records.

"Claim" means a request for payment of an Insurance Benefit for a loan submitted in the form and method stated in our Servicing Guide and otherwise in accordance with this Policy.

"Claim Amount" means the amount used to determine the Insurance Benefit payable for a Claim, calculated in accordance with Sections 70 and 71.

"Claim Settlement Period" means the 60 days following the Perfected Claim Date, except as described in Sections 67(e), 74(b) and 77(a) of this Policy.

"Closing File" means the following documents, as applicable, in hard copy or electronic form: the final closing disclosure or other settlement statement signed by the Borrower; the signed promissory note with all riders; the signed mortgage or deed of trust with all riders; the title insurance commitment and any other closing documents or information that we would otherwise review at the time of an Independent Validation or Claim (e.g., information required to satisfy underwriting or closing conditions that we have not previously reviewed).

"Commitment" means a commitment issued or transmitted, including in electronic form, to the initial Insured identifying the terms, conditions and representations, in addition to those contained in this Policy, and endorsements under which we will insure a loan. If we issue more than one Commitment for a loan, the most recent one is the Commitment under this Policy.

"Contract Rate" means the interest rate on the loan, disregarding any penalty, fee or interest rate increase due to a Default. For an approved Workout, the Contract Rate is the interest rate on the loan following such approved Workout.

"Core Claim Documents" means all of the following, unless otherwise specified in the Servicing Guide: (i) a completed Claim form and all other information and supporting material required by our Underwriting Guidelines in effect on the Application date for information relating to origination of the loan, and by the Servicing Guide in effect on the date of Default for all other required information; (ii) information demonstrating that title has been acquired by the Servicer, Beneficiary or a third party, if applicable; and, upon request, and if not already provided; (iii) the Origination File; (iv) the Closing File; and (v) the Servicing File.

"Credible Evidence" means any evidence that reasonably would be viewed as reliable, accurate and having a basis in fact, and can be in the form of any information: (i) in the Origination File, Closing File, or Servicing File; or (ii) otherwise related to the loan, Borrower or Property that was provided to us in any form at any time by you or any Person, where the information can be reasonably considered accurate and related to the loan, Borrower or Property. Statements not given under oath by the Borrower are not considered Credible Evidence unless they are corroborated by other reliable evidence.

"Default" means the failure of the Borrower to pay all amounts due in a regular monthly payment period as specified in the loan documents or, if you have exercised a due-on-sale clause under the loan, all amounts due under the loan, but excluding any non-monetary default by the Borrower or a violation of any of the other terms of the loan, even if the violation would permit you to accelerate the debt or foreclose or take other action to take ownership of the security for the loan. A loan is deemed to be in Default as of the close of business on the day that the periodic payment or accelerated payment is due, disregarding any payment grace period. A loan is 30 days in Default if the full payment is not received by the due date of the next regular monthly payment and the Default status advances by an additional 30 days for each successive regular monthly payment that is not paid in full by its due date.

"Defect" means a misstatement, misrepresentation, omission, or data inaccuracy in connection with the origination or closing of a loan or the Application, as we determine based on Credible Evidence. The only remedy available for a Defect (unless such Defect is a Significant Defect) is as described in Section 43(c).

"Deficiency Expenses" means commercially reasonable legal fees and court costs associated with Appropriate Proceedings you conducted to establish a deficiency against the Borrower and which are in addition to those incurred in standard and customary foreclosure proceedings. Deficiency Expenses also include additional interest that accrued on the loan, Property taxes, insurance premiums, and Property preservation expenses you paid during the period of Appropriate Proceedings.

"Delegated Underwriting Program Guide" means the specific procedures and processes included in our Underwriting Guidelines with which the initial Insured must comply to be eligible for, and maintain eligibility with, our delegated underwriting program. We may change the Delegated Underwriting Program Guide at any time by giving notice to the initial Insured or posting the changes on our website.

"Environmental Impairment" means the presence of:

- any condition giving rise to liability under the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. § 9601 et seq.) or similar applicable law;
- any "Hazardous Waste" or "Regulated Substance" as those terms are defined by the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.) or any similar state or local law where the Property is located, or any hazardous waste, material, or other substance or condition that renders the principal residential structure on the Property uninhabitable; or
- any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants" or "pollutants" or words of similar meaning and that are regulated under any applicable law.

The presence of radon gas, lead paint, or asbestos in the dwelling on a Property is not an Environmental Impairment.

“Estimated Net Proceeds” means our reasonable estimate of the gross proceeds of a sale of the Property, assuming the Property were sold to a third party for fair market value and assuming: (i) in the case of Physical Damage, the Property were in the condition it was in on the Commitment date, Reasonable Wear and Tear excepted, less our reasonable estimate of the costs of obtaining and closing such assumed sale; and (ii) in the case of Incomplete Construction, construction of the Property was completed in accordance with the approved plans and specifications and not suffering from any Physical Damage.

“GSE” means the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, as applicable, and any successor thereto.

“GSE Beneficiary” means a Beneficiary that is a GSE.

“Incomplete Construction” means a failure to obtain a certificate of occupancy and to complete construction, rehabilitation or remodeling of a Property in accordance with approved plans and specifications in a good and workmanlike manner, or as indicated in the Original Value.

“Independent Validation” means the review of a loan we conduct pre- or post-closing to determine if early rescission relief under Section 17 applies. Independent Validation for the full loan includes a review of the Application and the Origination File (in whole or in part) to confirm that a loan meets the applicable Underwriting Guidelines and that there are no Significant Defects. If you do not qualify for the Closing File submission exception (as specified in our Rescission Relief Guide), Independent Validation also includes a comparison of the Closing File to the Application and Commitment. A QC Review qualifies as an Independent Validation. In the case of early rescission relief applicable only to Original Value, Independent Validation means a review of the Property’s Original Value and related materials required to be submitted by our Rescission Relief Guide to confirm that there are no Valuation Defects.

“Insurance Benefit” means the portion of the Claim Amount that we are contractually obligated to pay you in respect of a Claim, as determined under this Policy.

“Insured” means the Person named on the declaration page to this Policy. If the loan servicing is sold, assigned or transferred, the Servicer of the loan becomes the Insured unless we are notified under Section 50 that the Beneficiary elects to become the Insured, in which case the Beneficiary will become the Insured with respect to the related Certificate.

“Net Proceeds” means the gross proceeds the Servicer or Beneficiary receives from a Third-Party Sale that we approved, less the reasonable costs of obtaining and closing such Third-Party Sale.

“Original Value” means the value of a Property represented in an Application which was established by appraisal or alternative method that we approve (as specified in our Underwriting Guidelines) to determine value in accordance with customary loan origination practices.

“Origination File” means all information, in hard copy or electronic form, which you create, receive or require in connection with the origination of the loan. For example, the following documents, as applicable, must be in the Origination File: the Borrower’s signed loan application; loan underwriting, processing and approval notes; automated underwriting system findings; evidence or verification of employment; income; assets; deposit; rent and other Borrower debts; credit reports; appraisal or other evidence of the Original Value; evidence of project approval for a condominium or cooperative housing property; and any other documents that are described in our Underwriting Guidelines in effect as of the Application date.

“Pattern Activity” means misstatements, misrepresentations or omissions:

- involving three or more loans we insure that were originated by the same initial Insured;
- made, with or without knowledge of the initial Insured, in connection with the origination or closing of the loans, or the Applications, pursuant to a common pattern or activity and that involve at least one party common to all of the loans;
- that constitute Significant Defects; and
- if the initial Insured is the common party, involve the same individual, or if another party is the common party, involve the same individual or entity.

“Percentage Option” means the settlement of a Claim as described in Section 73.

“Perfected Claim” has the meaning set forth in Sections 66, 67 and 68.

“Perfected Claim Date” has the meaning set forth in Sections 31(c), 66, 67, 68 or 92, as applicable.

“Perfected Claim Information” means the Core Claim Documents, any additional information we may request pursuant to Section 67, and access to the Property, if requested within the time required for requests made prior to Claim perfection in Section 68.

“Person” means any natural person, corporation, partnership, limited liability company, trust, association or other legally recognized entity.

“Physical Damage” means any injury, physical damage or impairment to a Property that we reasonably estimate to be in excess of the greater of $5,000 or 2% of the Original Value, whether caused by accident, natural disaster or otherwise, including due to any of the following: physical injury or destruction of tangible property; demolition by any entity; defects in construction, rehabilitation or remodeling; defects in materials; infestation; land subsidence; earth movement or slippage; earthquake; volcanic activity; avalanche; flood, wind, hurricane, tornado; wildfire; any act of God; any event declared a disaster by the Federal Emergency Management Agency or other governmental agency; riot, insurrection, terrorism, civil strife or war; or any Environmental Impairment. The presence of radon gas, lead paint, or asbestos in a dwelling does not constitute Physical Damage.

"Policy" means this Master Policy document, including Annex A to the extent applicable. **"Policy Documents"** means the following:

(1)Application;
(2)Commitment;
(3)Certificate;
(4)Policy; and
(5)Any applicable endorsements to this Policy.

"Property" means real property (with all improvements, appurtenances, rights of access, easements, rights of ownership and use of common areas, recreational and other facilities, and additions thereto) subject to the mortgage or other instrument that secures a loan where such real property is:

- a building designed for residential occupancy by not more than four families;
- a one-family residential condominium or unit in a planned unit development or a cooperative housing unit;
- any other one-family residential unit as to which good and marketable title may be held or conveyed freely, including manufactured housing and cooperative housing units as approved in our Underwriting Guidelines; or
- a mixed-use building, provided all of the following are true:
  - it includes a single, one-family dwelling and only one non-residential use and the mixed use is allowed under local zoning requirements;
  - the Borrower occupies that one-family dwelling as a principal residence and is the owner/operator of the business on the property; and
  - the property and neighborhood are primarily residential.

"QC Review" means a quality control review of an Application or an insured loan that we conduct in accordance with our quality control processes and procedures.

"Reasonable Wear and Tear" means typical deterioration in a Property and its fixtures resulting from normal use, as distinct from Physical Damage, examples of which include, without limitation, carpet and floor wear due to normal traffic, paint wear due to normal use, and roof wear due to age.

"Rescission Relief Guide" means our guide or the section of our Underwriting Guidelines describing the loan types or programs eligible, and documentation and submission requirements for obtaining, early rescission relief as set forth in Section 17(a). We may change the Rescission Relief Guide at any time by notice to the initial Insured or posting the changes on our website.

"Rescission Relief Provisions" means the provisions of Section 17.

"Security" means, in the case of a cooperative housing unit, the stock or membership certificate evidencing an ownership interest in an organization formed for the purpose of cooperative ownership of real estate, together with the proprietary lease or occupancy agreement from such organization allowing the Borrower exclusive occupancy and use of the Property. References in this Policy to the title, ownership, sale or conveyance of a Property shall, in the case of a cooperative housing unit, mean title to, ownership, sale or conveyance of the Security related to such unit.

"Servicer" means, with respect to a loan, the Insured or, if the Insured or Beneficiary notifies us that a different entity is responsible for servicing the loan, then such other entity.

"Servicing File" means all information, in hard copy or electronic form, created, received, required, transmitted, stored or preserved in connection with servicing a loan by or on behalf of each Servicer of the loan, including servicing notes and records, the complete loan payment history, records reflecting the exercise of rights by the Servicer under the loan documentation, records relating to Physical Damage that affects the Property, records relating to loan assumption or Workouts, records relating to agreements with a Borrower or a third party affecting the loan or the Property, and records relating to loan repurchase or indemnification demands, if applicable.

"Servicing Guide" means collectively, our guidelines and requirements relating to this Policy for servicing loans, reporting Defaults, paying premiums, cancelling and reinstating coverage, Workouts, and submitting

Claims and other information to us, which includes a description of eligible expense items for Claims. Our guidelines and requirements are effective when we issue them, including by posting them on our website, unless we specify a later effective date.

"Significant Defect" means a Defect existing on the Certificate Effective Date that is in any respect material to our acceptance of the risk or the hazard assumed under our Underwriting Guidelines in effect when you submit the Application, such that had we known of the Defect we would not have insured the loan,

regardless of whether the Defect causes a Default or contributes to the Claim Amount, including for example: (i) the underwriting of the Borrower's creditworthiness and ability to borrow funds or repay the loan or the Borrower's eligibility and qualification or the Borrower's identity; (ii) the underwriting criteria related to the Property or project eligibility; the Property appraisal or the physical or environmental condition of the Property; (iii) loan terms and criteria or any terms and criteria set forth in any negotiated provision; (iv) a life-of-loan exclusion in this Policy for which rescission is a remedy; (v) requirements applicable to the closing and sale of the loan; or (vi) the form and/or execution of required loan and mortgage documents, without which the loan would be ineligible for insurance or the enforceability of the mortgage terms would be limited.

"Single Loan Fraud" means we find clear and convincing evidence of, or a legal judgment or other legally binding determination confirms, a knowing misstatement, misrepresentation, or omission by any Person in connection with the origination or closing of a loan, or the Application, that was intended to: (i) defraud any party involved in the transaction; or (ii) obtain any insurance, money, funds, credits, assets, securities, or other properties from any party involved in the transaction by means of fraudulent pretenses, representations, or promises. Single Loan Fraud includes a Valuation Defect where there is clear and convincing evidence that the appraiser manipulated, inappropriately utilized or misrepresented information in producing the appraisal report that established the Original Value.

"Third-Party Sale" means a sale of the Property: (i) by the Borrower with the consent of the Servicer prior to completion of Appropriate Proceedings, or by the Servicer or Beneficiary after the acquisition of Borrower's title to the Property through Appropriate Proceedings; (ii) in the case of a GSE Beneficiary, by the Borrower with the consent of the GSE Beneficiary prior to completion of Appropriate Proceedings, or by the Servicer (with the consent of the GSE Beneficiary) or the GSE Beneficiary after the acquisition of Borrower's title to the Property through Appropriate Proceedings; and (iii) a foreclosure or trustee's sale of the Property to a third party at a price no less than the minimum required to be bid as set forth in Section 59.

"Third-Party Sale Option" means the settlement of a Claim as described in Section 74.

"Total Loss" means (i) the Claim Amount plus Advances (if not otherwise included in the Claim Amount) paid as of the date of the foreclosure, Workout or Third-Party Sale, as applicable, minus (ii) any Net Proceeds.

"Underwriting Guidelines" means the definitions, criteria, methods, calculations, guidelines, documentation and other requirements we use to determine if a loan is eligible for insurance under this Policy, as such requirements are issued or published in our underwriting guides, bulletins, premium rate cards or as we otherwise communicate to the initial Insured. Our Underwriting Guidelines are effective when we issue them, including by posting them on our website, unless otherwise specified. Our records maintained in good faith will be conclusive regarding the Underwriting Guidelines in effect at any particular time.

"Valuation Defect" means (i) a percentage variance of 15% or more between the Original Value and the opinion of market value for the subject Property as determined by a licensed appraiser in an appraisal report prepared at our request as of the date of the Original Value in compliance with industry standard appraisal practices, or another generally accepted industry standard for retrospective valuation, and (ii) the loan-to-value ratio calculated as of the Certificate Effective Date using the retrospective value did not meet our Underwriting Guidelines applicable to the loan. The percentage variance is the quotient determined by dividing the difference between the two values by the Original Value, expressed as a percentage. A Valuation Defect is a Significant Defect.

"We", "us" or **"our"** means the insurer, Mortgage Guaranty Insurance Corporation, an authorized mortgage guaranty insurance company, and its successors and assigns.

"Workout" means a deed-in-lieu of foreclosure, a Third-Party Sale by the Borrower or any forbearance, modified repayment plan, or other modification of a loan.

"You" or **"your"** means the Insured and the Servicer, unless specified otherwise in any section of this Policy to mean only one of those parties.

2 SCOPE OF THIS POLICY AND OUR AGREEMENT

3 Duration of coverage

a) This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured or by us for any reason or no reason upon

10 days' prior notice or as otherwise required by applicable law. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid.

b) Provided that all required premiums are paid, coverage for a loan under this Policy is extended by its Certificate issued or electronically recorded in our system of record and will continue until whichever occurs first:

i) the loan insured under the Certificate is paid in full;

ii) we settle (or deny) a Claim with respect to the Certificate;

iii) we act upon your instruction to cancel coverage under the Certificate;

iv) the term of coverage expires under the premium plan or upon the terms specified in the Certificate; or

v) we cancel or rescind coverage under the Certificate.

c) We may stop issuing new Commitments and Certificates at any time without providing notice to you. **4 Documents that constitute our agreement**

a) The Policy Documents constitute the entire agreement between you and us for coverage under a Certificate. If any terms conflict, the terms of this Policy, as modified by any applicable endorsements, will govern. If any terms of the Policy Documents conflict with our Rescission Relief Guide, Servicing Guide or Underwriting Guidelines, the terms of the Policy Documents will govern.

b) We have the right to amend the terms of any Policy Documents, except Certificates already issued. If we do, we will notify the initial Insured before the amendment takes effect. Any changes will apply only to Commitments (and related Certificates) issued after such notice has been given and after the amendment effective date. We are not obligated to notify any Borrower of any changes to the Policy Documents.

c) No portion of any Policy Document will be waived or modified without our prior approval.

d) We are not bound by the terms of any agreement between the Insured and any other Person.

e) The initial Insured agrees, and by becoming a Beneficiary or a Servicer, any Beneficiary or Servicer agrees, that this Policy may not be used to establish the meaning of any provision of any other insurance policies we have issued, nor may any provision of any other insurance policies we have issued be used to establish the meaning of any provision of this Policy.

5 Governing law; severability; jury waiver; successors and assigns

a) *Governing Law*

This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Delaware, without regard to conflict-of-law principles or to the location of any Property. If the law of any jurisdiction where this Policy was issued does not permit Delaware law to govern policies issued in such jurisdiction, then the law of such other jurisdiction shall govern instead of the laws of Delaware. If a conflict exists between a Policy provision and the minimum requirements of the governing law, the provision will be deemed to be amended to comply with such minimum requirements.

b) *Severability*

Each of the conditions and requirements of this Policy is severable, and a waiver, modification or compromise of one will not be construed as a waiver, modification or compromise of any other condition or requirement.

c) *Jury Waiver*

THE PARTIES AND ANY SUBSEQUENT INSURED, SERVICER, AND/OR BENEFICIARY HEREBY WAIVE ALL RIGHTS TO A JURY TRIAL OF ANY MATTERS, DISPUTES, OR LEGAL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS POLICY OR THE POLICY DOCUMENTS. THIS WAIVER IS INTENDED TO APPLY TO ANY AND ALL MATTERS THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS POLICY. THE PARTIES AND ANY SUBSEQUENT INSURED, SERVICER, AND/OR BENEFICIARY FURTHER REPRESENT THAT THEY HAD AN OPPORTUNITY TO REVIEW THIS JURY WAIVER WITH THEIR OWN LEGAL COUNSEL PRIOR TO CONTRACTING FOR MORTGAGE INSURANCE OR INVESTING IN OR AGREEING TO SERVICE AN INSURED LOAN, AND THAT THIS WAIVER IS KNOWING AND VOLUNTARY.

d) *Successors and Assigns*

This Policy shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

6 COMMUNICATIONS REGARDING THIS POLICY

7 Communications

a) Unless otherwise required by applicable law, all communications required or permitted by this Policy may be given in any manner and format approved for such communications in our Rescission Relief Guide, Servicing Guide or Underwriting Guidelines, as applicable.

b) We may provide certain notices to Borrowers in accordance with applicable law and copies of notices to a GSE Beneficiary if it requests.

c) Any notice we are required to give will be considered given to you upon the earlier of five days after it is given or your actual receipt of the notice. If our address changes, we will notify you.

d) All Claims and other communications from you under this Policy must be in writing and delivered in the manner and to the location stated in our Rescission Relief Guide, Servicing Guide or Underwriting Guidelines, as applicable. Any requirement in this Policy that information or documentation be submitted to us will be deemed submitted on the date we receive it. If we receive a communication that we believe to be genuine and given by an authorized Person, we will be entitled to rely on it and will not be liable for relying on it.

8 Providing loan information to GSE Beneficiaries

At the request of a GSE Beneficiary, we will provide reasonably accessible information about any loan insured under this Policy. The Insured waives any right to object if we provide this information about the loan directly to the GSE Beneficiary.

Getting started

9 Delegated vs. non-delegated underwriting

a) Under this Policy, we are responsible for underwriting the Application for compliance with our Underwriting Guidelines, unless it is submitted under our delegated underwriting program.

b) If we have approved the initial Insured to submit Applications under our delegated underwriting program, the initial Insured is responsible for underwriting loans for compliance with our Underwriting Guidelines in accordance with the processes and procedures specified in the Delegated Underwriting Program Guide, each as in effect when it submits an Application. We may terminate, suspend or limit the initial Insured's participation in our delegated underwriting program by giving notice as provided in our Delegated Underwriting Program Guide.

c) Termination of the initial Insured's participation in our delegated underwriting program will not cancel the Policy or affect Commitments or Certificates issued before the termination date. However, if we suspend, terminate or limit an initial Insured's participation in our delegated underwriting program for cause, we may cancel any Commitment for which coverage has not yet been activated and converted to a Certificate as set forth in Section 14(c).

10 Applying for coverage

For each loan you wish to insure under this Policy, you must complete and submit an Application to us. A loan is eligible for coverage under this Policy if it meets our Underwriting Guidelines on the date the Application is submitted and does not present any of the exclusions listed in Sections 18 through 40.

11 Your responsibilities for each Application

a) You are responsible for collecting, evaluating and verifying the accuracy of the information you provide to us in any form or format, regardless of who gave you the information or how you obtained it. This includes information in the Application, Origination File, Closing File, and any related materials. In the case of information obtained from an Automated Tool, you must comply with requirements for using such Automated Tool as specified in our Underwriting Guidelines, and you are required to update the Application with any information you have that either verifies or conflicts with the Automated Tool output. In addition, if you discover prior to activation of coverage that any information you previously provided to us has become untrue or incomplete, you are required to submit updated true, complete and verified information.

b) In addition, you are responsible for underwriting and satisfying all applicable conditions for the loan in compliance with applicable law and our Underwriting Guidelines in effect when you submit the Application.

c) For non-delegated underwriting, you must submit the Application and the Origination File to us for review, although we may elect to provide coverage based on the Application and any supporting information submitted to us, provided that we may request additional information before issuing a Commitment.

d) For delegated underwriting, you must submit an Application and any additional information required by the Delegated Underwriting Program Guide.

12 Representations by the Insured

a) By submitting an Application to us, the initial Insured represents that:

i) the Application is true and complete in all material respects;

ii) for Applications submitted under our delegated underwriting program, the loan meets our Underwriting Guidelines in all material respects;

iii) no information contained in or submitted in support of the Application was false or misleading when provided; and

iv) the Application does not omit any information that would make any other information provided untrue, inaccurate or incomplete, or that would have made the loan ineligible for insurance or for coverage at the premium rate offered.

b) The representations made throughout this Policy will be binding on all subsequent Insureds and Beneficiaries, regardless of whether the subsequent Insured or Beneficiary knew or should have known that the representation was false or materially inaccurate.

c) You acknowledge and agree that we rely on the information provided by any Person in connection with an Application to decide whether to offer or continue coverage and that we are not obligated to independently verify the information. Our reliance on the information continues after we issue a Commitment or Certificate. You accept the risk of any Significant Defect or material misrepresentation or material omission in any information provided to us by any Person in connection with an Application.

d) By initiating activation of coverage under a Certificate, you represent that, as of the Certificate Effective Date:

i) all conditions in our Commitment were satisfied;

ii) the Borrower’s Own Funds were used to make the down payment required for the loan; and

iii) all of the representations that the initial Insured made at the time it submitted the Application are still true and complete.

e) By filing a Claim, you represent that the Claim and all related materials are true and complete and that all conditions precedent to filing the Claim have been met.

13 APPROVED AND DECLINED APPLICATIONS; AUDITING PROCEDURES

14 Commitments or declined Applications

a) We will decide whether to approve or decline Applications.

b) If we approve an Application, we will issue a Commitment. We will notify you if we decline an Application. If you then decline the prospective Borrower’s loan application, we have no responsibility to notify the prospective Borrower that we have declined the Application.

c) When the Commitment is activated in accordance with the instructions in the Commitment, or in our Servicing Guide and Underwriting Guidelines, it converts to a Certificate.

d) In the case of a delegated underwritten loan, we will issue a Commitment or Certificate extending coverage to such loan subject to the terms of this Policy following our receipt of the Application. We are not obligated to review the Application or to confirm that the related loan complies with our Underwriting Guidelines then in effect prior to issuing a Commitment or Certificate. However, we may decline to issue a Commitment or Certificate if the Application shows that the loan does not meet the applicable Underwriting Guidelines then in effect.

e) If you submit Applications from multiple offices, we may decline to accept Applications from one or more offices after notification to you.

15 Monitoring of loan manufacturing process; auditing procedures

a) *Monitoring*. Once we issue this Policy to the initial Insured, we may periodically monitor and provide feedback related to the initial Insured's loan manufacturing processes, quality control processes, underwriting results, financial condition and other factors we consider appropriate to evaluate the initial Insured's continued qualification to remain a Policy holder and if the initial Insured has been approved for our delegated underwriting program, continued qualification to participate in the program.

b) *Audits*. We may also periodically audit your records, books and accounts relating to insured loans, including periodic loan submissions on an ongoing basis. Our audits may include a review of the Origination File, Closing File and Servicing File of the loan for compliance with the terms of this Policy, our Underwriting Guidelines, Servicing Guide and Delegated Underwriting Program Guide, if applicable. We will provide a report of the results of our audit to the initial Insured and/or the Servicer as we determine appropriate.

c) *Retaining records*. You must retain the complete original or a complete copy of the Origination File, Closing File and Servicing File pertaining to each insured loan until the latest of:

i) two years after settlement of a Claim or the date the Certificate is no longer in force;

ii) the period required by your records retention policy;

iii) the period required by applicable law; and

iv) one year following the last date on which you are permitted to commence an action against us arising out of this Policy.

d) *Provision of information*. Subject to Sections 17(h) and 67(a), the Beneficiary and Servicer must cooperate with us and provide us with all reasonable information that we request regarding any loan(s) we insure, whether or not in Default, including access to or a true and complete copy of the Origination File, the Closing File and the Servicing File and such other information as we may determine is related to loans insured under this Policy. Such information shall be provided no later than 30 days after our request for such information. If such information is not provided within such 30-day period, we will provide a second request therefor, which must be complied with no later than 30 days after such second request.

e) *Access to information*. The Beneficiary and Servicer must cooperate with us and provide us and our representatives, at any time upon at least 30 days' advance written notice, access during normal business hours to the premises of the Servicer or Beneficiary or any other Person or place where Origination Files, Closing Files and/or Servicing Files are located and access to the information prepared or maintained by, or in the possession or under the control of, the Insured, Servicer or

Beneficiary and their agents pertaining to loans insured under this Policy for purposes of conducting audits, complying with our legal and regulatory obligations, and ensuring compliance with the terms and conditions of this Policy. If such access is not provided as required above, we will provide a second request therefor, which must be complied with no later than 30 days after such second request. Failure to comply with our second request will permit us to cancel coverage as described in Section 23(e).

Exclusions, other remedies and rescission limitations

16 Exclusions and other remedies generally

a) We may exercise the remedies described in Sections 18 through 40 (*i.e.*, rescission, cancellation, Claim denial, curtailment or reduction of a Claim Amount or Insurance Benefit) if any of the exclusions listed in such Sections occurs or exists relative to the Commitment, Certificate, loan, Property or Claim.

b) We will notify the Servicer when we exercise the remedy, and our notification will identify the affected Commitment or Certificate and state the reason(s) for the action. The inclusion or omission of a reason in any such notice will not limit our right to exercise any other remedy available to us or limit our other rights and remedies stated elsewhere in this Policy.

c) If we rescind coverage under a Certificate, the rescission will be retroactive to the Certificate Effective Date, and we will refund all premium paid on the Certificate in accordance with our Servicing Guide. Our right to rescind coverage under a Certificate is subject to the provisions of Section 17.

d) If we cancel coverage under a Certificate or deny a Claim, we will refund premium paid for the period following the event that resulted in the cancellation or denial.

e) The Rescission Relief Provisions will not limit our rights under Sections 18 through 40 except as stated in Sections 25, 35 and 36.

f) You have the right to appeal our decision as described in Section 91.

17 Limitations on our right to rescind coverage – Gold Cert Coverage

a) *Early rescission relief program*

i) If you are eligible and opt to participate in our early rescission relief program, and if you follow the procedures and document delivery requirements stated in our Rescission Relief Guide, we will conduct an Independent Validation on those loans that qualify for review under our early rescission relief program in accordance with our Rescission Relief Guide.

ii) If we uncover discrepancies, errors or any other questionable data or other information that we determine in our reasonable judgment needs to be re-verified, we may request additional information. If the additional information does not resolve the discrepancy, error or questionable data, we will conduct such additional independent re-verification for compliance with our Underwriting Guidelines.

iii) We will promptly notify you as specified in our Rescission Relief Guide when we complete the Independent Validation on a loan whether such loan qualifies for full rescission relief or for rescission relief for Valuation Defects only, as applicable.

iv) If we are unable to make a determination or complete the Independent Validation for a loan to our reasonable satisfaction within 180 days because you failed to provide the required information in accordance with our Rescission Relief Guide, such loan will not qualify for early rescission relief. Instead, the rescission relief terms for loans that have not been subject to Independent Validation will apply.

b) *General limitation on our right to rescind coverage*. We will not rescind coverage under a Certificate if the circumstances described in paragraphs (c) through (g) of this Section 17 apply. However, paragraphs (c) through (g) will not limit our right to rescind coverage, or exercise our other remedies, under the circumstances described in Sections 18 through 40 unless expressly stated otherwise in such Sections.

c) *Absence of Significant Defect following Independent Validation*

i) If we have completed an Independent Validation and have not identified Credible Evidence of a Significant Defect with respect to a loan, we will not rescind coverage under the Certificate on account of a Significant Defect (whether or not the loan is in Default), effective upon our notification to you regarding the outcome of the Independent Validation.

ii) If you qualify for the closing document exception set forth in our Rescission Relief Guide, and you did not submit the Closing File for the Independent Validation of a loan, the rescission relief under Section 17(c)(i) will not be effective unless the Borrower has made the first 12 loan payments on time from the Borrower’s Own Funds.

iii) If you have submitted only the required documents and information relating to an Independent Validation of Original Value and we have not identified Credible Evidence of a Valuation Defect, then we will not rescind coverage under the Certificate on account of a Valuation Defect (whether or not the loan is in Default), effective upon our notification to you regarding the outcome of the Independent Validation.

iv) If our notice of the outcome of an Independent Validation indicates that we were unable to resolve concerns regarding the Borrower’s occupancy of a Property, then the rescission relief under Section 17(c)(i) will be effective with respect to a Significant Defect relating to Borrower’s occupancy of the Property only if the Borrower has made the first 12 loan payments on time from the Borrower’s Own Funds and we have not previously notified you of a Significant Defect relating to occupancy.

d) *36-month limitation*. With respect to a loan that has not qualified for rescission relief under Sections 17(c) or 17(f), effective as of the date that is 36 months after the Borrower’s first payment due date, we will not rescind coverage under the Certificate on account of a Significant Defect if all of the following conditions are met as of such date:

i) we have not discovered any Credible Evidence of a Significant Defect;

ii) the loan is then not in Default by more than 30 days;

iii) no more than two payments on the loan have been in Default for more than 30 days;

iv) no single payment on the loan has been in Default for more than 60 days;

v) all payments on the loan have been made with the Borrower’s Own Funds; and

vi) the loan has not been subject to a Workout, other than a Workout entered into as a result of a natural disaster that caused the related Default.

e) *60-month limitation*. With respect to a loan that has not qualified for rescission relief under Section 17(c), 17(d) or 17(f), we will not rescind coverage under the Certificate on account of a Significant Defect on or after the due date of the 60th payment if both of the following conditions are met:

i) either the loan is not in Default, or if the loan is in Default, it subsequently becomes current; and

ii) all payments due on the loan have been made with the Borrower's Own Funds.

f) *Automated Tools.* We will not rescind coverage under a Certificate on account of a Significant Defect based on inaccurate results obtained from an Automated Tool that was identified in our Underwriting Guidelines and/or Rescission Relief Guide in effect at the time it was used (or if we cannot reasonably determine when it was used, then on the Application Date) as approved for use in underwriting loans if all of the following conditions are met:

i) on or before the Certificate Effective Date you did not obtain any information that conflicts with or invalidates the results obtained from the Automated Tool, or if you did obtain conflicting information, you provided such additional information to us by such date;

ii) the information you provided in the Application accurately reflected the results obtained from the Automated Tool; and

iii) use of the Automated Tool was in compliance with the requirements for use of such Automated Tool as specified in our Underwriting Guidelines and/or Rescission Relief Guide.

g) *Single Loan Fraud by Borrower*. We will not rescind coverage under a Certificate for Single Loan Fraud by a Borrower if any of the following conditions is met:

i) we completed an Independent Validation that identified no Credible Evidence of a Significant Defect and the Borrower has timely made the first 12 consecutive monthly payments on the loan with Borrower's Own Funds;

ii) we completed or updated an Independent Validation at least 12 months following the Certificate Effective Date that did not identify Credible Evidence of any Significant Defects, without regard to the Default status of the loan before we completed the Independent Validation; or

iii) the conditions described in paragraphs (d) or (e) of this Section 17 apply to the loan.

h) *Additional document requests*

i) After the conditions for rescission relief described in Section 17(c)(iii) have been met relating to Original Value, we will not request additional information from the Insured to investigate a potential Valuation Defect.

ii) After the conditions for rescission relief have been met for a loan, we will not request additional information from the Insured to investigate a potential Significant Defect related to such loan. If we become aware of Credible Evidence that an exclusion not limited by the Rescission Relief Provisions may apply, we may request additional information from the Insured to investigate such potential exclusion. If the Credible Evidence relates to Pattern Activity, our request for information may relate to such loan and/or other loans originated by the same initial Insured and involving at least one Person common to all the loans.

iii) We will not rescind coverage under a Certificate under Section 23(e) based solely on the Insured's failure to produce the requested information unless such information is required by our Underwriting Guidelines or Servicing Guide. However, we retain our rights to request information that is required under this Policy in connection with an Insured's filing of a Claim and our ability to pursue any remedies available under this Policy for the Insured's failure to produce such files or documents.

i) *Rescission relief following a Workout or refinance.* To the extent a loan qualifies for rescission relief under this Policy:

i) such loan will continue to qualify for such relief following any Workout we approve; and

ii) the rescission relief will apply to any modification of coverage under a Certificate effected in connection with a refinance of the loan insured under such Certificate.

Other exclusions

18 Data inaccuracies

a) We may rescind coverage under one or more of the affected Certificates if any inaccurate data was submitted by or on behalf of the initial Insured in the Applications, if and to the extent such data inaccuracies:

i) involve five or more loans insured by us and originated by the same initial Insured; and

ii) involve the same delivery data element(s); and

iii) differ from the information in the initial Insured or Insured's loan files used as the basis for the Application; and

iv) we determine that, had the information from the loan files been used to qualify the loans, such loans either: (A) would have been ineligible for insurance under this Policy; or (B) would have been eligible for insurance, but only under different terms or pricing.

b) The only data inaccuracies covered by this Section 18 are those that occur as a result of an operational or system issue involving the electronic transmission of data to us.

19 Default that occurred before coverage began or after coverage ended

If the Default with respect to a loan occurred:

i) before the Certificate Effective Date, we may rescind coverage;

ii) after the Certificate is cancelled for any reason by you or us, including because of a lapse for failure to pay premium, we will notify you that coverage is no longer valid and the Claim cannot be accepted.

20 Defects other than Significant Defects

If the Servicer fails to pay the additional premium required by Section 43(c) within the time required by such Section, we may rescind coverage under the Certificate.

21 Excess Insurance Benefit

a) If the Claim Amount exceeds the amount of consideration that the Beneficiary paid to acquire the loan, we may reduce the Claim Amount by the amount of such excess.

b) This Section 21 does not apply to a GSE Beneficiary.

22 Failure to comply with applicable law

a) We may rescind coverage under a Certificate if the Insured failed to comply with applicable law and if:

i) we expect such failure to impair the ability to enforce the loan documents; or

ii) a court or regulatory body finds, or we reasonably believe based on Credible Evidence, that the initial Insured's origination of the loan violated one or more laws or regulations relating to the insurability of the loan.

b) We may cancel or rescind coverage under a Certificate if we reasonably believe based on Credible Evidence that the loan violates a law or regulation.

c) We may cancel coverage under a Certificate or deny a Claim resulting from the Insured's failure to comply with applicable law if we reasonably expect such failure to materially increase the Insurance Benefit payable by us over what it would have been had the failure not occurred.

d) We may reduce the Claim Amount if we reasonably determine that a failure to comply with applicable law materially increased the Insurance Benefit payable over what it would be in the absence of such failure.

23 Failure to comply with conditions and Insured's obligations

a) If the Servicer fails to comply with any of its post-origination obligations under this Policy in any material respect (including, but not limited to, its obligations to mitigate loss, obtain our approval of a Workout, or diligently pursue and complete Appropriate Proceedings), we may reduce the Claim Amount, in accordance with the curtailment procedures stated in our then current Servicing Guide, by the amount we reasonably determine is the estimated resulting damage (as described below).

b) We may cancel coverage under the Certificate, effective as of the date the non-compliance first occurred (or in the case of a Claim, effective as of the Default date) or deny a Claim, if:

i) we cannot reasonably estimate the damage arising from such noncompliance and we reasonably determine such noncompliance is material either to our continued acceptance of the risk or the hazard assumed; or

ii) we determine that such noncompliance was the principal cause of the Default that results in a Claim; or

iii) with respect to the Servicer's reporting obligations or its obligation to start or diligently pursue Appropriate Proceedings, such noncompliance continues for a period of 12 months, unless the Servicer is prevented from complying with such obligations by a government or judicially imposed moratorium of general applicability to a specific jurisdiction and not as a result of the Servicer voluntarily conforming to such a moratorium without a legal obligation to do so.

c) If you fail to timely start Appropriate Proceedings as set forth in Section 57, the "estimated resulting damage" is the amount of any accrued and unpaid interest and Advances actually paid by the Servicer or Beneficiary during the period beginning on the date that Appropriate Proceedings should have been commenced through the date such Appropriate Proceedings are actually commenced, together with any other damages that we reasonably estimate.

d) If a Third-Party Sale closes without our prior approval, we may reduce the Claim Amount as described in Section 74.

e) If you fail to provide the required information or access within 30 days following our second request as provided in Sections 15(d) or (e), we may cancel coverage under the Certificate(s) for the affected

loan(s) effective as of the date of such second request. If a Claim on any such loan has been submitted, we may deny the Claim.

f) If you fail to maintain the required records or information under Sections 15(c) or (d), then, depending upon the circumstances as specified in our Servicing Guide, we may cancel or rescind coverage under the Certificate(s) for the affected loan(s). If a Claim on any such loan has been submitted, we may deny the Claim.

g) If you fail to notify us of a Significant Defect, Single Loan Fraud or Pattern Activity or a repurchase request with respect to a loan within 30 days as required under Section 47, we may cancel or rescind coverage under the Certificate(s) for the affected loan(s). If a Claim on any such loan has been submitted, we may deny the Claim.

h) We may cancel coverage under a Certificate for a loan or deny a Claim if we discover that the Insured, Servicer or Beneficiary has materially misrepresented or falsified any information presented to us in connection with a loan after the Certificate Effective Date.

24 Failure to make balloon payment

We may deny a Claim if:

a) The Default is related to the Borrower's failure to make a balloon payment when due; and

b) You did not offer the Borrower a renewal, refinancing or extension of the loan at current market rates before the balloon payment was due.

25 Failure to satisfy Commitment conditions

a) If any condition to coverage specified in the Commitment for a loan is not satisfied within the time specified in the Commitment, we may rescind coverage under the Certificate.

b) We cannot rescind pursuant to this Section 25 if the Rescission Relief Provisions apply with respect to the applicable loan.

26 First lien status

If the security instrument did not constitute a first lien on the Property on the Certificate Effective Date, we may rescind coverage under the Certificate.

27 Incomplete Construction

a) If the principal cause of the Default giving rise to a Claim is Incomplete Construction, we may deny the Claim.

b) Incomplete Construction will be deemed to be the principal cause of the Default if the Default was caused by any reason other than a Borrower credit-related event (e.g., a failure of any builder, contractor, or trade to complete construction of the Property in a good and workmanlike manner and in accordance with the agreed plans and specifications; mismanagement of construction draws; or disputes between the builder, contractor, or trade and the Borrower).

c) If Incomplete Construction was not the principal cause of the Default giving rise to a Claim, we may reduce the Claim Amount as described in Section 78.

28 Loan acquired by natural person

If the Insured or Beneficiary of a loan, at any time, is or was a natural, individual person (*i.e.*, not an entity), we may cancel coverage under the Certificate for such loan as of the date such Insured or Beneficiary acquired the loan, or if a Claim has been submitted, we may deny the Claim.

29 Non-residential property

a) If the property securing the loan did not meet the definition of Property on the Certificate Effective Date, we may rescind coverage under the Certificate.

b) If the property met the definition of Property on the Certificate Effective Date but not when the Claim was filed, we may exercise one of the following remedies if we reasonably determine the change adversely affected the use, marketability or value of the property:

   i) a requirement that you restore the Property to a condition no worse than its condition on the Commitment date, Reasonable Wear and Tear excepted;

   ii) reduction of the Insurance Benefit by the amount that we determine approximates the estimated restoration cost in accordance with the curtailment procedures stated in our then current Servicing Guide;

   iii) if the property is not restored and we cannot reasonably estimate the restoration cost, we may settle the Claim using the Anticipated Loss Option; or

   iv) if the property is not restored to a condition no worse than its condition on the Commitment date, Reasonable Wear and Tear excepted, and we reasonably determine that no Insurance Benefit would be payable if the restoration were completed, we may deny the Claim.

30 Pattern Activity

If we discover any Pattern Activity with respect to loans we insure, we may rescind coverage under the Certificate on one or more of the affected loans.

31 Physical Damage as principal cause of Default

a) If the principal cause of the Default giving rise to a Claim is Physical Damage that occurred or manifested itself on or after the date we issued a Commitment, we may deny the Claim.

b) Physical Damage will be deemed to be the principal cause of the Default if all of the following are true:

   i) as of the Claim submission date, the Borrower has not restored the Property to a condition no worse than its condition on the Commitment date, Reasonable Wear and Tear excepted;

   ii) either (1) the Property lacked hazard insurance covering loss arising out of the Physical Damage, or the proceeds or amount of the hazard insurance coverage were insufficient to restore the Property to a condition no worse than its condition on the Commitment date, Reasonable Wear and Tear excepted, or (2) the Property had sufficient hazard insurance covering loss arising out of the Physical Damage, but the Borrower or Servicer (x) did not submit a claim, (y) submitted a claim but has not received the proceeds of the claim or (z) received the proceeds of the claim but the proceeds were not applied to restore the Property;

   iii) we reasonably estimate the restoration costs will exceed 20% of the Original Value, Reasonable Wear and Tear excepted; and

   iv) the Default occurred after the Physical Damage occurred or manifested itself.

c) If we notify you that we intend to deny a Claim pursuant to this Section 31 and within 60 days thereafter you notify us that you intend to restore the Property to a condition no worse than its condition on the Commitment date, Reasonable Wear and Tear excepted, then we will not deny the Claim if you complete the restoration within 180 days after you notify us of your intention to restore the Property. We will extend the time to complete restoration to one year after you notified us of your intention to restore the Property if prior to expiration of the 180-day period you provide evidence reasonably satisfactory to us that restoration is in progress (such evidence may be a signed statement of work to perform the restoration of the subject Property). If the Property is restored within the applicable period, the Perfected Claim Date will be the later of (1) the date that we receive evidence that the restoration has been completed and (2) the date that would otherwise be the Perfected Claim Date in accordance with Sections 66, 67, 68 or 92, as applicable, and we will then settle the Claim under the option we choose. No interest or Advances will be payable for the period between when we notify you of our intention to deny the Claim and when you notify us that the restoration has been completed, regardless of which Claim settlement option we choose. If the restoration period is not extended because you do not provide satisfactory evidence that restoration is in progress within the 180-day period, or if the restoration period is extended but the Property is not restored within one year after you notified us of your intention to restore the Property, we may deny the Claim.

d) If you are restoring the Property pursuant to Section 31(c) and a Third-Party Sale occurs, the restoration must be completed within the applicable time period set forth in Section 31(c), and the Perfected Claim Date will be the date we receive satisfactory evidence that the restoration was completed.

32 Physical Damage that is not the principal cause of Default

If Physical Damage was not the principal cause of the Default giving rise to a Claim, we may reduce the Claim Amount as described in Section 77.

33 Pre-existing Environmental Impairment

We may rescind coverage under a Certificate if an Environmental Impairment:

a) Existed before the Commitment date;

b) Was not disclosed on the Application, whether or not known by the initial Insured; and

c) If known by us, would have resulted in our declining to insure the loan.

34 Release of indebtedness

a) If the Borrower is no longer obligated to repay all or any portion of the loan (other than as a result of a Workout we approved and requisite premiums continue to be paid in accordance with our Servicing Guide), we will exclude that amount from the unpaid principal balance in determining the Claim Amount.

b) If the loan is divided into secured and unsecured portions in bankruptcy proceedings, and you have continued to pay the premium for the full loan amount, we will not exclude any portion of the Claim pursuant to paragraph (a) above.

35 Significant Defect

a) If we have Credible Evidence of a Significant Defect with respect to a loan, we may rescind coverage under the applicable Certificate or offer an alternative to rescission as described in our Servicing Guide. We will decide whether a Defect is a Significant Defect.

b) If our non-delegated underwriting process (or, with respect to loans participating in our early rescission relief program under Section 17(a), our Independent Validation process) reveals that, despite accurate information provided to us, we failed to identify a Significant Defect that should have been apparent to a qualified mortgage insurance underwriter and we erroneously insured a loan, we will not rescind coverage under the Certificate on the basis of that Significant Defect.

c) The Rescission Relief Provisions apply with respect to a Significant Defect.

36 Single Loan Fraud

a) If we discover any Single Loan Fraud relating to a loan, we may rescind coverage under the Certificate.

b) The Rescission Relief Provisions will not limit our rights under this Section 36 except as described in Section 17(g).

37 Unapproved assumption

a) We may cancel coverage under a Certificate for a loan or deny a Claim if the loan was assumed by another Person without our approval, with or without an original Borrower’s release from liability for the loan.

b) If you are prohibited by applicable law, or by a GSE, to exercise your rights under a due-on-sale clause, or if you are required by applicable law to consent to a loan assumption, we will not cancel coverage under the Certificate or deny the Claim pursuant to paragraph (a) above.

38 Unapproved change of loan terms or Property

If you allowed a material change to the terms of the loan or to the Property without our prior approval, we may reduce the Insurance Benefit by the amount we reasonably estimate is the resulting damage. If we determine the change was the principal cause of the Default, we may deny the Claim.

39 Unapproved Servicer

We may cancel coverage under a Certificate for a loan if the loan servicing is transferred to a Servicer we have not approved (if you were required to request our approval under Section 49) or to a Servicer otherwise prohibited from servicing the loan under Section 49, or if the loan continued to be serviced by a Servicer whose approval we previously revoked, provided that the Servicer's deficiencies identified by us were not corrected within 60 days, and servicing was not transferred to an approved Servicer 120 days thereafter, in accordance with Section 49.

40 Unapproved resale restrictions

If a Property is subject to a resale restriction that we did not approve (as indicated in our approval letter to the initial Insured or our Underwriting Guidelines), we may rescind coverage under the related Certificate.

Your responsibilities

41 Condition to our obligations

Our obligation to pay Insurance Benefits under this Policy is subject to your meeting the terms and requirements of this Policy.

42 RESPONSIBILITIES OF THE SERVICER

a) The Servicer is the entity responsible for servicing the loan and the administrative aspects of a loan, including, but not limited to, sending monthly statements, collecting payments, maintaining records of payments and balances, conducting loss mitigation activities and enforcing the loan terms.

b) The Servicer is the agent or authorized representative of the Insured and the authorized representative of the Beneficiary for all matters under this Policy, such as giving and receiving notices, cancelling coverage under a Certificate, paying premiums, receiving premium refunds and Insurance Benefits, settling Claims, and performing acts required of the Insured. The Beneficiary's statements, acts and omissions are binding on the Servicer to the extent they relate in any way to a Commitment or Certificate issued under this Policy or would result in acceptance of or a reduction or denial of the Insurance Benefit, or rescission of coverage under a Certificate. Also, the Insured and Beneficiary are bound by any actions or omissions of the Servicer with respect to this Policy. However, for a Beneficiary, the only effect of a Servicer's error or omission will be the non-payment or adjustment of the Insurance Benefit; the Beneficiary will have no other liability to us.

c) If the Beneficiary is a GSE Beneficiary, the Servicer must have such GSE Beneficiary's consent to manage or dispose of any Property, receive payment of the Insurance Benefit, modify the loan or the Borrower's obligations under the loan, enter into any agreements with us relating to multiple loans owned by the GSE Beneficiary, or give any consent under this Policy on behalf of the GSE Beneficiary. The Servicer may perform any other acts of a GSE Beneficiary under this Policy without its consent, including agreeing to the resolution of individual Claims.

d) If a subservicer is servicing a loan, the Servicer shall remain responsible for performing all obligations of the Servicer under this Policy. All statements, acts and omissions of such subservicer shall be binding on the Servicer to the same extent as if made, performed or omitted by the Servicer.

43 PAYMENT OF PREMIUMS

a) You are solely responsible for paying all premiums due under this Policy, regardless of whether you are reimbursed by a Borrower or anyone else. You must make premium payments in a way that identifies which loans they apply to. For purposes of this Policy, premiums include all related taxes and assessments.

b) We will promptly deposit any payments we receive. However, the premium is not deemed accepted until we reconcile the payment with the applicable loan. Our receiving, depositing, or accepting a premium payment does not waive any conditions or any of our rights or remedies under this Policy.

c) If we discover a Defect and we determine that the loan would have been eligible for coverage despite such Defect, but at a higher premium, we may notify the Servicer and require payment of the additional premium due. The Servicer must pay the additional premium in a single payment within 60 days of receiving our notice. If we do not receive the additional premium within 60 days, we may rescind coverage under the applicable Certificate.

44 Timing of initial premium payment

We must receive the initial premium payment within the time specified in our Servicing Guide for the premium plan selected on the Commitment, unless we have agreed to another date. The Commitment specifies the amount of the initial premium payment.

45 Renewal premiums

We will notify you of the renewal premium payment for a loan, calculated pursuant to the premium plan identified on the Certificate. To continue coverage, you must pay the renewal premium by the date specified in the notice and as further specified in our Servicing Guide.

To maintain coverage, you must pay premium for the period up to the date of a Default. If the Borrower cures the Default, unless you have continued to pay renewal premiums during the period after Default, within 60 days after we are notified of the cure, you must pay any premium owed or coverage under the Certificate for the related loan will lapse. Premiums paid for the period after a Default that results in a Claim will be refunded to you if an Insurance Benefit is paid.

46 Lapse and reinstatement of coverage

a) If you have not paid the renewal premium on a loan before the due date, coverage under the Certificate will end at 12:01 AM on the due date (which then becomes the “Lapse Date”), and we will cancel coverage under the Certificate effective as of the Lapse Date. However, we will continue uninterrupted coverage if we receive full payment within 60 days of the Lapse Date or, if a nonpayment notice is required by applicable law, within the grace period specified in such non-payment notice or as otherwise required by law. We may also reinstate coverage under the Certificate in accordance with our Servicing Guide.

b) If coverage has lapsed on a group of loans because of transfer, seizure or surrender of the loan servicing, you may request reinstatement of coverage only if:

   i)you reinstate coverage on all loans in the group; and

   ii)you pay all renewal premiums within 120 days of their Lapse Dates.

c) Except as described in Sections 46(a) and (b), we are under no obligation to reinstate coverage that has lapsed for failure to pay renewal premium before or after a Default. If we reinstate coverage, any Claim resulting from a Default that occurred after the Lapse Date will only be covered if the entire renewal premium through the date of Default has been paid as required by our Servicing Guide. In addition, we may charge interest from each affected Certificate’s Lapse Date to the date the premiums were actually paid. Interest will be calculated at the three-month Treasury Bill rate published in the Federal Reserve Board’s H.15 release for the week including the renewal premium due date or such other similar commercially reasonable measure as we determine and communicate to you by notice.

47 REQUIRED REPORTING AND NOTIFICATIONS

You must provide us with a monthly servicing report by the 25th day of each month, if required, as described in our Servicing Guide. The submission of these required reports will constitute a representation by the Servicer that all information contained in such reports is true and complete in all material respects.

If you are aware of a dispute relevant to any loan or the applicable Property, you must notify us. We have the right, but not the obligation, to defend any legal action arising from the dispute. We also have the right to direct you to commence legal action if we determine that it is necessary to protect our rights, but if we so direct, then we will pay the expenses for such legal action; provided, however, that this paragraph shall not apply to Appropriate Proceedings.

If you are aware of a Significant Defect, Single Loan Fraud or Pattern Activity with respect to a loan, you must notify us within 30 days of discovering such information. You also must notify us, and provide us with all related documents, within 30 days whenever a loan is required to be repurchased from a GSE or any other investor. Following our receipt of such documents, we may request additional information to determine whether Section 30 or 36 applies.

48 REQUIRED APPROVALS FOR CHANGES

49 Change of Servicer; Deficiencies in performance

a) A Servicer of a loan must be approved by us. A Servicer is deemed to be approved if we have separately issued an in-force mortgage guaranty insurance master policy in the same form as this Policy to the Servicer. Otherwise, you must request our approval of the new Servicer. Until we receive notice of and approve a change in Servicer, the Person most recently identified to us as the Servicer of the loan shall be deemed to be the Servicer of the loan.

b) We will notify you of any Servicer deficiencies in performance and allow you 60 days to correct those deficiencies. If the Beneficiary is a GSE Beneficiary, we will provide a copy of this notice to the GSE Beneficiary.

c) If the deficiencies are not corrected within 60 days, then we may notify you (and the GSE Beneficiary if applicable) that the Servicer's approval is revoked or limited as follows:

i) the Servicer will no longer be permitted to service any loans, in which case the servicing of all loans must be transferred to an approved Servicer within 120 days after such notice; or

ii) the Servicer will be permitted to continue to service the loans it services as of the effective date of our notice, but will not be permitted to service any other loans (including as result of loan transfer, origination or otherwise). If we so limit a Servicer's approval, we may thereafter revoke approval under clause (i) above without providing an additional cure period with respect to the Servicer's performance deficiencies.

d) Subject to paying premium, coverage under a Certificate will continue uninterrupted when servicing is transferred from one approved Servicer to another approved Servicer. We may cancel coverage under a Certificate or deny a Claim if:

i) on the date of the servicing transfer, the new Servicer is not an approved Servicer or is a Servicer whose approval is limited as described in Section 49(c)(ii) above, unless the servicing of the related loan is transferred to an approved Servicer within 120 days of our notice to the Servicer and, if applicable, the GSE Beneficiary; or

ii) effective as of the day after the 120-day deadline stated above in Section 49(c)(i), servicing has not been transferred as required.

50 Change of Beneficiary

a) If you sell, assign, or transfer a loan, the purchaser becomes the Beneficiary under the Certificate for such loan as of the transfer date.

b) In such cases, the Beneficiary may elect to become the Insured under this Policy with respect to the related Certificate as of the transfer date, subject to all of the rights and obligations of the Insured hereunder with respect to such Certificate and the related loan.

c) No loan transfer or change in the identity of any Insured, Servicer or Beneficiary will affect any of our rights under this Policy, regardless of the knowledge or responsibility of the new Insured, Servicer or Beneficiary relating to matters occurring before becoming an Insured, Servicer or Beneficiary.

51 Workouts; Changes to the Property or loan terms

a) If you wish to effect a Workout or approve another change in loan terms or a Property, you must receive our approval in advance, unless the change is allowed by the terms of the loan, applicable law or this Policy or we have delegated our approval to accept a Workout to the Servicer by a delegation agreement we executed or under the terms of our Servicing Guide. In each case, the Servicer must report a completed Workout to us within 30 days after the Workout has been completed.

b) Provided that you request our approval through an approved delivery method, if you request our approval and have not received our approval, denial or request for additional information within 10 business days, then the Workout is deemed to be approved.

c) If we approve a loan modification, the premium rate for coverage will remain the same. Premiums on loans modified with our approval must be paid in accordance with instructions in our Servicing Guide and the premium plan as indicated on the original Certificate.

d) If the Beneficiary is not a GSE Beneficiary, and the terms of the approved Workout provide that a cash contribution will be paid by the Borrower or the Borrower will execute a promissory note payable to us, then the amount of such cash contribution will be deducted from the Insurance Benefit paid for the loan, or the promissory note will be delivered to us, as specified in our Servicing Guide or otherwise as agreed. If the Beneficiary is a GSE Beneficiary, and the terms of the approved Workout involve a transfer of title to the Property by the Borrower, then unless otherwise agreed by the GSE Beneficiary and us, any cash contribution by the Borrower and any payment by the Borrower under the terms of a promissory note, less any reasonable expenses incurred in documenting and collecting the Borrower contribution or payments, will be shared by the GSE Beneficiary and us pro rata. Our pro rata share of the contribution will be calculated using a quotient, the numerator of which will be the Insurance Benefit paid, and the denominator of which will be the Total Loss.

e) Our approval of any Workout or conveyance of the Property is not an approval of your Claim or an acknowledgment of Insurance Benefits due.

f) If a Servicer or GSE Beneficiary has approved a Third-Party Sale pursuant to a delegation of authority, and in connection with a related Claim there is Physical Damage, we may settle the Claim using the Anticipated Loss Option. If we choose to exercise the Anticipated Loss Option in this circumstance, the Estimated Net Proceeds will be determined assuming that the sale of the Property closed without Physical Damage.

52 DEFAULT NOTIFICATIONS AND YOUR ONGOING RESPONSIBILITIES REGARDING DEFAULTS

53 Notice of Default

If the Borrower fails to make two consecutive loan payments, you must give us a notice of Default pursuant to our Servicing Guide prior to the due date of the next loan payment. If you fail to so notify us, any Claim Amount relating to such Defaulted loan will exclude any interest accrued or Advances paid between the

deadline for giving us a notice of Default and the date you provide notice. If you continue to fail to so notify us for 12 or more months after the deadline for giving us a notice of Default, we may cancel coverage on the loan pursuant to Section 23(b)(iii).

54 Monthly Default reports

a) After you give us notice of Default, you must provide us with monthly reports by the 25th day of the following month including the status of the loan and any servicing efforts taken to cure the Default or commence, pursue or complete Appropriate Proceedings. These reports must comply with the requirements in our then current Servicing Guide. This Default report is in addition to the reporting required under Section 47.

b) You must continue to submit such monthly Default reports until a Claim is presented to us and we issue our decision to you, or the loan is no longer in Default.

c) You must also submit a final report on the resolution of any Default in the month following the resolution.

55 Cooperation in servicing efforts

At our request, you must allow us to assist you in contacting the Borrower for activities such as obtaining information, setting up a payment schedule, scheduling or conducting a Property inspection, or scheduling an appraisal. We have the right to assist in efforts to mitigate any loss, including by engaging a specialty servicer or other vendor at our expense to oversee the Servicer's, Beneficiary's and their agents' activities with respect to loans. You must also provide us with information regarding all of your similar efforts to contact the Borrower and cooperate with us as reasonably necessary to enable us to engage in such mitigation and Borrower contact activities.

56 Payment of Advances

You must pay all of the following Advances related to a loan when they become due, unless prohibited by law:

a) Reasonable and customary hazard and flood insurance premiums;

b) State and local taxes, assessments and other public charges imposed on the Property, not to include late fees or other penalties;

c) In the event of a Default, commercially reasonable and necessary expenses to maintain or protect the Property (other than expenditures to remove an exclusion from coverage, such as Physical Damage);

d) Fees required to maintain the first lien status of the loan, including condominium fees, homeowner association dues, co-op maintenance fees, and pro-rated portions of shared fees related to the common areas attendant to the Property;

e) Reasonable expenditures to complete Appropriate Proceedings (including moving expenses, where required by applicable law to be paid by the evicting party) and, if we have exercised the Acquisition Option or there is a Third-Party Sale that we have approved or if we otherwise require access to the Property, eviction proceedings. This includes court costs and attorneys' fees, but attorneys' fees must not exceed:

    i) 3% of the unpaid principal balance and accrued interest that is included in the allowable Claim Amount on a loan with an unpaid principal balance of $200,000 or greater; or

ii) the lesser of: (x) $6,000; and (y) 5% of the unpaid principal balance and accrued interest that is included in the allowable Claim Amount on a loan with an unpaid principal balance less than $200,000.

This limitation does not apply to reasonable attorneys' fees incurred to enforce our subrogation rights.

57 Appropriate Proceedings

a) You must commence Appropriate Proceedings by the later of the following, unless we instruct you to take other action:

i) 30 days after the loan remains in Default for a period of six consecutive months; or

ii) 60 days after the earliest date allowed by applicable law.

b) The deadlines noted above for commencing Appropriate Proceedings will not apply for as long as:

i) proceedings are delayed by a court order or other legal moratorium that applies generally in a particular jurisdiction; or

ii) you are actively pursuing a Workout with the Borrower in accordance with this Policy or have already achieved a Workout.

c) We will not give alternate instructions regarding Appropriate Proceedings on loans insured for the benefit of a GSE Beneficiary without first receiving the GSE's approval.

d) You must diligently pursue completion of Appropriate Proceedings once commenced and in compliance with the foreclosure timelines stated in the Servicing Guide and conduct Appropriate Proceedings in a way that preserves our deficiency and subrogation rights and your ability to transfer and assign to us your rights against the Borrower. You must also follow our instructions as required by Section 59 when bidding at the foreclosure sale.

e) Your failure to comply with the foregoing Sections 57(a) through (d) may result in the exercise of our remedies described in Section 23.

58 Loss mitigation

a) You must make commercially reasonable efforts to prevent and mitigate loss on a loan in a reasonable and prudent manner, consistent with generally accepted standards of servicing then in use in the first-lien residential mortgage industry, including with respect to loans for which there is no mortgage guaranty insurance, but in no event at a standard less than the GSE-required servicing standards then in effect. You must also comply with our Servicing Guide and any other applicable guidelines to which the Servicer or Beneficiary is subject, and as we may otherwise direct. Such prevention and mitigation efforts include diligent efforts to obtain a cure of a Default, prompt and ongoing Borrower contact, obtaining a Workout, Property inspection and appraisal, or a Third-Party Sale approved by us.

b) Your mitigation efforts also include diligent efforts to market any Property for which a Servicer or Beneficiary has obtained title to a Property. The Servicer shall authorize and direct its broker to release to us any marketing information concerning the Property that we request.

c) No provisions of this Policy or activities related to loss mitigation shall prevent or delay your commencing Appropriate Proceedings to enforce or satisfy the Borrower's obligations under a loan.

d) Your failure to comply with the foregoing Sections 58(a) through (c) may result in us exercising one of our remedies described in Section 23.

59 Foreclosure bidding instructions

Unless we direct you otherwise or you are prohibited by applicable law, you must bid at foreclosure as we instruct in our Servicing Guide. You must receive our approval before you proceed with any other bidding instructions.

60 Eminent domain

If the Property or any portion of it is taken by eminent domain or any other government proceeding, you will require the Borrower to apply the compensation received to reduce the outstanding principal balance and interest due on the loan, to the maximum amount permitted under the loan and applicable law. Notwithstanding the foregoing sentence, documented moving or temporary housing expenses associated with the Borrower's relocation are not required to be applied to reduce the outstanding principal balance and interest due on the loan.

61 OUR OPTIONS UPON DEFAULT

62 Filing of accelerated Claim

a) After receiving your notice of Default, if we request that you submit an accelerated Claim, you must do so within 60 days of our request. Our direction to submit an accelerated Claim will not restrict our rights or remedies.

b) Only those Core Claim Documents that exist at the time we request the accelerated Claim must be submitted to us.

c) If you do not file the accelerated Claim within 60 days of our request, the Claim Amount will exclude any interest accrued on the loan after that time.

d) If we request that you file an accelerated Claim, the Servicer's obligation to pursue and complete Appropriate Proceedings and to mitigate loss will continue as if the submission of the Claim had not been accelerated.

e) You will have the right, as described in Section 62(f), to file a supplemental Claim for the amount of Advances not included in the initial, accelerated Claim, but you cannot claim Advances to the extent you have recovered funds, including any Insurance Benefit we previously paid, equal to or more than the Total Loss.

f) Within 90 days after completion of a foreclosure sale, deed-in-lieu of foreclosure or a Third-Party Sale closes, you may submit a supplemental Claim for Advances you paid that were not included in the accelerated Claim to the extent they would be included in the Claim Amount for, as applicable, the period through which Appropriate Proceedings were required to have been completed, the date the deed-in-lieu of foreclosure is executed, or the date the Third-Party Sale closes.

g) Any information not in existence on the date that the accelerated Claim is submitted, but which would otherwise be required for a Claim to be a Perfected Claim, shall be submitted together with the supplemental Claim. If the supplemental Claim for Advances is submitted within the 90-day period described in Section 62(f) together with all required supporting documentation, we will pay any additional Insurance Benefit under this Policy within 60 days of our receipt of the supplemental Claim. For the avoidance of doubt, any additional Insurance Benefit we may pay in settlement of a supplemental Claim submitted in connection with this section will be limited to the Advances
described in Section 62(f).

h) No exclusion or deduction that reduced the Claim Amount or Insurance Benefit paid on an accelerated Claim shall be included in any related supplemental Claim.

i) If we pay an Insurance Benefit under this Section 62, including any supplemental Claim, it will be paid under the Percentage Option.

j) If a Borrower becomes current on a loan after we pay an accelerated Claim, you must repay us the Insurance Benefit within 60 days. If we pay an Insurance Benefit under this Section 62 to a Beneficiary that is a GSE Beneficiary, repayment pursuant to this subsection (j) will not be required unless the GSE Beneficiary has agreed in writing prior to our direction to submit an accelerated Claim that a refund will be payable as provided herein.

63 Claim advances

Subject to the prior approval of any applicable GSE Beneficiary, we may advance to you a partial Insurance Benefit on terms we specify at the time of the advance. If such a Claim advance is paid to the Insured or Servicer, we will notify such GSE Beneficiary at the time we pay the Claim advance. The amount of the Claim advance will be deducted from any future Insurance Benefit we may pay with respect to the loan. If the Claim is later denied or curtailed, or coverage under the Certificate is cancelled or rescinded, you must refund the Claim advance to us.

Claims

64 FILING A CLAIM

a) In order to file a Claim, one of the following conditions must be met:

  i) completion of the foreclosure sale of the Property, regardless of whether certification, confirmation or ratification of the sale has occurred;

  ii) conveyance of title to the Property by execution of a deed-in-lieu of foreclosure; or

  iii) closing of a Third-Party Sale by the Borrower.

b) You must file a Claim within 60 days of the first to occur of the conditions identified under Section 64(a).

65 What happens if you miss the deadline

If you do not file a Claim by the deadline stated in Section 64, we are not obligated to include in the Claim Amount any interest accrued or Advances you paid after the deadline passed. If the Claim is submitted more than 120 days after the expiration of the deadline stated in Section 64, then we may deny the Claim.

66 Documents required

To file a Claim, you must submit to us the information listed in our Servicing Guide as of the date you submit the Claim to us, including the Core Claim Documents. If we require additional information or access to the Property before your Claim can be perfected, we will request it under Section 67 and/or 68.

a) Once you have provided the Perfected Claim Information we consider your Claim submission to be a "Perfected Claim". The date on which you have provided all Perfected Claim Information is considered the "Perfected Claim Date". A Perfected Claim does not relieve you of your obligations under Sections

67 and 68 applicable to requests made after a Claim has become a Perfected Claim, and this may result in a change to the Claim Settlement Period for such Perfected Claim.

b) If we are acquiring the Property under the Acquisition Option, you must also provide:

i) good and marketable title to the Property;

ii) if we request, a title insurance commitment or a reasonably acceptable legal opinion that you are able to convey title to the Property;

iii) possession of the Property, which gives us the immediate right to actual, physical and undisputed occupancy and control of the Property; and

iv) a recordable but unrecorded deed, usual and customary for the Property location, containing customary provisions and conveying to us or our designee good and marketable title, together with all documents required to complete the transfer of title, all of which shall be executed.

c) For the title to be good and marketable, all of the following must be true:

i) there are no liens against the Property, other than those established by public bond, assessment or tax, and there are no delinquencies in their payment;

ii) there are no encumbrances affecting the Property, other than recorded building and use restrictions and municipal or zoning ordinances or regulations that do not adversely affect the normal residential use of the Property;

iii) the Property is currently in compliance with any applicable ordinances and regulations, and any agreements and restrictions relating to cooperative housing ownership;

iv) there are no easements, conditions, resale restrictions, rights, or rights of way that will have a material effect on the ability to sell or transfer the Property, except for those permitted under our Underwriting Guidelines or otherwise approved by us in writing;

v) there are no liens against the Property or claims related to toxic waste, environmental contamination, or a similar hazard under any applicable law;

vi) if the Property is a cooperative housing unit, there is no unpaid maintenance; and

vii) the Property has acceptable means of ingress and egress, and has rights to use public or private water and sewer facilities connected to the Property and any other water rights reasonably necessary for the use and enjoyment of the Property.

d) If we are not acquiring the Property, you must submit, as set forth in our Servicing Guide or upon our request:

i) a copy of an executed trustee's or sheriff's deed that conveys title of the Property to you, or other evidence that a foreclosure has been completed; or

ii) if we have approved the Borrower's deed-in-lieu of foreclosure, the deed that conveyed title to you, together with other documents related to the transaction.

e) If any of the required documents is not available, we will consider alternative documents that you submit and determine whether they are reasonably acceptable.

67 Additional Claim information required

a) If any of the Core Claim Documents is missing from your Claim, or we require additional information to process the Claim (*i.e.*, your Claim is not perfected with the information submitted with the initial Claim), we will notify you and request the missing or additional information within 20 days of receiving your Claim. However, we will not request, and you will not be required to resubmit, any Origination File information or documents or Closing File information or documents that were previously submitted to us in connection with the Application, Independent Validation or QC Review of the related loan. If we have any additional requests, we will make such requests within 10 business days after the Perfected Claim Date. Other than requests for access to a Property, as described in Section 68, if we have any such additional requests after the Perfected Claim Date, the Claim Settlement Period will not be extended, and the Beneficiary or Servicer must use reasonable efforts to satisfy the additional requests. We will pursue any investigations related to a Claim expeditiously and in good faith.

b) If we have not received information we requested after 30 days, we will send you a reminder. Further, we will provide the Beneficiary with a copy of such reminder if requested by the Beneficiary. If a Claim is not perfected within 120 days of the Claim filing date, unless we and the Beneficiary have agreed to an extension or an extension is required by applicable law or an extension is expressly provided for under the terms of this Policy in Sections 67(d), 68(a) or 68(b), we will deny the Claim on that basis.

c) If a Claim is denied without payment under this section, we will have the right to retain all premium paid in connection with the Certificate.

d) If we approve a Third-Party Sale after you have filed a Claim but prior to it becoming a Perfected Claim, you must submit the information relating to the sale required by our Servicing Guide, no later than 60 days after the Third-Party Sale closes, and, if you have met all other Claim perfection requirements, the date you submit such information will be the Perfected Claim Date for such Claim. If the Third-Party Sale does not close within the 210-day period after the Claim was initially filed, the Perfected Claim Date for such Claim will be the 210th day, and we may settle the Claim under the Anticipated Loss Option. If we settle the Claim under the Anticipated Loss Option in this circumstance, the Estimated Net Proceeds will be determined assuming a Property value as of the date we approved the Third-Party Sale.

e) If a Third-Party Sale is not approved by the date that is 60 days after the Claim becomes a Perfected Claim and we do not elect to settle the Claim pursuant to the Acquisition Option, then the Claim Settlement Period will not be any further extended, nor will our approval be required for a Third-Party Sale. If we approve a Third-Party Sale no later than 60 days after the Claim becomes a Perfected Claim, the Servicer or Beneficiary must submit the information relating to the sale required by our Servicing Guide, no later than 60 days after the Third-Party Sale closes. In this circumstance, the Claim Settlement Period will be extended to the 10th business day after we have received all of the information related to the Third-Party Sale. If the Third-Party Sale does not close within the 210-day period after the Claim was initially filed, the Perfected Claim Date for such Claim will be the 210th day, and we may settle the Claim under the Anticipated Loss Option. If we settle the Claim under the Anticipated Loss Option in this circumstance, the Estimated Net Proceeds will be determined assuming a Property value as of the date we approved the Third-Party Sale.

68 Access to the Property

a) If we require access to the Property for any reason, we must request it by the later of the 40th day after a Claim is filed or the 20th day after the Perfected Claim Date, and you must make your best effort to provide it. If the sole reason a Claim does not become a Perfected Claim is the Servicer's or Beneficiary's failure to provide access to the Property when requested, the Claim will become a Perfected Claim on the date Property access is provided (if such access is provided prior to the end of the 210-day period following the Claim submission date).

b) If at the end of such 210-day period, Property access has not been provided, the Perfected Claim Date will be the 210th day, and we may settle the Claim under the Anticipated Loss Option. In this

MGIC Master Policy

circumstance, the Estimated Net Proceeds will be determined assuming that the sale of the Property closed on the date the Claim was submitted.

c) If we have requested access within 20 days after the Perfected Claim Date and you are unable to provide access within 210 days of filing the Claim, we may settle the Claim under the Anticipated Loss Option. In this circumstance, the Estimated Net Proceeds will be determined assuming that the sale of the Property closed on date the Claim was submitted.

69 PAYMENT OF A CLAIM

If we have received a Perfected Claim from you, subject to the terms and conditions of this Policy and the applicable Certificate, we will pay the Insurance Benefit due.

70 Calculation of the Claim Amount

The Claim Amount is calculated as follows:

Unpaid principal loan balance as of Default date

plus Accrued interest due, calculated at the Contract Rate, subject to Section 71(b)

plus Allowable Advances you paid as set forth in Section 56, subject to Section 71(c)

less Rents or other payments you received before filing the Claim

less Amounts remaining in escrow that you are entitled to as of the last loan payment date

less Amount of pledged collateral that you are entitled to

less Hazard and other insurance amounts received by you or the Borrower but not applied to the loan or restoration of the Property

less Advances that required our approval but were unapproved

less Proceeds of eminent domain proceedings (if, and to the extent, not applied to reduce the unpaid principal loan balance)

less Proceeds of the amount paid to redeem the Property

less The unamortized portion of any financed mortgage insurance premium as calculated in Section 71(d), if applicable

less Any remaining unused interest buy-down funds, discounts or similar features of the loan

equals Claim Amount

The Claim Amount is then used to calculate the Insurance Benefit payable under this Policy, which is adjusted in accordance with Section 79.

71 Additional requirements for determining the Claim Amount

a) Unpaid principal loan balance

i) The unpaid principal loan balance does not include capitalization of delinquent interest, penalties, or Advances, except as a result of a Workout that we approved and for which the requisite premium was paid. Upon completion of a Workout, if you seek additional coverage, then you must remit the additional premium due to us. If additional premium was required to be paid to us after an approved Workout, and such additional premium was paid, the unpaid principal loan balance

will include any amounts added to the principal as a result of such Workout. If the additional premium was not paid as required, we may exclude the additions to unpaid principal balance from the Claim Amount.

ii) If a portion of the unpaid principal loan balance has been forgiven as part of a Workout we approved, the unpaid principal balance will be the unpaid principal balance prior to such forgiveness and the Insurance Benefit will be reduced by any premium that may have been payable for the Certificate had the unpaid principal balance not been so reduced.

iii) If the loan is divided into secured and unsecured portions in bankruptcy proceedings, we will deduct the unsecured portion of the principal balance from the Claim Amount, unless you have continued to pay the premium for the total of the secured and unsecured amounts.

b) Interest

i) The periods for which accrued interest is included in the Claim Amount will vary based on the payment option we select, as explained below, but will never exceed 36 months.

ii) If an Insurance Benefit is paid under the Percentage Option, we will include in the Claim Amount accrued and unpaid interest through the earlier of the date the Claim is filed or required to be filed.

iii) If an Insurance Benefit is paid under the Acquisition Option, we will include in the Claim Amount accrued and unpaid interest through the date we pay an Insurance Benefit.

iv) If an Insurance Benefit is paid under the Anticipated Loss Option, we will include in the Claim Amount accrued and unpaid interest through the date we pay an Insurance Benefit, subject to subsection (v) below.

v) If an Insurance Benefit is paid under the Anticipated Loss Option because access to the Property was not timely provided as required in Section 68, we will include in the Claim Amount accrued and unpaid interest through the date we pay the Insurance Benefit, but excluding the amounts of accrued and unpaid interest for the period during which access was requested but not provided.

vi) If an Insurance Benefit is paid under the Third-Party Sale Option, we will include in the Claim Amount accrued and unpaid interest through the date on which the Third-Party Sale closed.

vii) If we rescind and later reinstate coverage under a Certificate without your having provided us with new information, we will include in the Claim Amount accrued and unpaid interest through the date we pay an Insurance Benefit.

viii) If a loan has been divided into secured and unsecured portions pursuant to proceedings under the federal bankruptcy law, we will include in the Claim Amount accrued and unpaid interest on both the secured and unsecured portions through the date interest is covered as specified for each settlement option above (but for no prior period), so long as the premium paid for coverage under the Certificate was calculated and paid based on both the secured and unsecured portions of the loan.

ix) If a portion of the unpaid principal balance of the loan has been forgiven or forborne to the end of the amortization period as part of an approved Workout, no interest will accrue on the forgiven or forborne amount.

c) Advances

i) Advances will be included in the Claim Amount only to the extent that such Advances were in fact paid by the Servicer or the Beneficiary.

ii) Advances incurred to pay anyone working for the Insured, Servicer or Beneficiary, or for your own internal costs, will not be included in the Claim Amount.

iii) Advances will be included in the Claim Amount only with respect to the period for which interest is allowed under this Policy, as explained in Section 71(b).

d) If we elect the Percentage Option, or the Percentage Option is used to calculate the Insurance Benefit, and all or any of the mortgage insurance premium was included in the original principal amount of the loan, the following amount will be deducted from the Claim Amount and added to the Insurance Benefit: (x) the original mortgage insurance premium amount included in the principal balance, multiplied by (y) a percentage (not to exceed 100%) equal to the unpaid principal balance described in Section 71(a), divided by the original principal balance of the loan.

72 OPTIONS FOR PAYMENT OF INSURANCE BENEFITS TO SETTLE A CLAIM

It is our option to choose which method we will use for settling a Claim:

73 Percentage Option

We will pay you the Claim Amount multiplied by the percentage of the loan that is covered, as stated on the Certificate. With the Percentage Option, you will retain the title to the Property.

74 Third-Party Sale Option

a) If we approve a Third-Party Sale within the Claim Settlement Period, we will pay you the lesser of (i) the Claim Amount less Net Proceeds of such Third-Party Sale and less any reduction for Physical Damage, as described in Section 77, or Incomplete Construction, as described in Section 78, or (ii) the amount calculated under the Percentage Option. If we do not settle the Claim under Section 73 or 75 before the end of the Claim Settlement Period, you need not obtain our approval for a Third-Party Sale. If we settle the Claim based on a Third-Party Sale after the Claim Settlement Period, the Insurance Benefit will include the applicable amount of Section 80 interest.

b) If we approve a Third-Party Sale pursuant to Section 67(e) and the sale does not close before the end of the Claim Settlement Period, we may postpone settlement of the Claim and the Claim Settlement Period will be extended to the 10th business day after we have received all of the information related to the Third-Party Sale, in accordance with Section 67(e). If the sale does not close within the 210-day period after the Claim was initially filed, we may settle the Claim under the Anticipated Loss Option or the Percentage Option, whichever is less. If we choose to exercise the Anticipated Loss Option in this circumstance, the Estimated Net Proceeds will be determined assuming a Property value as of the date we approved such Third-Party Sale.

c) If a Third-Party Sale occurs without our approval and we determine that the sale price was below market value, when we calculate the Claim Amount, we will substitute the Estimated Net Proceeds for Net Proceeds when calculating the Insurance Benefit under Section 74(a).

75 Acquisition Option

a) Within the later of 60 days following the Perfected Claim Date and the date we are granted access to the Property (as we may request under Section 68), we will notify you if we elect the Acquisition Option. If we do so, we will pay the Insurance Benefit, as calculated below, following receipt of the deed conveying good and marketable title to and possession of the Property. Within 45 days after we notify you of our election, you must provide us with: (i) a recordable but unrecorded deed, customary for the Property location and with customary warranties and covenants, conveying good and marketable title; (ii) possession of the Property; and (iii) any documents necessary to complete the transfer of title of the Property to us.

b) We will send the deed to the Property to be recorded within 60 days of our receipt.

c) The amount we will pay you is calculated as follows: Claim Amount *less* any reduction for Physical Damage or Incomplete Construction, as described in Sections 77 and 78.

d) If we choose the Acquisition Option but you are unable to convey the title and possession of the Property within the later of 210 days of filing the Claim and 45 days after we elect the Acquisition Option, you will retain title to the Property and we may settle the Claim under the Anticipated Loss Option.

76 Anticipated Loss Option

When we settle a Claim under the Anticipated Loss Option as described in Sections 67(d), 68(b), 68(c), 71(b), 74(b), 75(d), 77(a), 77(b) or 78(b), we will pay you an Insurance Benefit equal to the amount of our anticipated loss, which may result in no Insurance Benefit being payable by us.

The amount of our anticipated loss is calculated as follows: Claim Amount *less* Estimated Net Proceeds.

77 Adjustments for Physical Damage to the Property

a) *When we are able to estimate restoration costs*. If Physical Damage was not the principal cause of the Default giving rise to a Claim, the Property has not been restored and we are able to reasonably determine the estimated restoration costs of Physical Damage, we may reduce the Claim Amount by the amount of such costs if we elect the Acquisition Option or Third-Party Sale Option. If the estimated Physical Damage exceeds 10% of the Original Value and there is no acquisition or approved or closed Third-Party Sale by the end of the initial 60-day Claim Settlement Period, the Claim Settlement Period shall be extended until the earlier of a Third-Party Sale or, if we notify you that we intend to elect the Anticipated Loss Option, 210 days following the filing of the Claim. If no Third-Party Sale has closed by such 210th day, or if you notify us before such 210th day that no Third-Party Sale will occur, we may exercise the Anticipated Loss Option. The Servicer or Beneficiary is required to use its diligent efforts to market the Property pursuant to Section 58(b). In establishing the cost to restore the Property to a condition no worse than its condition on the Commitment date, we may either obtain a complete repair estimate from an independent third party of our choosing or rely on third party repair estimates provided by the Servicer or Beneficiary. Any estimate must be based on an examination of both the inside and outside of the Property and dwelling. If we choose our own third party estimate, we will provide a copy of it to you upon request. You have the right to appeal the amount deducted for Physical Damage in accordance with Section 91 or choose to restore the Property yourself.

b) *When we are unable to estimate restoration costs*. If we are unable to reasonably determine the estimated restoration costs of Physical Damage, we may exercise the Anticipated Loss Option or settle the Claim under another option pursuant to Section 72.

78 Clarifications on adjustments for Incomplete Construction

a) *When we are able to estimate construction completion costs*. If we are able to reasonably determine the estimated costs to complete construction in the case of Incomplete Construction, we may reduce the Claim Amount by the amount of such completion costs. In establishing the cost to complete the Property, we may either obtain an estimate from an independent third party of our choosing or rely on third party estimates provided by the Servicer or Beneficiary. If we choose our own third party

estimate, we will provide a copy of it to you upon request. You have the right to appeal the amount deducted for Incomplete Construction in accordance with Section 91 or choose to complete construction of the Property yourself.

b) *When we are unable to estimate construction completion costs.* If we are unable to reasonably determine the estimated costs to complete construction, we may exercise the Anticipated Loss Option or settle the Claim under another option pursuant to Section 72.

79 Amounts added to or deducted from the Insurance Benefit

a) We will add the following amounts to the Insurance Benefit, or remit them separately, if applicable:

i) Deficiency Expenses you incurred, if we elect to participate in recovery of a deficiency judgment against the Borrower.

ii) premiums you paid for the period after the Default date, which must be remitted separately to a GSE Beneficiary, if any.

iii) the amount calculated in accordance with Section 71(d).

b) We will deduct any of the following amounts from the Insurance Benefit, if applicable:

i) Insurance Benefit payments we have already made to you, *i.e.*, accelerated Claims and/or Claims advances.

ii) premiums that were due but unpaid through the date of Default or that were previously returned to you, including any unpaid premium due after an approved Workout.

iii) our portion of any payment you received from the Borrower as a condition for approving a Third-Party Sale by the Borrower or a deed-in-lieu of foreclosure, as described by Section 51.

80 Delayed settlement

a) If we do not settle a Claim within the Claim Settlement Period, we will notify you of any investigation with respect to the loan or the Property that is still pending and work diligently to complete it expeditiously and in good faith. If we later pay the Claim, we will include interest on the amount of the Insurance Benefit from the date the Claim Settlement Period expired to the date we paid the Claim.

b) We will calculate such interest as follows:

i) for 60 days after the Claim Settlement Period expires: at the Contract Rate; and

ii) for the 61st day and beyond: at the Contract Rate plus 10 percentage points.

c) However, we will not add the 10 percentage points to the Contract Rate if the delay in paying the Claim is caused by the failure of payment systems beyond our control.

81 Written Explanation of Benefits (EOB)

We will provide an EOB that explains the details of any Insurance Benefit paid and any decision we have made to adjust the Claim Amount or Insurance Benefit.

82 Coordination of coverage

The coverage provided under any Certificate issued under this Policy is primary mortgage guaranty insurance. The Insured shall not carry any duplicate policy of primary mortgage guaranty insurance on a loan covering the

same loss. In the event of a duplicate policy, we will pay the loss on a pro rata basis with the duplicate insurer. Any Insurance Benefit that otherwise becomes payable under this Policy shall be paid by us regardless of the existence of any supplemental or second-tier credit enhancement on a loan. Supplemental or second-tier credit enhancement shall include any policy of mortgage guaranty pool insurance, supplemental primary mortgage guaranty insurance, credit insurance, reinsurance, or any other form of credit enhancement that is not a duplicate policy of primary mortgage guaranty insurance covering the same loss.

83 AFTER A CLAIM IS PAID

84 Fulfillment of our obligation

Upon our payment of the Insurance Benefit, including any we may pay after we settle a supplemental Claim, our liability under the Certificate is fully and finally discharged.

85 Supplemental Claims

a) The Servicer or Beneficiary will be entitled to submit a supplemental Claim for allowable Advances actually paid by the Servicer or Beneficiary if such Advances were (1) incurred prior to the date the initial Claim was submitted, but not included in the initial Claim or (2) incurred after the date the initial Claim was submitted and during any period for which accrued and unpaid interest would be included pursuant to the applicable Claim settlement option as described in Section 71(b), or as described in our Servicing Guide. Nothing herein will be deemed to entitle the Servicer or Beneficiary to seek a supplemental or additional payment of anything other than such Advances. If the supplemental Claim for Advances and all required documentation related thereto are submitted within 90 days after payment of an Insurance Benefit, we will pay any amounts due within 60 days of our receipt of a true and complete supplemental Claim. If the Insurance Benefit is calculated pursuant to the Percentage Option, the Percentage Option will also be used to calculate the amount of any benefit payable under the supplemental Claim. No exclusion or deduction that reduced the Claim Amount or Insurance Benefit paid on the initial Claim shall be included in any supplemental Claim.

b) Section 85(a) does not apply to supplemental Claims submitted in connection with accelerated Claims.

86 Required repayments

If any Person redeems the Property after we pay a Claim, and the sum of the Insurance Benefit paid plus the redemption amount exceeds the Claim Amount, you must repay us the excess within 60 days of the redemption. If you fail to pay us such excess by such date, then (a) interest will accrue on the amount due but unpaid from the 61st day after redemption until the date paid to us, calculated at a rate per annum equal to the one-year Treasury Bill rate in effect on such 61st day, as published by the Federal Reserve Board; and (b) you agree to pay all of our collection costs, including reasonable attorneys' fees and expenses, that we incur in order to enforce our rights under this Section 86.

87 Subrogation

a) If we pay an Insurance Benefit, we will be subrogated to your rights with respect to the loan, Borrower and the Property. Our rights of recovery against the Borrower or any other Person are in equal priority to yours. Upon request, you will provide any information or documents necessary to transfer or assign such rights of recovery to us. You will also take any actions and cooperate with us in any actions or proceedings we pursue to enforce our rights or seek other remedies we are entitled to. Either before or

after the payment of an Insurance Benefit, you are prohibited from taking any action that would affect our subrogation rights, including providing a release of liability to the Borrower.

b) The following provision applies with respect to loans for which the related Property is located in any of the following jurisdictions: Alabama, Arizona, Illinois, Iowa, Kansas, New York, Ohio, Texas, Virginia or Wisconsin: If the Property consists of a single-family dwelling occupied by a Borrower, we do not have subrogation rights against any Borrower and no Borrower will be liable to us for any deficiency arising from a foreclosure sale.

88 Pursuit of a deficiency judgment

a) Each of us can elect to pursue a deficiency judgment against the Borrower independently or jointly. Neither party may pursue a deficiency judgment in an amount greater than its share of the total deficiency amount established and due after the foreclosure sale calculated as set forth in Section 88(b).

b) Our share of a deficiency judgment is an amount equal to the Insurance Benefit paid, up to the amount of the total deficiency established and due after the foreclosure sale. Your share is the amount, if any, by which the total deficiency amount exceeds the Insurance Benefit paid. If we elect to pursue a deficiency judgment jointly with the Beneficiary, or the Servicer acting on behalf of the Beneficiary, we will execute a separate joint pursuit agreement which will provide that all expenses (including court costs, attorneys' fees and other Advances actually paid by the Servicer or Beneficiary and, except on that portion of any Insurance Benefit paid on an accelerated Claim, interest exclusive of delinquency charges and penalty rates and not compounded) associated with the preservation and pursuit of the deficiency judgment in excess of those expenses associated with the normal and customary foreclosure process in absence of deficiency judgment proceedings, and all amounts collected pursuant to the deficiency judgment will be shared pro rata by the Beneficiary and us. Our pro rata share of the recovery and expenses will be calculated using a quotient, the numerator of which shall be the Insurance Benefit paid, and the denominator of which shall be the total deficiency amount.

c) If your pursuit of a deficiency judgment would increase the costs associated with a foreclosure, you will contact us before starting the foreclosure proceeding.

d) If the Beneficiary, or the Servicer acting on behalf of the Beneficiary, elects to pursue a deficiency judgment and we elect not to participate, we will not be subrogated to any of the Insured's rights of recovery against the Borrower or any other Person relating to the loan or the Certificate with respect to which we have paid an Insurance Benefit. The Beneficiary, or the Servicer acting on behalf of the Beneficiary, will be responsible for all costs associated with pursuing the deficiency judgment. We will reimburse only the interest and expenses associated with the normal and customary foreclosure process in the absence of the deficiency judgment proceedings and will not reimburse any additional expenses associated with obtaining the deficiency judgment.

e) Other than formally seeking deficiency judgments from the court, you and we are both free to pursue collection activities against the Borrower independently, as allowed by applicable law.

89 Preservation of rights; return of Insurance Benefit

a) Paying an Insurance Benefit under this Policy does not affect our rights against the Borrower or anyone else who has made a misrepresentation.

b) If we pay any Insurance Benefit and within 180 days thereafter we determine that the Insurance Benefit should not have been paid because a condition precedent to submitting the Claim or paying the Insurance Benefit was not satisfied or we miscalculated the amount of the Insurance Benefit, then within 60 days of such determination the Servicer or the GSE Beneficiary (if the GSE Beneficiary elected to receive the Insurance Benefit) shall repay the Insurance Benefit or the excess amount, as applicable.

90 YOUR RIGHTS AFTER A CLAIM

91 Right to appeal

You have the right to appeal any Claim curtailment, Claim denial, Certificate cancellation or rescission within 90 days of our decision. If your request for reconsideration, and all information required under our Servicing Guide is not submitted within such 90-day period, your request will be denied. If you appeal before the deadline, we will reach a decision within 90 days after we receive your appeal.

92 Reinstatement after appeal

If as a result of your appeal we reverse our decision to deny or curtail a Claim that is a Perfected Claim, or cancel or rescind coverage, we will (i) in the case of Claim denial or curtailment of a Perfected Claim pay any additional Insurance Benefit due within 10 business days of our determination to reverse our initial Claim decision, and (ii) in the case of a cancellation or rescission, reinstate coverage on the Certificate. If a Claim pending at the time of the cancellation or rescission of coverage was a Perfected Claim, the reinstatement date will be considered the new Perfected Claim Date and we will then settle the Claim within the Claim Settlement Period determined on the basis of the new Perfected Claim Date. A Claim that was not a Perfected Claim at the time of the denial or rescission or cancellation of coverage must be perfected upon reinstatement of coverage as required by Sections 66, 67 and 68, as applicable.

93 Arbitration

Any dispute related to this Policy may be settled by binding arbitration, as long as all parties involved in the dispute agree in writing to do so, with each party paying their own costs and for common costs to be shared equally. If so, the arbitration will follow the applicable rules of the American Arbitration Association, or other rules that all parties mutually agree to. The decision of the arbitrators will be final and binding, and will be enforceable in any court in the U.S.

No party is required to submit to arbitration. A decision made by an arbitrator will not apply to any GSE Beneficiary who had not consented in writing to the arbitration.

94 Limitation of actions

a) Any dispute or legal action, brought by or on behalf of the Insured, Servicer, or Beneficiary arising out of this Policy must be commenced within two years after the right to bring the claim, dispute, or any other legal action starts to accrue. Such right in connection with any Claim, coverage dispute, or Insurance Benefit starts to accrue upon the earlier of the following: (i) our rescission or cancellation of coverage under a Certificate; (ii) the Insured’s acquisition of title to the Property; (iii) the closing of a Third-Party Sale; (iv) our denial of a Claim; or (v) our payment of any Insurance Benefit. Such right in connection with any event that is unrelated to any Claim, coverage dispute, or Insurance Benefit starts to accrue at the time that the event that caused an alleged liability is deemed to have occurred. Any dispute or legal action arising out of this Policy commencing after the two year limitation of actions period will be barred as untimely.

b) However, you cannot initiate any legal action related to a Claim until the Claim Settlement Period has ended, unless the action is related to a rescission of coverage.

c) In the case of rescission, cancellation of coverage, denial of a Claim, or a reduction of the Claim Amount or the Insurance Benefit, the applicable two-year period will begin on the date on which we give notice of such action.

Cancellation

95 CANCELLATION OF LOAN COVERAGE BY YOU

a) You may cancel coverage under a Certificate at any time by notice to us, specifying the reason for cancellation and the proposed effective date of cancellation, which can be no earlier than 45 days prior to our receipt of the notice. Cancellation of a Certificate by the Servicer is binding on the Beneficiary whether or not the Beneficiary is notified. The Servicer is responsible for notifying the Beneficiary of cancellation of coverage. Any Default that occurs after cancellation of coverage under a Certificate will not be covered under this Policy.

b) Cancellation of coverage under a Certificate cannot be requested unless the Insured is the current owner of the loan or is acting on instructions from the Beneficiary. We reserve the right to collect any unpaid or deferred premiums due at the time of cancellation.

c) Cancellation of coverage under any Certificate will not cancel this Policy.

d) You agree that you will not sell a loan for which coverage under a Certificate has been cancelled with any implication that it is still covered under this Policy. In addition, you agree not to misrepresent the fact that coverage under a Certificate has been modified or cancelled.

96 Refund of premium

a) If you cancel coverage under a Certificate with a refundable premium plan, we will refund the applicable portion based on our premium schedule and the cancellation schedule, which is posted on our website.

b) No premium will be refunded:

   i) if a notice of Default was submitted before cancellation of coverage, unless you waive your right to any Insurance Benefit under the Certificate for the loan; or

   ii) if it applies to the period more than 45 days before the date we received your notice of cancellation. If we do not receive your notice within 45 days of any required cancellation or termination date, you will be responsible to return to the Borrower any premium paid to us for the period more than 45 days before the date we received your notice, in addition to any refunded premium you received from us, if applicable.

Annex A – State Variations

If, on the effective date of this Policy, the initial Insured’s principal place of business is located in one of the jurisdictions listed below, the provisions listed below identified for such jurisdiction shall apply.

1. **Alaska**

   a.The definition of “Claim Settlement Period” is modified to read as follows:

   “ ‘**Claim Settlement Period**’ means the 30 days following the Perfected Claim Date, except as described in Sections 67(e), 74(b), and 77(a) of this Policy.”

   b.Section 16(c) is modified to read as follows:

   “If we rescind coverage under a Certificate, the rescission notice will be effective 60 days after we give notice, or 10 days after we give notice if our decision to rescind relates to a Single Loan Fraud (other than by the Borrower), and in either case we will refund all premium paid on the Certificate in accordance with our Servicing Guide. Our right to rescind coverage under a Certificate is subject to the provisions of Section 17.”

   c.Section 65 is modified to read as follows:

   “If you do not file a Claim by the deadline stated in Section 64, we are not obligated to include in the Claim Amount any interest accrued or Advances you paid after the deadline passed. If the Claim is submitted more than 120 days after the expiration of the deadline stated in Section 64, then we may deny the Claim if we are prejudiced by the late submission.”

d.Section 67(b) is modified to read as follows:

"If we have not received information we requested after 30 days, we will send you a reminder. Further, we will provide the Beneficiary with a copy of such reminder if requested by the Beneficiary. If a Claim is not perfected within 120 days of the Claim filing date, unless we and the Beneficiary have agreed to an extension or an extension is required by applicable law or an extension is expressly provided for under the terms of this Policy in Sections 67(d), 68(a) or 68(b), we will deny the Claim on that basis if we are prejudiced by such delay."

e.Section 85(a) is modified to read as follows:

"The Servicer or Beneficiary will be entitled to submit a supplemental Claim for allowable Advances actually paid by the Servicer or Beneficiary if such Advances were (1) incurred prior to the date the initial Claim was submitted, but not included in the initial Claim or (2) incurred after the date the initial Claim was submitted and during any period for which accrued and unpaid interest would be included pursuant to the applicable Claim settlement option as described in Section 71(b), or as described in our Servicing Guide. Nothing herein will be deemed to entitle the Servicer or Beneficiary to seek a supplemental or additional payment of anything other than such Advances. If the supplemental Claim for Advances and all required documentation related thereto are submitted within 90 days after payment of an Insurance Benefit, we will pay any amounts due within 30 days of our receipt of a true and complete supplemental Claim. If the Insurance Benefit is calculated pursuant to the Percentage Option, the Percentage Option will also be used to calculate the amount of any benefit payable under the supplemental Claim. No exclusion or deduction that reduced the Claim Amount or Insurance Benefit paid on the initial Claim shall be included in any supplemental Claim."

2. **Connecticut**

a. Section 3(a) is modified to read as follows:

"This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured upon 10 days' prior notice, or by us in accordance with, and upon such prior notice as is required by, the provisions of the Connecticut General Statutes, Section 38a324. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid."

3. **Georgia**

a.Section 3(a) is modified to read as follows:

"This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured for any reason or no reason upon 10 days' prior notice, or by us for any reason or no reason upon 45 days' prior notice, or as otherwise required by applicable law. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid."

b.Section 5(c) (Jury Waiver) is hereby deleted.

4. **Illinois**

a. Section 3(a) is modified to read as follows:

"This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured for any reason or no reason upon 10 days' prior notice or by us upon not less than 60 days' prior notice and in accordance with the provisions of 215 ILCS 5/143.16a. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid."

5. **Kansas**

a. Section 3(a) is modified to read as follows:

"This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured for any reason or no reason upon 10 days' prior notice or by us upon not less than 30 days' prior notice and in accordance with the provisions of the Kansas Insurance Code, Section 40-2, 120. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid."

6. **Maryland**

a. Section 3(a) is modified to read as follows:

"This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured for any reason or no reason upon 10 days' prior notice or by us for any reason or no reason upon 45 days' prior notice, or as otherwise required by applicable law. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid.”

7.Michigan

a. This Policy is exempt from the filing requirements of section 2236 of the insurance code of 1956, 1956 PA 218, MCL 500.2236.

8.Missouri

a. Section 65 is modified to read as follows:

“If you do not file a Claim by the deadline stated in Section 64, we are not obligated to include in the Claim Amount any interest accrued or Advances you paid after the deadline passed. If the Claim is submitted more than 120 days after the expiration of the deadline stated in Section 64, then we may deny the Claim if we are prejudiced by the late submission.”

9.Oklahoma

a. WARNING: any person who knowingly, and with the intent to injure, defraud or deceive any insurer, makes any claim for the proceeds of an insurance policy containing any false, incomplete or misleading information is guilty of a felony.

10.South Dakota

a. Section 3(a) is modified to read as follows:

“This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured for any reason or no reason upon 10 days’ prior notice or by us upon not less than 20 days’ prior notice and in accordance with the provisions of the South Dakota Insurance Code, Section 58-33-61. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid.”

11.Texas

a. It is hereby understood and agreed that we may not cancel or refuse to renew this Policy or a Certificate based solely on the fact that the Insured is an elected official.

12.Utah

a. Section 65 is modified to read as follows:

“If you do not file a Claim by the deadline stated in Section 64, we are not obligated to include in the Claim Amount any interest accrued or Advances you paid after the deadline passed. If the Claim is submitted more than 120 days after the expiration of the deadline stated in Section 64, then we may deny the Claim. Notwithstanding the foregoing, your failure to file a Claim within the time period required under this Section will not invalidate such Claim if you show that it was not reasonably possible to file the Claim within the prescribed time and that the Claim was filed as soon as reasonably possible.”

13.Limitation of actions

Notwithstanding the provisions of Section 94 (Limitation of actions), if upon the issuance of this Policy, the principal business address of the initial Insured is located in, and this Policy is governed by the law of, the state indicated below, then the following shall apply:

a. Alaska, Maryland, Mississippi, North Carolina, and Utah: The 2-year period described in Section 94 is extended to three (3) years.
b. Kansas: The 2-year period described in Section 94 is extended to five (5) years.
c. South Dakota: The 2-year period described in Section 94 is extended to six (6) years.
d. Missouri: The 2-year period described in Section 94 is extended to ten (10) years.

Mortgage Guaranty Insurance Corporation
270 E. Kilbourn Avenue
P.O. Box 488, Milwaukee, Wisconsin 53201-0488

This endorsement amends Mortgage Guaranty Insurance Corporation's Mortgage Guaranty Insurance Master Policy form #71-70384 (03/20) ("Master Policy") as set forth below. If the initial Insured's principal place of business, as designated on the Declaration Page, is located in one of the jurisdictions listed below, Annex A is deleted in its entirety and the provisions of this endorsement listed below identified for such jurisdiction shall apply.

1. **Alaska**

a.The definition of "Claim Settlement Period" is deleted and restated in its entirety as follows:

"**'Claim Settlement Period'** means the 30 days following the Perfected Claim Date, except as described in Sections 67(e), 74(b) and 77(a) of this Policy."

b.Section 5(a) is deleted and restated in its entirety as follows:

"This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Alaska, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of Alaska law, the provision will be deemed to be amended to comply with such minimum requirements."

c.Section 7(a) is modified to add the following:

"Except as otherwise specified in this Policy, all notices to the Insured or Beneficiary shall be given to the Servicer, and shall be either (1) mailed by first class mail to the last known address of the Insured and obtain a certificate of mailing from the United States Postal Service, or (2) transmitted by electronic means, to the last known electronic address of the intended recipient, if we can obtain an electronic confirmation of receipt by the intended recipient."

d.Section 16(c) is deleted and restated in its entirety as follows:

"If we rescind coverage under a Certificate, the rescission notice will be effective 60 days after we give notice, or 10 days after we give notice if our decision to rescind relates to a Single Loan Fraud (other than by the Borrower), and in either case we will refund all premium paid on the Certificate in accordance with our Servicing Guide. Our right to rescind coverage under a Certificate is subject to the provisions of Section 17."

e.Section 47 is deleted and restated in its entirety as follows:

“You must provide us with a monthly servicing report by the 25th day of each month, if required, as described in our Servicing Guide. The submission of these required reports

MGIC

Mortgage Guaranty Insurance Corporation
270 E. Kilbourn Avenue
P.O. Box 488, Milwaukee, Wisconsin 53201-0488

will constitute a representation by the Servicer that all information contained in such reports is true and complete in all material respects.

If you are aware of a dispute relevant to any loan or the applicable Property, you must notify us. We have the right to direct you to commence legal action if we determine that it is necessary to protect our rights, but if we so direct, then we will pay the expenses for such legal action; provided, however, that this paragraph shall not apply to Appropriate Proceedings.

If you are aware of a Significant Defect, Single Loan Fraud or Pattern Activity with respect to a loan, you must notify us within 30 days of discovering such information. You also must notify us, and provide us with all related documents, within 30 days whenever a loan is required to be repurchased from a GSE or any other investor. Following our receipt of such documents, we may request additional information to determine whether Section 30 or 36 applies."

f.Section 65 is deleted and restated in its entirety as follows:

"If you do not file a Claim by the deadline stated in Section 64, we are not obligated to include in the Claim Amount any interest accrued or Advances you paid after the deadline passed. If the Claim is submitted more than 120 days after the expiration of the deadline stated in Section 64, then we may deny the Claim if we are prejudiced by the late submission."

g.Section 67(b) is deleted and restated in its entirety as follows:

"If we have not received information we requested after 30 days, we will send you a reminder. Further, we will provide the Beneficiary with a copy of such reminder if requested by the Beneficiary. If a Claim is not perfected within 120 days of the Claim filing date, unless we and the Beneficiary have agreed to an extension or an extension is required by applicable law or an extension is expressly provided for under the terms of this Policy in Sections 67(d), 68(a) or 68(b), we will deny the Claim on that basis if we are prejudiced by such delay."

h.Section 85(a) is deleted and restated in its entirety as follows:

"The Servicer or Beneficiary will be entitled to submit a supplemental Claim for allowable Advances actually paid by the Servicer or Beneficiary if such Advances were (1) incurred prior to the date the initial Claim was submitted, but not included in the initial Claim or (2) incurred after the date the initial Claim was submitted and during any period for which accrued and unpaid interest would be included pursuant to the applicable Claim settlement option as described in Section 71(b), or as described in our Servicing Guide. Nothing herein will be deemed to entitle the Servicer or Beneficiary to seek a supplemental or additional payment of anything other than such Advances. If the supplemental Claim for Advances and all required documentation related thereto are submitted within 90 days after payment of an Insurance Benefit, we will pay any amounts due within 30 days of our receipt of a true and complete

Mortgage Guaranty Insurance Corporation
270 E. Kilbourn Avenue
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supplemental Claim. If the Insurance Benefit is calculated pursuant to the Percentage Option, the Percentage Option will also be used to calculate the amount of any benefit payable under the supplemental Claim. No exclusion or deduction that reduced the Claim Amount or Insurance Benefit paid on the initial Claim shall be included in any supplemental Claim."

i.Section 93 is deleted in its entirety.

j.Section 94 is modified to add the following:

"Notwithstanding the provisions of Section 94 (Limitation of actions), if upon the issuance of this Policy, the principal business address of the initial Insured is located in, and this Policy is governed by the law of, Alaska, then the following shall apply:

The 2-year period described in Section 94 is extended to three (3) years."

2**. Arkansas**

a.Section 93 is deleted in its entirety.

b.Section 94 is deleted and restated in its entirety as follows:

"a) Notwithstanding the provisions of Section 94 (Limitation of actions), if upon the issuance of this Policy, the principal business address of the initial Insured is located in, and this Policy is governed by the law of, Arkansas, then the following shall apply: a) Any dispute or legal action, brought by or on behalf of the Insured, Servicer, or Beneficiary arising out of this Policy must be commenced within the time allowed by law after the right to bring the claim, dispute, or any other legal action starts to accrue. Such right in connection with any Claim, coverage dispute, or Insurance Benefit starts to accrue upon the earlier of the following: (i) our rescission or cancellation of coverage under a Certificate; (ii) the Insured's acquisition of title to the Property; (iii) the closing of a Third-Party Sale; (iv) our denial of a Claim; or (v) our payment of any Insurance Benefit. Such right in connection with any event that is unrelated to any Claim, coverage dispute, or Insurance Benefit starts to accrue at the time that the event that caused an alleged liability is deemed to have occurred. Any dispute or legal action arising out of this Policy commencing after such limitation of actions period will be barred as untimely.

b) However, you cannot initiate any legal action related to a Claim until the Claim Settlement Period has ended, unless the action is related to a rescission of coverage.

c) In the case of rescission, cancellation of coverage, denial of a Claim, or a reduction of the Claim Amount or the Insurance Benefit, the applicable limitations period will begin on the date on which we give notice of such action."

3. **District of Columbia**

a. Section 93 is deleted in its entirety

4. **Georgia**

a.Section 3(a) is deleted and restated in its entirety as follows:

"This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured at any time upon request. This policy may be cancelled by us for any reason or no reason upon 45 days' prior notice or as otherwise required by applicable law. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid."

b.Section 5(a) is deleted and restated in its entirety as follows:

"This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Georgia, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of Georgia law, the provision will be deemed to be amended to comply with such minimum requirements."

c.Section 5(c) is deleted in its entirety.

d.Section 93 is deleted in its entirety.

5. **Illinois**

a. Section 3(a) is deleted and restated in its entirety as follows:

"This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured for any reason or no reason upon 10 days' prior notice or by us upon not less than 60 days' prior notice and in accordance with the provisions of 215 ILCS 5/143.16 and 215 ILCS 5/143.16a. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid."

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b. Section 5(a) is deleted and restated in its entirety as follows:

"This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Illinois, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of Illinois law, the provision will be deemed to be amended to comply with such minimum requirements."

c. Section 94 is modified to add the following:

"Notwithstanding the provisions of Section 94 (Limitation of actions), if upon the issuance of this Policy, the principal business address of the initial Insured is located in, and this Policy is governed by the law of, Illinois, then the following shall apply:

The 2-year period described in Section 94 is extended by the number of days between the date the Claim is filed and the date the Claim is denied in whole or in part."

d. The following statement is added to the Policy: "The bankruptcy or insolvency of the Insured or the Insured's estate shall not relieve of us of our obligations hereunder."

e. The following statement is added to the Policy: "Illinois Notice: Should any complaint arise regarding this insurance, the Insured may contact the Company's Chief Compliance Officer, 270 East Kilbourn Avenue, Milwaukee, WI 53202. Part 919 of the Rules of the Illinois Department of Insurance requires that our company advise you that, if you wish to take this matter up with the Illinois Department of Insurance, it maintains a Consumer Division in Chicago at 122 S. Michigan Ave., Chicago, Illinois 60603 and in Springfield at 320 West Washington Street, Springfield, Illinois 62767. You may also contact the Department via their website at http://insurance.illnois.gov or by phone at 312-814-2420 or 217-782-4515."

6. **Kansas**

a. Section 3(a) is deleted and restated in its entirety as follows:

"This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured for any reason or no reason upon 10 days' prior notice or by us upon not less than 30 days' prior notice and in accordance with the provisions of the Kansas Insurance Code, Section 40-2, 120. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid."

b. Section 5(a) is deleted and restated in its entirety as follows:

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"This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Kansas, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of Kansas law, the provision will be deemed to be amended to comply with such minimum requirements."

c. Section 94 is modified to add the following:

"Notwithstanding the provisions of Section 94 (Limitation of actions), if upon the issuance of this Policy, the principal business address of the initial Insured is located in, and this Policy is governed by the law of, Kansas, then the following shall apply:

The 2-year period described in Section 94 is extended to five (5) years."

7. **Maine**

a. Section 3(a) is deleted and restated in its entirety as follows:

"This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured or by us for any reason or no reason upon 10 days' prior notice or as otherwise required by applicable law. If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid.

Further to the terms of this Section 3(a) of the Policy, the State of Maine, pursuant to Title 24– A M.R.S. § 2908(2), requires the following list of reasons to which a Policy may be cancelled to be stated in the Policy:

i. nonpayment of Premium;

ii. fraud or material misrepresentation made by or with the knowledge of the named Insured in obtaining the Policy, continuing the Policy or in presenting a Claim under the Policy;

iii. substantial change in the risk which increases the risk of loss after insurance coverage has been issued or renewed, including but not limited to an increase in exposure as a result of rules, legislation or court decision;

iv. failure to comply with reasonable loss control recommendations;

v. substantial breach of contractual duties, conditions or warranties.

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Notwithstanding the forgoing, the Policy will only be cancelled by us pursuant to Section 3(a) and other terms and conditions of the Policy."

b. Section 93 is deleted in its entirety.

8. **Missouri**

a.Section 5(a) is deleted and restated in its entirety as follows:

"This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Missouri, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of Missouri law, the provision will be deemed to be amended to comply with such minimum requirements."

b.Section 65 is deleted and restated in its entirety as follows:

"If you do not file a Claim by the deadline stated in Section 64, we are not obligated to include in the Claim Amount any interest accrued or Advances you paid after the deadline passed. If the Claim is submitted more than 120 days after the expiration of the deadline stated in Section 64, then we may deny the Claim if we are prejudiced by the late submission."

c.Section 93 is deleted in its entirety.

d.Section 94 is modified to add the following:

"Notwithstanding the provisions of Section 94 (Limitation of actions), if upon the issuance of this Policy, the principal business address of the initial Insured is located in, and this Policy is governed by the law of, Missouri, then the following shall apply:

The 2-year period described in Section 94 is extended to ten (10) years."

9. **Montana**

a. Section 5(a) is deleted and restated in its entirety as follows:

"This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Montana, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of Montana law, the provision will be deemed to be amended to comply with such minimum requirements."

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b.Section 5(c) is deleted in its entirety.

c.Section 93 is deleted in its entirety.

10. **New York**

a. Section 5(a) is deleted and restated in its entirety as follows:

“This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of New York, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of New York law, the provision will be deemed to be amended to comply with such minimum requirements.”

11. **North Carolina**

a.Section 5(a) is deleted and restated in its entirety as follows:

“This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of North Carolina, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of North Carolina law, the provision will be deemed to be amended to comply with such minimum requirements.”

b.Section 94 is modified to add the following:

“Notwithstanding the provisions of Section 94 (Limitation of actions), if upon the issuance of this Policy, the principal business address of the initial Insured is located in, and this Policy is governed by the law of, North Carolina, then the following shall apply:

The 2-year period described in Section 94 is extended to three (3) years.”

12. **North Dakota**

a. Section 3(a) is deleted and restated in its entirety as follows:

“This Policy applies to all Commitments and Certificates issued under the Policy on or after the effective date of the Policy. This Policy will remain in effect until it is cancelled. This Policy may be cancelled by the initial Insured for any reason or no reason upon 10 days’ prior notice, or by us upon not less than 30 days’ prior notice for the following reasons:

i) nonpayment of premium; or

ii) misrepresentation or fraud made by or with the knowledge of the Insured in obtaining coverage or in pursuing a Claim under this Policy; or

iii) actions by the Insured that have substantially increased or substantially changed the risk insured; or

iv) refusal of the Insured to eliminate known conditions that increase the potential for loss after notification by us that the condition must be removed; or

v) substantial change in the risk assumed, except to the extent that we should reasonably have foreseen that change or contemplated the risk in writing the contract; or

vi) a determination by the insurance commissioner that the continuation of the coverage could place us in violation of the insurance laws of North Dakota.

Any cancellation notice from us will include a specific explanation of the reason for cancellation.

If this Policy is cancelled, the Policy will remain in effect with respect to any Commitment or Certificate issued before cancellation, provided that all required premiums are paid."

b. Section 5(a) is deleted and restated in its entirety as follows:

"This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of North Dakota, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of North Dakota law, the provision will be deemed to be amended to comply with such minimum requirements."

13. **Oklahoma**

a. WARNING: Any person who knowingly, and with the intent to injure, defraud or deceive any insurer, makes any claim for the proceeds of an insurance policy containing any false, incomplete or misleading information is guilty of a felony.

b. Section 5(a) is deleted and restated in its entirety as follows:

"This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Oklahoma, without regard to conflict-of-law principles or to the location of the

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Property. If a conflict exists between a Policy provision and the minimum requirements of Oklahoma law, the provision will be deemed to be amended to comply with such minimum requirements."

c. Section 93 is deleted in its entirety.

14. **Oregon**

a. Section 5(a) is deleted and restated in its entirety as follows:

"This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Oregon, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of Oregon law, the provision will be deemed to be amended to comply with such minimum requirements."

b. Section 5(c) is deleted in its entirety.

15**. Texas**

a. It is hereby understood and agreed that we may not cancel or refuse to renew this Policy, or a Certificate based solely on the fact that the Insured is an elected official.

b. Section 5(a) is deleted and restated in its entirety as follows:

"If the Insurance Benefit is payable to a citizen or inhabitant of Texas, this Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Texas, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of Texas law, the provision will be deemed to be amended to comply with such minimum requirements."

c. Section 94 is modified to add the following:

“Notwithstanding the provisions of Section 94 (Limitation of actions), if upon the issuance of this Policy, the principal business address of the initial Insured is located in, and this Policy is governed by the law of, Texas, then the following shall apply:

The 2-year period described in Section 94 is extended to two (2) years and one (1) day.”

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16. **Virginia**

a.Section 5(a) is deleted and restated in its entirety as follows:

“This Policy will be governed, interpreted, and enforced by and in accordance with the laws of the State of Virginia, without regard to conflict-of-law principles or to the location of the Property. If a conflict exists between a Policy provision and the minimum requirements of Virginia law, the provision will be deemed to be amended to comply with such minimum requirements.”

b.Section 5(c) is deleted in its entirety.

c.Section 93 is deleted in its entirety.

* * *

Nothing contained herein shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the Master Policy or any endorsement thereto, other than to the extent expressly set forth above.